Newron
Pharmaceuticals

Annual Report 2018

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, the USA, Australia, Canada, Brazil and Colombia 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

2018 Highlights

Sarizotan (Rett syndrome)

- Newron successfully completed enrollment for the STARS Phase III study (post period). Results from the study are expected in Q4 2019.
- Newron presented, at its R&D day in New York City, baseline data from more than 100 patients treated in the STARS trial, suggesting, amongst other findings, that up to 70 percent of patients suffering from Rett syndrome experience clinically significant apneas.
- Newron participated at the international conference "Rett Syndrome Research, Towards the Future" in Rome and provided an update on the first ever International Burden of Illness (BOI) study in Rett syndrome.

Evenamide (Schizophrenia)

- Newron has completed discussions with and gained agreement from the regulatory authorities in Europe, the United States and Canada for a Phase III program, consisting of two pivotal studies, and is on track to commence these trials in Q2 2019:
    - One study in patients with schizophrenia experiencing worsening of psychosis on atypical antipsychotics
    - The other study in treatment-resistant schizophrenia, not responding adequately to clozapine.

Xadago®/safinamide (Parkinson's disease)

- Zambon and its regional partners have gained approval for Xadago/safinamide in Australia, Canada, Brazil and Colombia; launches in these territories are expected within the next twelve months.
- Dossiers for marketing authorization of Xadago® are currently under review in Mexico and Israel.
- Zambon is engaged in discussions for additional Xadago® distribution agreements in Southern Europe, Middle East, Africa and South America.
- Meiji Seika Pharma announced that the primary endpoint was met in a Phase II/III study of safinamide in patients with Parkinson's disease in Japan, and has subsequently filed for marketing authorisation in this territory.
- Zambon has completed discussions with US FDA on the design of a potentially pivotal efficacy study to evaluate the effects of Xadago/safinamide in patients with levodopa induced dyskinesia (PD LID); the study is expected to start in H1 2019.

Corporate

- Newron has secured long-term funding of up to EUR 40 million from the European Investment Bank to boost its R&D activities and support pivotal and post-approval CNS development programs.
- As a result, the Company disposes of total available funds of up to EUR 84 million, which will cover the pursuit of its development programs and operations beyond 2020.
- Newron's shareholders approved all resolutions at the 2018 Annual General Meeting, including granting the Board of Directors
    - the ability to issue shares and/or convertible bonds, up to EUR 1,426,987.60
    - powers to create American Depositary Shares and to list them on the Nasdaq or on any other market in the United States of America.
- The Company hosted a well-attended R&D day in New York City featuring John Kane, MD, and Daniel Glaze, MD, leading experts in the fields of schizophrenia and Rett syndrome, alongside Newron's management team.

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Shareholder Letter

Ulrich Köstlin Stefan Weber

Dear Shareholder,

It is with great pleasure that we report another year of progress at Newron, as we continue to advance our pipeline of highly innovative therapies for the central and peripheral nervous system, including sarizotan, Evenamide, and our commercially launched drug for Parkinson's disease, Xadago®/safinamide. Our products and drug candidates target diseases which often have no or very limited treatment options. We are committed to our strategy of bringing treatments to market for these diseases, commercializing our promising orphan or orphan-like pipeline ourselves, whilst partnering with other pharmaceutical companies in indications with larger patient populations.

During the year, our partners have made progress with the roll-out of Xadago®/safinamide for Parkinson's disease, with approvals in additional geographies around the globe in 2018 and early 2019, and further pending. Additionally, our Phase III development program for Evenamide in schizophrenia is due to begin in Q2 2019, following positive discussions with the EU, US and Canadian regulatory agencies. In early 2019, we were also pleased to announce the successful completion of patient enrollment in the pivotal STARS (Sarizotan Treatment of Apneas in Rett Syndrome) study. This has been a significant milestone for Newron, given the complexity of the patient screening process, which has largely been due to the rare and debilitating nature of the disease. We expect to report top line results from the study in Q4 2019.

We secured a EUR 40 million long-term funding facility from the European Investment Bank (EIB) in October 2018, which will strengthen our balance sheet and will help to significantly boost our R&D activities and support our ongoing pivotal and post approval central nervous system (CNS) development programs.

Let's now look at our promising pipeline and approved product in more detail:

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**
	AUS Adjunctive therapy in PD					**Seqirus**
	CAN Adjunctive therapy in PD					**Valeo**
	BRA Adjunctive therapy in PD					**Zambon**
	COL Adjunctive therapy in PD					**Zambon**
	EU / US Levodopa Induced Dyskinesia (PD LID)					**Zambon**
Sarizotan[2]	Rett syndrome (Orphan drug status)					**Newron**
Evenamide[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

Sarizotan: Addressing respiratory disturbances in Rett syndrome patients

We have made significant progress with our Rett syndrome asset sarizotan. Our STARS study enrollment is now complete with more than 130 Rett syndrome patients screened and qualified, with no need for additional screening. The study is focused on patients suffering from Rett syndrome who present with clinically significant daytime apneas during the course of the disease. According to our baseline data from the STARS study, up to 70 percent of patients experience significant apneas with at least 10 percent of their time spent without breathing. As a result, oxygen saturation in these patients may fall below 90 percent for up to 48 minutes cumulatively per hour. To date, treatment with sarizotan has been well tolerated with a very low rate of discontinuation due to adverse events or lack of efficacy. We are encouraged by the fact that approximately 90 percent of patients who have completed the 24-week double-blind period have continued in to the long-term open-label extension.

Results from the study are expected to be reported in Q4 2019. If positive, this could position Newron favorably to submit a filing for marketing authorization with the US, Canadian and European regulatory agencies. Subject to successful approval, we intend to commercialise sarizotan ourselves in key markets.

Our dedicated efforts to support Rett Awareness Month continued in September 2018, as we participated at the international conference: "Rett Syndrome Research, Towards the Future" in Rome. We provided an update on the world's first International Burden of Illness (BOI) study in Rett syndrome, which was designed to collect the missing information on the human and financial cost of Rett syndrome not just to the patients but also physicians, caregivers and health workers. This is being undertaken in parallel to our pivotal Phase III STARS study in patients with Rett syndrome.

Evenamide: Potential new treatment paradigm for patients with schizophrenia

We are pleased to report that our Phase III development program for Evenamide is on track to start in Q2 2019, following our discussions with with the European Medicines Agency (EMA), the US Food and Drug Administration (FDA) and the Canadian HPB. Our development program consists of two pivotal efficacy studies in patients with schizophrenia, one study in patients experiencing worsening of psychosis on atypical antipsychotics, and the other study in treatment-resistant schizophrenia patients not responding to clozapine. The latter represents an orphan-like indication with approximately 20,000 to 25,000 patients in the US, for which we plan to commercialise Evenamide ourselves, should the program be successful. Positive results in both studies could lead to the approval of Evenamide as a new treatment paradigm for patients with schizophrenia, showing inadequate response to their current medication.

Xadago®/safinamide: Continuing to make commercial progress across the globe

Safinamide has been launched in 14 EU countries, Switzerland and the USA. Our partner Zambon has also made Xadago® available to Parkinson's disease patients in France, although no agreement has been reached with the French health authorities. Xadago® is therefore available without social security reimbursement in France.

Our royalty stream from the marketed territories increased by 41% in 2018, to EUR 4.0 million. A challenging market environment in the US meant that, despite a revenue growth a rate of 144%, the US contributes modestly to total revenues.

We are very pleased that Zambon and its regional partners this year have secured approval for the use of Xadago/safinamide as a treatment for Parkinson's disease in Australia, Canada, Brazil and Colombia, with launches of the compound in these territories expected within the next 12 months. In 2019, further approvals might happen also in Mexico and Israel. For certain territories in Southern Europe, the Middle East, Africa and South America that are not Zambon's core focus, Zambon has begun discussions that may lead to additional future partnerships.

Zambon remains on track to initiate a potentially pivotal efficacy study to evaluate the effects of Xadago/safinamide in patients with levodopa induced dyskinesia (PD LID). Having completed discussions with FDA on the study design, Zambon now expects to start the study in the first half of 2019. Newron is co-financing the study in return for a greater share of the proceeds should the study lead to a new approved indication.

Additionally, in February 2018, our partner Meiji Seika Pharma announced that the primary endpoint was met in a Phase II/III clinical study of safinamide in patients with Parkinson's disease in Japan. Meiji Seika and its partner Eisai have made further progress during the period by submitting an application for manufacturing and marketing approval in Japan. We are excited by the prospect of Xadago/safinamide being made available to patients in Japan, and additional territories in the near future.

We were pleased by the US and global interest in our well-attended R&D day which we hosted in New York City on October 31, 2018, featuring leading medical experts who presented on both schizophrenia and Rett syndrome. John Kane, MD, Professor and Chairman of the Department of Psychiatry at the Donald and Barbara Zucker School of Medicine at Hofstra/Northwell presented a talk entitled: "Spectrum of Treatment Resistant Schizophrenia: New Therapeutic Mechanisms." This highlighted the clear unmet medical need in treatment-resistant schizophrenia, given no new drug has been approved in the past three decades. Daniel Glaze, MD, Neurologist and Professor at Baylor College of Medicine in Houston, Texas presented the topic: "Rett Syndrome: Natural History of Awake Breathing Dysfunction and Emerging Data." This summarised the current scientific consensus and need for further research on awake breathing dysfunction in Rett syndrome, a critical aspect of our upcoming STARS study.

In 2018, Newron reported a net loss of EUR 15.0 million, compared to EUR 5.3 million, in the same period in 2017 (prior year revenues included a one-time milestone payments of EUR 10.4 million). Cash used in operating activities has increased to EUR 16.1 million from EUR 8.4 million in 2017. Xadago® royalty payments received from Zambon increased by 41% (EUR 4.0 million versus EUR 2.9 million in 2017). At the same time, Newron's R&D net expenses have increased to EUR 9.8 million from EUR 8.6 million in 2017, largely due to the ongoing STARS study in Rett syndrome and the setting up of the new two pivotal efficacy studies in patients with schizophrenia. We have again profited from Italian R&D tax credits of EUR 5.9 million that can be offset with future tax and social contribution payments by Newron, versus EUR 4.5 million in 2017. In 2018, G&A expenses reached EUR 8.8 million compared to EUR 8.5 million in 2017 (increase refers to ESOP costs). Cash and Other current financial assets at December 31, 2018 were at EUR 43.9 million, compared to EUR 60.1 million at the beginning of the year.

Our shareholders approved all resolutions at the 2018 Annual General Meeting with overwhelming majority or unanimously, including granting the Board of Directors the powers to issue shares and/or convertible bonds, up to Euro 1,426,987.60 nominal value, to create American Depositary Shares and to list them on the Nasdaq or on any other market in the United States of America, which is an option we are considering. We reiterate our thanks to them, for their continued support and commitment.

The latter half of 2018 has continued to be highly productive for the Company. We, along with our global partners, have made significant progress in each of our programs and anticipate an exciting year 2019. Our STARS study reached an important milestone and the Evenamide clinical program is on track to start in Q2 2019. We also continue to follow our partners' progress globally with Xadago/safinamide. We look forward to updating you further on our innovative development pipeline and commercial success through 2019 and thank you for your continued support.

Yours sincerely

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

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

Corporate Governance

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, 2018	CHF 100,112,385 (based on 17,845,345 outstanding shares and a share price of CHF 5.61)

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 Newron Pharmaceuticals U.S. 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 Newron Pharmaceuticals U.S.

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 c/o C&E SystemDesign AB, Alpstigen 6, 182 78 Stocksund, 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 Newron Sweden – currently inactive – are managed by Marco Caremi and Stefan Weber as General Managers.

Marco Caremi and Stefan Weber are members of the board of directors of Newron Sweden.

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 Newron Suisse SA – currently inactive – are focused on the research and development, manufacturing and distribution of pharmaceutical products and services. The operations of Newron Suisse SA 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 Newron Suisse SA.

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 Hunter Fleming Ltd. – currently inactive – are managed by Stefan Weber and Marco Caremi as directors.

Operations related to the development compounds of Newron Group are taken care of by Newron Pharmaceuticals US, Inc. and Newron Pharmaceuticals S.p.A.

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 economic 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, 2018.

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, 2018	
		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	9.36%
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]	7.83%
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	4.40%
AXA S.A, Paris, France (The shares are indirectly held by AXA Investment Managers Ltd, UK) (*SIX publication date: December 1, 2018*)		585,089	3.28%
Polar Capital LLP, UK (*SIX publication date: September 22, 2018*)		550,000	3.08%

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-share-holders.html.** Any changes in the shareholder structure since December 31, 2018 can also be found on this website.

Cross-shareholdings

As of December 31, 2018, 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, 2018	December 31, 2017	December 31, 2016
Number of ordinary shares with par value of EUR 0.20	17,845,345	17,837,345	15,773,168
Share capital	3,569,069	3,567,469	3,154,633.60
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	1,025,001	1,033,001	1,882,660
Conditional share capital (up to)	205,000.20	206,600.20	376,532.00

As of December 31, 2018, Newron's outstanding share capital was EUR 3,569,069.00, consisting of 17,845,345 ordinary shares with a nominal value of EUR 0.20 each. All shares are fully paid-in.

As of December 31, 2018, Newron had conditional (pre-authorized) capital of EUR 205,000.20, representing 1,025,001 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 205,000.20 equates to 5.74% of the existing share capital. The period to carry out an increase in conditional capital lasts until September 2027 (please refer to the table on page 15 for additional details).

Changes in capital

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.

On March 27, 2018 an extraordinary shareholders' meeting resolved, inter alia, to:
a) Grant to the Board of Directors of the powers, pursuant to articles 2443 and 2420-ter of the Italian Civil Code, to issue shares and/or convertible bonds, up to Euro 1,426,987.60 even with the exclusion of option rights pursuant to article 2441, parts 4, first section, 5, 6 and/or 8 of the Italian Civil Code, eventually cum warrant and
b) Grant to the Board of Directors of the powers to create American Depository Shares and to list them on the Nasdaq or on any other market in the United States of America, which is an option we are considering.

On July 5, 2018 an extraordinary Board meeting resolved to increase the share capital with exclusion and/or limitation of option rights pursuant to article 2441, parts 5, 6 and/or 8 of the Italian Civil Code, up to Euro 82,051.80 as a nominal value and, therefore, up to no. 410,259 ordinary shares of Newron Pharmaceuticals S.p.A. to serve one or more incentive plans.

Shares and participation certificates

As of December 31, 2018, Newron's outstanding share capital was EUR 3,569,069.00, consisting of 17,845,345 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 2018, 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 2019 (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, 2018, 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.

During 2018, 8,000 of the options granted were exercised at an exercise price of EUR 6.32.

As of December 31, 2018, 320,174 options were left, all 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, 2018, 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: all options are vested. The options will expire as at March 31, 2023.

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 113,999 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. During 2018, 7,309 of the options granted were waived by employees leaving the Company.

As of December 31, 2018, a total of 392,691 options have been granted under the 2015 Stock Option Plan of which 212,345 are vested while 123,270, 29,598 and 27,478 options will vest respectively in 2019, 2020 and 2021. The options will expire as at March 24, 2025.

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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. During 2018, 13,948 of the options granted were waived by employees leaving the Company.

As of December 2018, a total of 246,784 options were granted, of which 123,387 will vest in 2019, 61,692 will vest in 2020 and the remaining 61,705 in 2021. The options will expire as at September 8, 2027.

2018 Stock Option Plan

By decision of the Board dated July 5, 2018, the 2018 Stock Option Plan was established, and up to 410,259 stock options were allocated to this plan, of which 344,808 were granted at the same date to Company's and its subsidiaries' employees, consultants, and directors. The exercise price for these options is EUR 10.06. On November 8, 2018 the Board granted additional 54,066 options to new and existing Newron's employees at a strike price of EUR 7.27. During 2018, 13,046 of the options granted were waived by employees leaving the Company.

As of December 2018, a total of 385.828 options were granted, of which 192,912 will vest in 2020, 96,458 will vest in 2021 and the remaining 96,458 in 2022. The options will expire as at July 4, 2028.

As per December 31, 2018, the total volume of granted stock options under the above plans was 1,581,862 options to acquire one share, each, at nominal value of EUR 0.20 (plus premium) each, an equivalent of 8.86% 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, 2018.

			Expiring date					
Plan's name	**Granting Date**	**Exercise price (in EUR)**	**30/03/2020**	**31/03/2023**	**24/03/2025**	**08/09/2027**	**04/07/2028**	**Total**
ESOP 2011	24/03/2011	5.29	55,451					55,451
ESOP 2013	18/01/2013	6.32		312,924				312,924
	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			225,902			225,902
	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			72,887			72,887
ESOP 2017	08/09/2017	15.97				246,784		246,784
ESOP 2018	05/07/2018	10.06					331,762	331,762
	08/11/2018	7.27					54,066	54,066
Total			**55,451**	**501,108**	**392,691**	**246,784**	**385,828**	**1,581,862**

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, 2018, the Board was comprised of six (6) directors (7 as at Jan. 1, 2018 but, effective from March 27, 2018, Bo Jesper Hansen stepped down and has not been replaced – for additional information regarding the Director, please refer to page 20 in Newron's Annual Report 2017 – 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. Two 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. 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).
Robert Holland	Non-executive director, member of R&D committee	2013	Former VP & Head of Neuroscience Therapeutic Area at AstraZeneca, permanent consultant to the Wellcome Trust (all U.K.) and Executive Director of Early Clinical Development Consulting Ltd. CMO of Oxford Gene Technology Ltd and, since 2018, appointed as Senior Clinical Fellow at Heptares Therapeutics Ltd.
Don deBethizy	Non-executive director, Chairman 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), Saniona AB (Denmark) 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 Advisory Board of Sofinnova Telethon Fund; member of the jury of Open Accelerator and of the European Biotechnica Award.

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

None of the non-executive members of the Board as per December 31, 2018, 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 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: his functions include coordination and supervision of the Company's ordinary and extraordinary business as better detailed on the following page 21. 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 and general management. 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 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.

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 and, until 2018 Executive Director of the Board of Directors of Early Clinical Development Consulting Ltd. and permanent consultant to the Wellcome Trust. 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. and Senior Clinical Fellow at Heptares Therapeutics Ltd. 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 B.S. in Biology from University of Maryland and an 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), Saniona AB (Denmark) and Noxxon Pharma NV (Netherlands). Don is the Chairman of Newron's Research and Development Committee since March 27. 2018.. He is a U.S. citizen and resident of Denmark.

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

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 2014. 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. 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 Advisory Board of Sofinnova Telethon Fund; 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, 2018, 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.

The Company's directors are elected at the Company's annual ordinary meeting of shareholders for a term of up to three financial years (save for any different shareholder's resolution for a shorter term). During the meeting, shareholders are requested to express their favorable or contrary vote to the appointment of each candidate. The Company's directors may be re-elected for an unlimited number of consecutive terms. If the shareholders fail or skip 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, the Company's Executive Director or any other person appointed by the Board. Resolutions are adopted by a majority vote of the directors present at the meeting.

In 2018, a total of twelve meetings of the full Board were called, of which three were held physically and nine by phone. In addition, the Audit and Risk committee convened three times of which twice by phone, the compensation and nomination committee convened three times, of which once physically and twice by phone, and the R&D committee convened four times of which three times physically. While the physical meetings of the full board are mostly 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 2018, external advisors were participating during two meetings of the Board: the topics discussed refer to 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 27) takes this function towards the members of the audit and risk committee and the Chief Medical Officer (cf. Section on Senior Management, page 26) 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, 2018, the audit and risk committee consisted of Patrick Langlois (Chairman) 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 pages 36–37.

As at December 31, 2018, 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, 2018, the R&D committee consisted of Don deBethizy (Chairman), Robert Holland, 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.

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: as a consequence, shareholders will appoint a new Board of Statutory Auditors during the next shareholders' meeting to be held on April 2, 2019. 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 18.

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 out-side 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 Accelerated Development Programme at the London Business School. He has more than 35 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 20 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: he was instrumental in finalizing the EIB funding facility. Before joining Newron, he was Senior Auditor & Business Advisor at PricewaterhouseCoopers (PwC), leading auditing projects in 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) has pioneered a number of small venture start-ups. 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 successfully 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 per year 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. Directors' maximum compensation is based on a review of European peer companies' remuneration schemes as per analyses performed by a leading human resources consulting firm in 2015 and 2017 (for detail, see below). 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, 2018, 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.

Effective January 1, 2019 the above compensations will be increased by 2.5%.

Furthermore, non-executive directors are participating to the 2013, 2014, 2015, 2017 and 2018 Company stock option plans, based on capital increases approved by the Company's shareholders (see pages 11–12). Under such plans, till end of December 2018, non-executive directors have been allocated a total of 41,026 stock options, each (for details see below).

The amount of options allocated to directors are based on an assessment performed 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, 2018, Stefan Weber has waived his compensation as member of the Board.

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 practice and suggestions received from the external Advisor mentioned below. The review is based on experience of the members of the committee, publicly available information (e.g. peer companies' annual reports) as well as bi-yearly advice from a leading human resources consulting firm 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.

In December 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 human resources consulting firms, 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, including amongst others, Adamas Pharmaceuticals, Curis, Intra-Cellular Therapies, Palatin Technologies, Revance Therapeutics, Syndax Pharmaceuticals, Verastem) 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 "Share-based compensation" on page 53). The maximum bonus for senior management is 30% (CEO: 40% – effective 2019, increased to 45%) of the base salary, based on Company performance objectives as described below. In addition, Newron offers to Senior management company cars (in Europe, only), mandatory social security payments and certain life and disability insurance coverage.

The compensation and nomination committee of the Board sets, at the beginning of the year, Company performance objectives and attributes a weight to them in %. At year end, the committee decides at its own discretion on the level of achievement of the Company performance objectives. These objectives are related to the key value drivers of the Company like development progress, licensing and M&A transactions, financing and budgetary discipline.

For 2018, Company's senior management has been rewarded a bonus reflecting achievement of 50% of the Company objectives, among which the successful completion of discussions with the relevant US and EU regulatory authorities on the Evenamide phase III clinical development program, funding of the operations and strengthening of the institutional shareholder base.

The total gross compensation of the members of the Board in 2018 is outlined below:

(In thousand EUR)	Cash compensation (gross amount)	Stock options**	Total 2018	Total 2017
Ulrich Köstlin, non-executive Chairman, Chairman of compensation and nomination committee	68	50	118	110
Stefan Weber, executive director*	430	217	647	563
Patrick Langlois, non-executive director, Chairman of audit and risk committee, member of compensation and nomination committee	48	50	98	89
Bo Jesper Hansen, non-executive director (until March 27, 2018)	12	30	42	90
Robert Holland, non-executive director, member of R&D committee	38	50	88	80
Don deBethizy, non-executive director, Chairman of R&D committee (from March 27, 2018)	42	53	95	88
Luca Benatti, non-executive director, member of R&D committee, member of audit & risk committee	43	53	96	93
Total	**681**	**503**	**1,184**	**1,113**

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

For the fiscal year ended December 31, 2018, the aggregate compensation (consisting of statutory auditors' fees) paid by Newron to the Company's Board of Statutory Auditors was about thousand EUR 55 (2017: EUR 55).

The total gross compensation and the highest individual compensation of the members of the senior management in 2018 are outlined below.

(In thousand EUR)	Base salary/ remuneration (gross amount)	Bonus (gross amount)	Stock options	Total 2018	Total 2017
Ravi Anand, CMO	867	47	152	1,066	1,025
Total senior management	2,072	275	926	3,273	3,081

Payments to former management and directors

None.

Share allotment

In the year ended December 31, 2018, 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 and stock options in Newron by members of the Board, senior management and parties closely linked to them as of December 31, 2018, are outlined below:

	Shares*	Stock options	of which vested
Ulrich Köstlin non-executive Chairman of BoD	40,429	30,276	8,045
Stefan Weber, CEO, executive member of BoD	15,351	218,784	134,208
Patrick Langlois non-executive director	0	41,026	18,795
Robert Holland non-executive director	0	34,026	11,795
Don deBethizy non-executive director	0	41,026	18,795
Luca Benatti non-executive director	0	41,026	18,795
Ravi Anand, CMO	12,040	153,149	93,945
Marco Caremi, Executive Vice President Business Development	0	79,206	36,918
Roberto Galli, Vice President Finance	2,500	108,394	66,106
Dennis Dionne, Vice President Commercial Affairs	0	134,689	21,341

* As far as the Company is aware.

The weighted average exercise price of the granted stock options is EUR 13.47. The exercise ratio in all cases is 1 share for 1 stock option. For additional information please refer to section "Stock based remuneration" above.

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 2018.

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 2018 to current and former members of the Board or senior management. In addition, as of December 31, 2018, no such loans or credits were outstanding.

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

In 2018, 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 2018 to persons related to Board and senior management members of the Company. In addition, as of December 31, 2018, 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 absolute majority in first call or the majority of the shares present or represented at the meeting in following calls.

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 in the Swiss daily newspaper Neue Zürcher Zeitung, or, in the case that Neue Zürcher Zeitung is no longer published for any reason, in the Swiss daily newspaper Tages-Anzeiger, and in the French language in the Swiss daily newspaper Le Temps or, in the case that Le Temps is no longer published for any reason, in the 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 Company shareholder must give evidence of its status as shareholder. Accordingly, a shareholder has to ask the Bank where its shares are deposited, to send to the Company the so called "comunicazione dell'intermediario" / "biglietto d'ammissione" (communication/admission ticket) requested by the Italian law. The above communication will allow the Company to recognize the shareholder and to know how many Company shares (i.e. voting rights) he holds: this communication must reach the Company at least one business day prior to the shareholders' meeting. The registration procedure may require up to 10 working days to be duly finalized. Therefore, the Company suggests its non-Italian shareholders to start it immediately after the publication of the official call of the shareholders' meeting.

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 "Share-based compensation" on page 53, 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 twelve 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 (2017: EUR 107) 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 23 (2017: EUR 12) were charged by Ernst & Young for other audit-related services, among them the audit procedures on 2018 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 2018, 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, 2018, 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
https://www.newron.com/ENG/Default.aspx?PAG=19&MOD=NWRPRS

and our web page push service, where interested parties can register under here:
https://www.newron.com/ENG/Default.aspx?MOD=NWS&PAG=163

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: April 2, 2019 in the Company's offices in Bresso (Mi), Italy
- Expected publication of half-year results: September 12, 2019

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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)		For the year ended December 31	
	Note	2018	2017
Licence income from contracts with customers		0	10,430
Royalties from contracts with customers	9	4,025	2,855
Other income from contracts with customers		0	143
Revenue		4,025	13,428
Research and development expenses	11	(9,835)	(8,596)
Marketing and advertising expenses	12	(406)	(708)
General and administrative expenses	13	(8,762)	(8,470)
Operating result		(14,978)	(4,346)
Financial income	14	442	612
Financial expenses	14	(483)	(1,567)
Result before tax		(15,019)	(5,301)
Income tax	15	(16)	19
Net loss		**(15,035)**	**(5,282)**
Loss per share			
Basic and Diluted loss per share	16	**(0.84)**	**(0.32)**
Weighted average number of shares (thousands)		**17,844**	**16,300**

(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	2018	2017
Net loss for the period		(15,035)	(5,282)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Net gain/losses on other current assets	19	4	(70)
Exchange differences on translation of foreign operations		(20)	(169)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(16)	(239)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurements on defined benefit plans	24	17	25
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		17	25
Other comprehensive income/(loss) for the period, net of tax		1	(214)
Total comprehensive loss for the period, net of tax		**(15,034)**	**(5,496)**

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

Consolidated Statement of Financial Position

(In thousand Euro)		As of December 31	
	Note	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	17	106	107
Intangible assets	18	30	35
Non-current receivables		83	82
		219	224
Current assets			
Inventories		0	5
Receivables and prepayments	19	15,659	12,714
Other current financial assets	20	16,230	19,439
Cash and cash equivalents	21	27,623	40,642
		59,512	72,800
Total assets		**59,731**	**73,024**
Shareholders'equity			
Share capital	22	3,569	3,567
Share premium and other reserves	23	61,341	66,539
Share option reserve	24	11,018	8,948
Retained earnings		(20,195)	(10,464)
Translation differences		(889)	(869)
Total shareholders' equity		54,844	67,721
Liabilities			
Non-current liabilities			
Employee severance indemnity	25	606	576
		606	576
Current liabilities			
Trade and other payables	26	4,281	4,727
		4,281	4,727
Total liabilities		4,887	5,303
Shareholders' equity and liabilities		**59,731**	**73,024**

(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
Balance at January 1, 2017		**3,154**	**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	23		(15,237)			15,237	0
Issue of shares	22/23	400	22,960				23,360
Issuing costs	23		(1,479)				(1,479)
Exercise of options and reclassification of reserves	24	13	777	1,392		(592)	1,590
Balance at December 31, 2017		**3,567**	**66,539**	**8,948**	**(869)**	**(10,464)**	**67,721**
Net loss						(15,035)	(15,035)
Other comprehensive income/(loss)					(20)	21	1
Total comprehensive loss for the period		0	0	0	(20)	(15,014)	(15,034)
Previous year loss allocation	23		(5,282)			5,282	0
Exercise of options	22/23	2	49				51
Exercise of options and reclassification of reserves	24		36	(36)			0
Share option scheme	24			2,106			2,106
Balance at December 31, 2018		**3,569**	**61,341**	**11,018**	**(889)**	**(20,195)**	**54,844**

(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	2018	2017
Result before taxes		(15,019)	(5,301)
Adjustments for:			
Depreciation and amortisation	16/17	47	48
Impairment of In-process R&D		0	250
Inventories		5	0
Grants and other non monetary income		(5,045)	(4,192)
Share option expenses	24	2,107	1,739
Employee severance indemnity expense		0	53
Changes in working capital:			
Current receivables and prepayments and deferred cost	19	2,991	1,402
Trade and other payables and deferred income	26	(1,192)	(2,341)
Pension fund paid		0	(50)
Change in non-current receivables		(2)	(12)
Cash used in operating activities		(16,108)	(8,404)
Cash flows from investing activities			
Purchase of financial assets	20	0	(275)
Disposal of financial assets	20	3,002	0
Purchase of property, plant and equipment	16	(34)	(24)
Purchase of intangible assets	17	(6)	(38)
Reclassification to Other current financial assets	20	0	(15,644)
Interest income	10	(56)	(85)
Interest expenses	10	132	204
Net cash flows from/(used in) investing activities		3,038	(15,862)
Cash flows from financing activities			
Repayment of borrowings		0	(364)
Proceeds from issue of shares	25	51	23,803
New shares issuing costs		0	(1,479)
Net cash flows from financing activities		51	21,960
Net increase in cash and cash equivalents		(13,019)	(2,306)
Cash and cash equivalents at January 1,		40,642	42,948
Cash and cash equivalents at the end of the year		**27,623**	**40,642**

(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 fully owned, 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 Basel (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 25, 2019.

2 Basis of preparation

The consolidated financial statements of the Group 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 consolidated financial statements and notes to the consolidated 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. Moreover, on October 29, 2018, the Company signed a long-term funding facility with the European Investment Bank (EIB) which will allow Newron to borrow up to EUR 40 million over the coming years, subject to achieving a set of agreed performance criteria.

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 Company and its subsidiaries as at 31 December 2018. 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, 2018. 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 cash-generating 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 30 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 EUR, 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	
	2018	2017	2018	2017
CHF 1	0.8658	0.89952	0.88739	0.85455
GBP 1	1.13031	1.14064	1.11791	1.12714
SEK1	0.09748	0.10379	0.09752	0.10159
USD 1	0.84674	0.88519	0.87336	0.83382

The financial statements of the companies with a functional currency other than EUR are translated into EUR 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. An operating lease is a lease other than a finance lease. All Group's leases are defined as operating lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

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.

g) Research and development cost

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. Internally 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 derecognition 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) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. Except for trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for

which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15: please refer to Note 19 for additional details.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Based on Group's business model, financial assets' categories adopted by the Group are classified as:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument.

The Group's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments.

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".

Financial Liabilities
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, including bank overdrafts.

Subsequent measurement of financial liabilities depends on their classification.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

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) 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.

m) 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.

n) 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 recognised 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 recognised to offset income taxes.

o) 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 25.

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 – ESOP). 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.

p) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

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 contract assets 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 recognised 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.

q) Grants

Grants relating to income are recognised in the income statement as 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.

r) 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 be 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.

s) 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 29.

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 re-assessing 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.

t) 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 in-crease in the provision due to the passage of time is recognised as a finance cost.

3 Change in accounting policies and disclosures

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 31 December 2017, except for the adoption of new standards and interpretations effective as of January 1, 2018. 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:

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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 date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendment to 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 Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards -Deletion of short-term exemptions for first-time adopters
Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment and hedge accounting.

The company for the new standard applied the retrospective approach: its application did not have significant impacts on both the financial statements and the relevant disclosure of the Group aside from the reclassification of Investment funds and Government bonds to the "Other current financial assets" (Please refer to note 20).

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model 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 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Group did not apply any of the other available optional practical expedients. The application of the new standard did not have significant impacts on both the financial statements and the relevant disclosure of the Group.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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 similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. As a result of the assessments, the Group expect to recognize a Right of Use amounting to about EUR 900, and a corresponding Lease Liability amounting to about EUR 900; the Equity impact is almost neutral and the expected impact on profit and loss is not material.

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 reported 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 from contracts with customers

The nature of the Group's business is such that many sales transactions do not have a simple structure and may consist of various performance obligations that are satisfied at different times. Contracts entered typically include performance obligations for "Sales of licences", "Upfront payments" and "Royalties".

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 contract assets 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 recognised on an accrual basis and represents income earned as a percentage of product sales, in accordance with the terms of the relevant agreement.

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, 2018 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 recognised 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 carry-forwards 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.

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.

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. Accordingly, starting from December 2016, the Board of Directors and Management have 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 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 Note 20 & 21 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, 2018 assures that the Group's operations will be well funded into 2020, 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, 2018

Maturity table	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Trade and other payables	4,281	–	–	–	4,281
Total	**4,281**	**–**	**–**	**–**	**4,281**

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**

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**	**2018**	**2017**
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 from contracts with customers

At the end of the period, Licence income from contracts with customers (licence income) amounted to nil (2017: EUR 10,430). Licence income in 2017 was 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) and Canadian (Valeo Pharma) commercial partners. Licence income in 2017 were shown net of the amount transferred to Merck KGaA.

9 Royalties from contracts with customers

(In thousand Euro)	For the year ended December 31	
	2018	2017
Royalties from contracts with customers	4,025	2,855

In 2018 Royalties from contracts with customers (royalties) increased by 41% mainly because of: i) the growing sales and the increased number of markets in which Xadago® is sold and ii) the full year impact of Xadago® sales in the US market.

Royalties payable to Newron according to the agreement in place with Zambon, have been communicated to Newron by its partner.

On February 2016, the Italian Medicines Agency (AIFA) approved Xadago® selling price and imposed a ceiling on sales. As a matter of attention, it should be noted that AIFA has set a ceiling covering the period – March 1, 2018 February 28, 2019. Royalties of the period have been accounted for taking into consideration the ceiling.

10 Staff costs

(In thousand Euro)	For the year ended December 31	
	2018	2017
Wages and salaries	3,872	3,868
Pension costs – defined contribution plans	587	640
Share options granted to directors and employees	2,106	1,739
Employee severance indemnity costs	159	53
Social security costs	28	48
	6,752	**6,348**

The average number of Group employees in 2018 was 24 (2017: 23), of whom 1 (2017: 1) was part-time. The increase in Staff costs is mostly related to the combined effect of: i) the increase in ESOP costs partially offset by ii) the decrease in Pension costs mainly due to a different mix between Italian and US based employees and iii) the decrease, due to the fluctuation of Newron's share price in 2018, in social contributions accrued on vested options granted to former Newron Sweden AB employees. Wages and salaries have been reduced by the R&D tax credit effect of EUR 771 (2017: EUR 784) (please refer to Note 11 for additional information).

11 Research and development expenses net of grants and other reimbursements

(In thousand Euro)	For the year ended December 31	
	2018	2017
Services received from subcontractors	4,133	2,029
Staff costs	2,556	2,636
Consultancy fees	954	1,069
Material and consumable used	1,372	1,575
Laboratory operating lease cost	17	321
Travel expenses	522	627
Depreciation, amortisation and impairment expense	0	250
Other research and development costs	281	89
	9,835	8,596

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 23 March 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, an R&D tax credit for a specified year is recognised 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. The "2019 Stability Law" has partially amended the existing rules: from January 1, 2019 onward, the defined percentage of 50% will be reduced to 25% for all R&D expenses except Staff costs and expenses incurred with Italian subcontractors. Tax Authority is expected to issue in the incoming months the Official Memorandum to clarify the abovmentioned changes and give operational guidelines.

Expenses incurred by the Company in 2018 granted a total R&D tax credit amounting to EUR 5,940 (2017: 4,511). Among others, Services received from subcontractors, Consultancy fees and Material and consumable used have been reduced respectively by EUR 3,266 (2017: 1,619), EUR 667 (2017: 755) and EUR 1,214 (2017: 1,353). The overall effect is detailed in the following table. Please refer to Note 10 for additional info regarding the impact of R&D Tax credit on Staff Costs.

The increase by more than EUR 2 million in Services received from subcontractors is in line with the R&D activities performed and the results obtained by the Group.

Since May 14, 2012, all safinamide/Xadago®-related research and development expenses borne by the Group are reimbursed by Zambon: personnel expenses are invoiced at cost plus mark-up. As the two most relevant authorities have approved the commercialization of Xadago® in their territories, the reimbursement decreased significantly: accordingly, as of December 2018, Zambon has reimbursed an amount equal to EUR 44 (2017: EUR 276).

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

(In thousand Euro)	For the year ended December 31	
	2018	2017
Research and development expenses, gross	15,819	13,383
Reimbursed by Zambon	(44)	(276)
R&D Tax Credit	(5,940)	(4,511)
	9,835	8,596

Since inception, no development costs have been capitalised.

12 Marketing and advertising expenses

Marketing and advertising expense are equal to EUR 406 (2017: EUR 708). Last year expenses were mainly related to the setup of two global surveys performed with Rett syndrome patients with debilitating condition and their families while in 2018 costs are referred to the activity performed by the Company to speed up the enrolment of Rett syndrome patients into the ongoing clinical trial.

13 General and administrative expenses

(In thousand Euro)	For the year ended December 31	
	2018	2017
Staff costs	4,196	3,712
Consultancy and other professional services	2,768	2,890
Intellectual properties	762	749
Travel expenses	357	317
Operating lease cost	321	394
Depreciation and amortisation expense	47	48
Other expenses	311	360
	8,762	**8,470**

General and administrative expenses increase is due to Staff costs: please refer to Note 10 for additional information.

14 Financial results

(In thousand Euro)	For the year ended December 31	
	2018	2017
Interest incomes	132	204
Foreign exchange gains	310	408
	442	**612**

The Group invested available financial resources pursuant to the policy approved by the Board of Directors as described in Note 2 j) Financial Instruments. For additional information, please refer also to Notes 20 and 21.

(In thousand Euro)	For the year ended December 31	
	2018	2017
Interest expense	(56)	(85)
Foreign exchange losses	(98)	(1,405)
Other costs	(329)	(77)
	(483)	**(1,567)**

Other costs reflect the other current financial assets' depreciations booked during the year. The reduction in foreign exchange losses is mainly due to the development of the exchange rate in place between EUR and US Dollars throughout the year.

15 Income tax

Income tax amounted to EUR 16 (2017: income of 19). The 2017 income was mainly related to the release of Deferred Tax Liabilities amounting to EUR 75 following the impairment of assets recognised in 2017. In 2018, the Group accrued income taxes amounting to EUR 16, mainly originated by the operations of Newron Suisse and Newron US.

16 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	
	2018	2017
Net loss attributable to shareholders	(15,035)	(5,282)
Weighted average number of shares (thousands)	17,844	16,300
Loss per share – basic and diluted (in EUR)	(0.84)	(0.32)

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. 1,581,862 – see also Note 24) may have a dilutive effect on the net profit per share.

17 Property, plant and equipment

(In thousand Euro)	Leasehold improve-ments	Laboratory and office equipment	Total
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**
Cost			
At January 1, 2018	498	1,546	2,044
Addition	0	34	34
Disposals	0	(1)	(1)
Exchange differences	0	1	1
At December 31, 2018	498	1,580	2,078
Accumulated depreciation			
At January 1, 2018	(498)	(1,439)	(1,937)
Addition	0	(36)	(36)
Disposals	0	1	1
At December 31, 2018	(498)	(1,474)	(1,972)
Net book value	**0**	**106**	**106**

The year-end balance of EUR 106 (2017: 107) is related to office equipment only.

18 Intangible assets

(In thousand Euro)	Licences and software	In-process R&D	Total
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**
Cost			
At January 1, 2018	393	18,758	19,151
Additions	6	0	6
At December 31, 2018	399	18,758	19,157
Accumulated amortization and impairment			
At January 1, 2018	(358)	(18,758)	(19,116)
Impairment	0	0	0
Additions	(11)	0	(11)
At December 31, 2018	(369)	(18,758)	(19,127)
Net book value – Newron Group	**30**	**0**	**30**

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 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. 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.

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.

19 Receivables and prepayments

(In thousand Euro)	As of December 31	
	2018	2017
Receivables	1,242	1,066
Government grants receivable	0	14
Prepayments	224	1,476
VAT receivable	420	499
R&D tax credit	13,625	9,570
Other receivables	148	89
	15,659	**12,714**

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 post-filing interaction with the Food and Drug Administration (FDA). The increase is related to royalties' performance.

Prepayments reflects 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.

The R&D tax credit increase by EUR 4,055 is due to the combined effect of the year end accruals equal to EUR 5,940 and its use to offset certain taxes and contributions during the year for a total of EUR 1,885. For additional information, please refer to note 11. According to the expected development plan detailed in the Group business plan, the amount of R&D tax credit recognised as of December 31, 2018, will be fully recovered through the offset of the expenses of the upcoming years.

20 Other current financial assets

(In thousand Euro)	As of December 31	
	2018	2017
Listed bonds	3,099	3,795
Government bonds	1,030	603
Investment funds	12,101	15,041
	16,230	**19,439**

Gains and losses arising from the adjustment to the fair value of Other current financial assets were recognised in the statement of profit and loss or in the statement of other comprehensive income, consistently with the policy described in paragraph 2B, section J. All acquired securities and time-deposits are in line with the Group's investment policy.

21 Cash and cash equivalents

(In thousand Euro)	As of December 31	
	2018	2017
Cash at bank and in hand	27,623	40,642
	27,623	**40,642**

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

Group's liquidity (Other current financial assets plus Cash and cash equivalent) amounts approximately to Euro 44 million (EUR 60 million as at December 31, 2017). Expenses of the period have been partially financed by royalties and existing cash.

22 Share capital

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.

A summary of the changes occurred during the last 24 months in share capital is as follows (amounts are shown in Euro):

(In Euro)	Total
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
– issue of ordinary share (Stock options exercise)	1,600.00
As of December 31, 2018 – Newron Group	**3,569,069.00**

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 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.

On March 27, 2018, the extraordinary shareholders' meeting resolved, among other items, to give the right to the Board of Directors to increase the Company's share capital of an amount of up to EUR 1,426,987.60, corresponding to up to 7,134,938 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, convertible bonds and warrants.

During the year ended on December 31, 2018, certain stock option holders have exercised their rights: accordingly, the Company issued 8,000 new ordinary shares (par value equal to EUR 0.20 each).

As of December 31, 2018, the subscribed share capital was equal to EUR 3,569,069.00, divided into 17,845,345 ordinary shares with par value equal to EUR 0.20 each. There is no authorised share capital.

23 Share premium and other reserves

(In thousand EUR)	As of December 31	
	2018	2017
At the beginning of the year	66,539	59,518
Loss allocation	(5,282)	(15,237)
Issue of shares	0	22,960
Issue of shares (exercise of options)	49	430
Reclassification from share option reserve	36	347
Share capital issue costs	0	(1,479)
At the end of the period	61,342	66,539

Share premium and other reserves decreased in 2018 as a consequence of the previous year loss allocation. 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.

24 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; ESOP 2015 and ESOP 2017 are still valid. All options have been awarded free of charge. 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. 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.

On February 2, 2017, the Board of Directors granted 36,992 options (ESOP 2015) 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, 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).

On July 5, 2018, Newron' Board of Directors – partially executing the power granted by the Company's shareholders' meeting held on 27 March 2018 – resolved to increase, with exclusion of options rights pursuant to article 2443 and 2441, parts 5, 6 and/or 8 of the Italian Civil Code, Newron' share capital up to EUR 82.051,80 corresponding to up to n. 410,259 ordinary shares to be dedicated to a new stock option plan (ESOP 2018) approved during the same meeting. ESOP 2018 characteristics are in line with the ones of the existing plans. During the meeting, the Board of Directors granted a total of n. 344,808 options to all Newron' employees and directors plus certain consultant at a strike price of 11.63 CHF (EUR 10.06 as translated at the exchange rate on July 4, 2018).

On November 8, 2018 the Board of Directors granted 54,066 options (ESOP 2018) to new and existing Newron's employees at a strike price of 8.32 CHF (EUR 7.27 as translated at the exchange rate on November 7, 2018).

The Group's Board of Directors can grant further options under ESOP 2018.

As of December 31, 2018, the Company has granted a total of n. 1,581,862 options as shown in the following tables (granted options per plan and per exercise price):

	Employee Share Option Plans						
	2011	2013	2014	2015	2017	2018	Total
At January 1, 2017	**55,451**	**387,737**	**185,548**	**314,456**	**0**	**0**	**943,192**
Granted	0	0	0	113,999	260,732	0	374,731
Waived	0	0	0	(28,455)	0	0	(28,455)
Exercised	0	(59,563)	(4,614)	0	0	0	(64,177)
At December 31, 2017	**55,451**	**328,174**	**180,934**	**400,000**	**260,732**	**0**	**1,225,291**
Granted	0	0	0	0	0	398,874	398,874
Waived	0	0	0	(7,309)	(13,948)	(13,046)	(34,303)
Exercised	0	(8,000)	0	0	0	0	(8,000)
At December 31, 2018	**55,451**	**320,174**	**180,934**	**392,691**	**246,784**	**385,828**	**1,581,862**

The following table shows additional information regarding options granted as of December 31, 2018:

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	1.25	55,451
ESOP 2013	6.32	312,924	4.25	312,924
ESOP 2013	6.66	7,250	4.25	7,250
ESOP 2014	13.88	76,494	4.25	76,494
ESOP 2014	13.94	104,440	4.25	104,440
ESOP 2015	24.90	19,918	6.25	14,938
ESOP 2015	25.41	28,455	6.25	21,341
ESOP 2015	28.14	225,902	6.25	171,798
ESOP 2015	15.22	8,537	6.25	4,268
ESOP 2015	21.87	36,992	6.25	0
ESOP 2015	15.97	72,887	6.25	0
ESOP 2017	15.97	246,784	8.66	0
ESOP 2018	10.06	331,762	9.51	0
ESOP 2018	7.27	54,066	9.51	0
		1,581,862		**768,904**

On February 24, 2019, n. 18,495 options will become exercisable. On June 4, 2019, additional n. 54,104 options will vest and further n. 174,058 will become exercisable during the second half of 2019, out of which n. 2,134 on July, n. 164,810 on September and n. 7,114 on November. In 2019, a total of n. 246,657 options will vest, out of which n. 86,827 will expire on March 24, 2025 and the remaining n. 159,830 on September 8, 2027.

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 2018, option grants resulted in personnel net expenses of EUR 2,106 (2017: EUR 1,739), with a corresponding increase in the share option reserve. R&D personnel expenses are equal to EUR 606 (2017: EUR 621) whereas EUR 1,500 refers to G&A personnel (2017: EUR 1,118).

25 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 EUR)	As of December 31	
	2018	2017
Defined Benefit Obligation at the beginning of the period	576	540
Service cost	42	45
Interest costs	5	8
Indemnity paid out	0	(50)
Actuarial (gains)/losses	(17)	33
Defined Benefit Obligation at the end of the period	**606**	**576**

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

(In percent)	As of December 31	
Actuarial assumptions	**2018**	**2017**
Discount rate	1.13	0.88
Inflation rate	1.50	1.50
Future salary increase	1.50	1.50
Future pension (TFR) increase	2.625	2.625

26 Trade and other payables

(In thousand Euro)	As of December 31	
	2018	2017
Trade payables	1,149	2,223
Accrued expenses	1,942	971
Pension contribution payable	291	300
Social security	182	334
Other payables	717	899
	4,281	**4,727**

Trade payables and Accrued expenses are in line with the 2017 balance.

In Sweden, Companies are requested to accrue Social contribution on all vested options: 2018 fluctuation of Newron' share price, has materially impacted the value as of December 31, 2018, of the out-standing options and, consequently, the Social security decreased by EUR 152.

27 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,	
	2018	2017
Other (IAS 19)	(87)	(110)
Total taxable differences	**(87)**	**(110)**
Net gain on other financial assets	4	5
Total taxable differences	**4**	**5**
Net temporary differences	**(83)**	**(105)**
Tax losses carry forwards	**194,667**	**175,159**
Total differences	**194,584**	**175,054**
Deferred tax asset	**45,758**	**41,077**

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	
	2018	2017
No expiry date	34,534	35,071
No expiry date – DL 98/2011	160,133	140,088
	194,667	**175,159**

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 18,595 related to Hunter-Fleming private limited company (equal to GBP 16,634 translated at the year-end exchange rate) and EUR 9,931 related to Newron Sweden AB (equal to SEK 101,840 translated at the year-end exchange rate). This amount has been negatively affected (about EUR 0,6 million) by the exchange rate fluctuation that have impacted both the UK Sterling and the Swedish Krona. During 2018, the Company has filed within the Tax Authority the appli-

cation of the Patent Box for its Intellectual Properties called safinamide: the tax relief consists of an exclusion from the taxable base – for both corporation tax (IRES, with an ordinary rate of 24%) and regional tax (IRAP, with an ordinary rate of 3.9%) purposes – of a percentage of the income sourced from the usage of intellectual property. The regime is optional, lasts irrevocably for five years and can be renewed. As Newron doesn't pay income taxes, the relief increased by about EUR 1.4 million the loss carry-forwards.

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.

28 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 will last until September 30, 2020; based on the agreement, one year of notice period is required to terminate the lease contract.

Newron Pharmaceuticals US Inc. leases its offices from Symphony Workplaces. The lease expired on January 31, 2019 and has been renewed till January 31, 2021.

Newron Suisse SA, Newron Sweden AB and Hunter-Fleming private limited company do not rent premises.

During the year ended December 31, 2018, a net expense for operating leasing amounting to EUR 337 was recognised in the statement of income (2017: EUR 715).

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

(In thousand Euro)	As of December 31	
	2018	2017
No later than 1 year	256	463
Later than 1 year and not later than 5 years	204	440
	460	903

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 4.4 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.

29 Financial instruments by category

As of December 31, 2017

(in thousand Euro)	Financial assets at amortized costs	Debt instruments at fair value through OCI with reclassification	Financial assets at fair value through profit and loss	Other financial liabilities at amortized cost
Assets				
Non current receivables	82	–	–	–
Other current financial asssets	–	4,398	15,041	–
Cash and cash equivalents	40,642	–	–	–
Trade and other receivables	2,556	–	–	–
Total	**43,280**	**4,398**	**15,041**	**–**
Liabilities				
Trade and other payables	–	–	–	3,122
Total	**–**	**–**	**–**	**3,122**

During the whole year, there were no transfers between Level 1 and Level 2.

As of December 31, 2018

(in thousand Euro)	Financial assets at amortized costs	Debt instruments at fair value through OCI with reclassification	Financial assets at fair value through profit and loss	Other financial liabilities at amortized cost
Assets				
Non current receivables	83	–	–	–
Other current financial asssets	–	4,129	12,101	–
Cash and cash equivalents	27,623	–	–	–
Trade and other receivables	1,466	–	–	–
Total	**29,172**	**4,129**	**12,101**	**–**
Liabilities				
Trade and other payables	–	–	–	1,866
Total	**–**	**–**	**–**	**1,866**

30 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, 2018 and December 31, 2017, as well as balances with related parties as of December 31, 2018 and December 31, 2017:

As of December 31, 2018

(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)	44	4,025	169	44	0

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

iii) Key management personnel

The total remuneration of key management personnel is as follows:

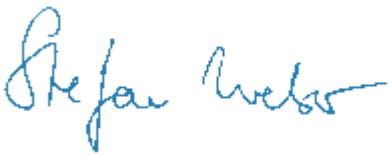
(In thousand Euro)	For the year ended December 31	
	2018	2017
Salaries	1,990	2,008
Bonuses	275	358
Social security contributions	321	313
Share option compensation	926	637
Employee severance indemnity	82	78
	3,594	3,394

31 Events after the balance sheet date

On January 16, 2019, Newron announced that Zambon's partner Valeo Pharma – a specialty pharmaceutical company dedicated to commercializing innovative prescription products – has received the approval of Onstryv® (safinamide) for the treatment of Parkinson's Disease in Canada.

On February 1, 2019 the Company announced the successful completion of patient enrolment in its STARS (Sarizotan for the Treatment of Apneas in Rett Syndrome) clinical study: top line results from the STARS study are expected in Q4 2019.

Bresso, February 25, 2019



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

Auditor Report

Newron Pharmaceuticals S.p.A.

Consolidated financial statements
as at December 31, 2018

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.

Report on the Audit of the Consolidated Financial Statements

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, 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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, 2018, 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 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 directors' 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 p) "Revenue from contracts with customers" 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 IFRS 15. 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. Our audit procedures did not lead to any reservations concerning the recognition of the revenue generated through research and development contracts.

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 11 "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. Our audit procedures did not lead to any reservations concerning the recognition and measurement of the clinical trials costs.

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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. Directors are 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 Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Newron Pharmaceuticals S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, 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 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 have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.
- we have obtained 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.
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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- we have concluded on the appropriateness of Directors'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 consider this matter in forming 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.
- we have evaluated 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.
- we have obtained 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 have communicated 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 have provided 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 have determined 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 have described these matters in our auditor's report.

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

Milan, March 4, 2019

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 2018	FY 2017
Number of fully paid-in shares as at December 31	17,845,345	17,837,345
Year high (in CHF)	13.78	28.70
Year low (in CHF)	5.33	9.91
Year-end (in CHF)	5.61	11.60
Loss per share (in EUR)	0.84	0.32
Cash and cash equivalents, other short-term financial assets as at December 31 (in EUR 1,000)	43,853	60,081
Market capitalization as at December 31 (in CHF)	100,112,385	206,913,202

Major shareholders*

Investor AB
Aviva
Zambon
AXA
Polar

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

Financial calendar

Publication of Annual Report 2018	March 5, 2019
Analyst/Investor/Media Conference Call	March 5, 2019
Annual Shareholders'meeting 2019	April 2, 2019
Half year report 2019	September 12, 2019

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