

# Annual Report 2016

# Company profile

Newron is a biopharmaceutical company focused on the development of novel therapies for patients with diseases of the Central Nervous System (CNS) and pain. The Company is headquartered in Bresso near Milan, Italy and listed on the Swiss Stock Exchange SIX (ticker symbol: NWRN). Xadago® (safinamide) has received marketing authorization for the treatment of Parkinson's disease in the European Union and Switzerland and is commercialized by Newron's Partner Zambon. U.S. WorldMeds holds the commercialization rights in the U.S. Meiji Seika has the rights to develop and commercialize the compound in Japan and other key Asian territories. In addition to Xadago® for Parkinson's disease, 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 (NW-3509) 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](http://www.newron.com)

# Key Corporate Events

## 2016 Highlights

### Xadago® (safinamide)

- Launch by Zambon for patients with Parkinson's disease in
  - three additional top 5 territories of the EU: Italy, Spain, U.K.
  - Belgium, Denmark, Sweden, Luxembourg, The Netherlands, Norway
  - Switzerland
- U.S. FDA
  - considers Newron's re-submitted NDA for Xadago® to be a complete, class 2 response to Complete Response Letter
  - fixes PDUFA date March 21, 2017
- Seqirus and Zambon enter into a partnership for Xadago® in Australia and New Zealand (post end of reporting period)

### Evenamide (NW-3509)

- Phase IIa study design presentation at 5th Biennial Schizophrenia International Research Society Conference in Florence, Italy
- Encouraging preliminary results of Phase IIa study in patients with schizophrenia disclosed post end of reporting period
- Detailed Phase IIa study results to be presented at 16th International Congress on Schizophrenia Research (ICOSR), March 24–28, San Diego, CA, USA

### Sarizotan

- IND approval for Sarizotan for the treatment of Rett Syndrome by the U.S. FDA
- STARS trial design presentation at U.S. Rett Syndrome Symposium
- Initiation of
  - burden of disease study for Rett Syndrome patients and families
  - STARS potentially pivotal study for patients with Rett Syndrome

### Corporate

- Newron raises CHF 26.8 million via private placement of new shares to investors and exercise of 2015 option agreement with US institutional investor
- Dennis Dionne, Executive Director for Commercial Operations, appointed to Newron's Senior Management Team as Vice President Commercial Affairs



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# Shareholder's Letter



Ulrich Köstlin



Stefan Weber

Dear Shareholder,

We are delighted to report that the past year has been a success on a number of fronts for Newron. Following the 2015 European approval of Xadago® (safinamide) and the launch in the first EU territory, Germany, 2016 saw the launch of Xadago® in ten further key European markets by our partner Zambon. We made positive progress with our development product sarizotan, by initiating both the potentially pivotal “Sarizotan Treatment of Apneas in Rett Syndrome” (STARS) study in patients with Rett syndrome suffering from respiratory symptoms, and the first “Burden of Disease” study with respect to this disease. Post-period, we were also pleased to announce very encouraging preliminary results from our Phase IIa study with Evenamide in patients with schizophrenia.

In 2016, Xadago® was launched by Zambon in Switzerland, Spain, Italy, Belgium, Denmark, Sweden, the U.K., Luxembourg, The Netherlands, and Norway. The launch of Xadago® in these markets means that a large and increasing number of patients across Europe – including four of the five key EU pharmaceutical territories – can be treated using Xadago®, the first New Chemical Entity in ten years to receive Marketing Authorization from the EU Commission for the treatment of Parkinson's disease. Post-period, Zambon and Seqirus announced having entered into a partnership for the registration and commercialisation of Xadago® in Australia and New Zealand. Once Xadago® is approved by the regulators in both of these territories, we hope that many more patients can begin using Xadago® for the treatment of Parkinson's disease.

Eighteen months on from the initial launch of Xadago® in Germany, we have generated cumulated royalty revenues of EUR 2.2 Mio. on product sales by Zambon.

Following the disappointing news in March that the FDA had issued a CRL for Xadago®, we were delighted to announce in July, alongside our partners U.S. WorldMeds and Zambon, that the FDA no longer required Newron to perform any studies to clinically evaluate the potential abuse liability or dependence/withdrawal effects of Xadago®, the key subject of the CRL. We welcomed the announcement from the U.S. Food and Drug Administration (FDA) in October that it considers the September 2016 re-submission of the U.S. NDA by Newron to be a complete Class 2 response to FDA's March 28, 2016 Complete Response Letter (CRL). The FDA has determined the user fee goal date (PDUFA date) to be March 21, 2017. We are hopeful that Xadago® will be approved in the USA on or before its PDUFA date and that it will become available to U.S. patients, soon.

In May, the FDA approved our Investigational New Drug (IND) application for the evaluation of sarizotan for the treatment of patients with Rett syndrome. Following this approval, in July we initiated the STARS study. This potentially pivotal clinical study will evaluate the efficacy, safety and tolerability of sarizotan in patients with Rett syndrome suffering from respiratory symptoms. The initiation of the STARS study is an exciting milestone in our development program for sarizotan and we look forward to reporting the results of the trial in due course. As per December 31, 2016, the study is enrolling patients in both the USA and Europe.

We announced in June that, as part of our wider commitment to addressing the needs of Rett syndrome patients, we are sponsoring a study to evaluate the burden of disease experienced by patients with this debilitating condition and their families. The study will be comprised of two global surveys, one to be completed by at least 750 caregivers and the other by at least 210 healthcare providers (HCP). Both will examine patient burden, with the caregiver survey additionally evaluating caregiver burden. The surveys have been developed in accordance with regulatory guidance, with the final versions being used for data collection in the United States, the United Kingdom, Italy, Germany and the Netherlands.

In 2016, we were proud to recognise the “Rare Disease Day”, the “World Parkinson’s Disease Awareness Day”, as well as the Rett Symposium. These global initiatives all help to raise awareness of rare diseases and Parkinson’s disease respectively and we fully support their mission to improve the lives of both rare disease and Parkinson’s disease patients.

In April 2016, we presented a poster at the 5th Biennial Schizophrenia International Research Society Conference. The abstract was titled “Evenamide (NW-3509), a Putative Antipsychotic, Targets Abnormal Electrical Activity and Glutamatergic Abnormalities in Improving Psychotic Symptoms in Patients with Schizophrenia in a Phase II, Placebo-controlled Trial”. The very encouraging results of this Phase IIa study we were pleased to announce post period in January 2017. Evenamide met the study objectives of good tolerability, safety, and preliminary evidence of efficacy as an add-on therapy for the treatment of schizophrenia. Detailed results of the study will be presented at the 16th International Congress on Schizophrenia Research (ICOSR), March 24–28, in San Diego, CA, USA.

We are strengthening our development and commercial resources in preparation of the potential commercialization of sarizotan. This was most prominently evidenced by the change in senior management that we announced close to the end of the year, promoting Dennis Dionne to Vice President Commercial Affairs. Dennis Dionne replaces Anders Haegerstrand on the Senior Management Team. Anders will leave the Company effective June 30, 2017, to pursue his professional career outside of Newron and we are grateful to him for his contributions to Newron.

In 2016, Newron – by placing new shares to investors – raised total funds of EUR 26.8 Mio. of which EUR 3.0 Mio. related to the exercise, in March, of a purchase option for 209,364 shares by a shareholder under a 2015 subscription and option agreement, while the remaining EUR 23.8 Mio. resulted from a private placement executed in October. We intend to use the net proceeds of these fundraisings for financing our operations and development programs, with a focus on orphan indications within the CNS field. Alongside, we will continue to review products and product candidates that need certain regulatory and development efforts to repurpose them and that could contribute to the objective of a sustainable pipeline of development projects. Including the proceeds from fundraising, we started into 2017 with

funds totaling about EUR 46.5 Mio., which we expect to take the Company towards the end of 2018, beyond expected key value inflexion points.

The past year has been very positive for Newron, particularly now that Xadago® is available to patients in eleven countries across Europe. We look forward to the result of the pending PDUFA date for Xadago® and are confident that in 2017, we will see Xadago® become available to patients in the USA. We are also clearly excited about the potential of both sarizotan and Evenamide and we look forward to continuing the development of both in the coming year. As always, we would like to thank our loyal shareholders for their ongoing commitment and support. Our innovative pipeline of CNS drugs is progressing well and we look forward to updating our shareholders on the progress as we build and strengthen our position as a leading player in the CNS disease area.

Yours sincerely



Dr. Ulrich Köstlin  
Chairman



Stefan Weber  
Chief Executive Officer

# Corporate Governance

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

# Group Structure and Shareholders

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

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

The operations of the Company are managed by the Chief Executive Officer (CEO) together with the other members of the management team: the Chief Medical Officer (CMO), the Executive Vice President Business Development, the Vice President Finance, the General Manager Newron Sweden AB (until December 31, 2016) and the Vice President Commercial Affairs (from January 1, 2017 on).

## Related entities

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

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

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

Hunter-Fleming Ltd. is a private limited company incorporated under the laws of England with its registered office and principal business office is in Brixham, Devon, U.K. The company

has a share capital of GBP 220,328, divided into 220,328 ordinary shares of GBP 1 nominal value, each. All shares are held by Newron. The operations of the company – currently inactive – are managed by Stefan Weber and Marco Caremi as directors. Operations related to the development compounds of the company are taken care of by Newron Pharmaceuticals US, Inc. and Newron.

Newron is the only listed company within the group.

### 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, Bresso (Milan), Italy, are listed according to the international reporting standard 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<br>December 31, 2016 | CHF 317,829,335<br>(based on 15,773,168 outstanding<br>shares and a share price of CHF 20.15) |

### 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 <sup>1</sup>/<sub>3</sub>%, 50% or 66 <sup>2</sup>/<sub>3</sub>% 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. 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. The legal entities directly or indirectly controlling the voting rights have discretionary powers to exercise those rights.

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, 2016.

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, 2016             |                                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------------------------------------|--------------------------------------|
|                                                                                                                                                                                                                                           |      | Shares                               | % of voting rights/<br>share capital |
| Duba AB, Stockholm, Sweden<br>(The shares are indirectly held by<br>Investor AB, Stockholm, Sweden)<br>(SIX publication date: January 23, 2016)                                                                                           |      | 1,772,817                            | 11.23%                               |
| Zambon Company S.p.A. Bresso, Italy<br>(The shares are indirectly held by<br>GEFIM S.p.A., Milan, Italy)<br>(SIX publication date: January 27, 2016)                                                                                      |      | 1,311,957                            | 8.32%                                |
| Aviva Life & Pensions UK Limited, York, U.K.,<br>Aviva France SA, Bois Colombes, France and<br>Friends Life Limited, Dorking, U.K. (The shares are<br>indirectly held by Aviva Plc, London, U.K.)<br>(SIX publication date: May 13, 2016) |      | 1,152,664/<br>1,307,550 <sup>1</sup> | 8.29%                                |

1 Therefrom, 154,886 voting rights were delegated 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)**.

### Cross-shareholdings

As of December 31, 2016, 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, 2016 | December 31, 2015 | December 31, 2014 |
|-----------------------------------------------------------------|-------------------|-------------------|-------------------|
| Number of ordinary shares with par value of EUR 0.20            | 15,773,168        | 14,219,172        | 13,042,539        |
| Share capital                                                   | 3,154,633.60      | 2,843,834.40      | 2,608,507.80      |
| Number of authorized shares with par value of EUR 0.20 (up to)  | 0                 | 0                 | 0                 |
| Authorized share capital (up to)                                | 0                 | 0                 | 0                 |
| Number of conditional shares with par value of EUR 0.20 (up to) | 1,882,660         | 1,053,338         | 777,035           |
| Conditional share capital (up to)                               | 376,532.00        | 210,667.60        | 155,407           |

As of December 31, 2016, Newron's outstanding share capital was EUR 3,154,633.60, consisting of 15,773,168 ordinary shares with a nominal value of EUR 0.20 each. All shares are fully paid-in.

As of December 31, 2016, Newron had conditional (pre-authorized) capital of EUR 376,532.00, representing 1,882,660 Newron's ordinary shares with a nominal value of EUR 0.20 per share, of which 819,372 exclusively related to the purpose of implementing stock-based incentive compensation plans for employees and directors of the Company and its subsidiaries, while 1,063,288 shares with a nominal value of EUR 0.20 per share to support capital increases without the issuance of a Listing Prospectus.

## Changes in capital

On March 27, 2014, an extraordinary shareholders' meeting resolved, inter alia, to:

- a) increase the Company's share capital, excluding any pre-emptive rights of the Company's current shareholders, in the maximum amount of nominal EUR 236,719.40, corresponding to up to 1,183,597 new ordinary shares with a par value of EUR 0.20 per share, within the limits of 10% of the share capital in accordance with article 2441, paragraph four, second part, of the Italian Civil Code and with article 6 of the Company's By-laws. As announced on April 7, 2014, the shares were subscribed by existing shareholders J.P. Morgan Asset Management, Aviva, Investor AB and certain new institutional investors, including Swisscanto.
- b) grant to the Board, pursuant to article 2443 of the Italian Civil Code, the power, to increase the share capital for payment, severally (in via scindibile), in one or more tranches, until March 27, 2019, up to a maximum par value of EUR 375,844.00 and therefore up to 1,879,220 Newron ordinary shares having the same characteristics of the already issued ones, with exclusion of the option right pursuant to Article 2441, part 5, of the Italian Civil Code. This grant of power has been revoked due to the resolution by the shareholders' meeting held on March 22, 2016, and the subsequent subscription of shares under such resolution, in October 2016.
- c) Subject to the execution of the above-described share capital increase, revoke even partial the share capital increase with option right approved by the extraordinary shareholders' meeting on April 2, 2010, severable for payment, up to a maximum amount of EUR 375,844.00, by issuance of a maximum number of ordinary shares equal to 1,879,220 (with reference to the revocation please see below the resolution of the extraordinary shareholders' meeting held on March 22, 2016).

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

**a)** increase the Company's share capital for payment, severable, with exclusion of the option right, for maximum nominal EUR 260,850, and therefore, for a maximum number of 1,304,250 Newron Pharmaceuticals S.p.A. ordinary shares and, in any event, within the limits of the 10% of the share capital in accordance with article 244I, paragraph fourth, second part, of the Italian Civil Code and with article 6 of Company's By-Laws. Existing shareholders of the Company, including Aviva, Investor AB, J.P. Morgan Asset Management, together with new institutional investors, including Nyenburgh and Sphera Global HealthCare Fund and a U.S.-based biotechnology and healthcare specialist fund, subscribed for 1,052,436 Shares in two transactions which closed in April 2015 and November 2015, respectively. Under the agreement signed on November 20, 2015, the abovementioned U.S.-based fund subscribed additional 209,364 newly issued ordinary shares on March 23, 2016. As of today, the Company has issued 1,261,800 ordinary shares, thus the Company can still issue additional 42,450 ordinary shares.

**b)** Increase the Company's share capital for payment, severable, with exclusion of the option right, in accordance with article 244I, paragraphs 5 and 8, of the Italian Civil Code, for maximum nominal EUR 80,000, and therefore, for a maximum number of 400,000 ordinary shares, nominal value EUR 0.20 each, to serve one or more stock incentive plans.

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

**a)** Grant to the Board the powers, pursuant to article 2443 of the Italian Civil Code, to increase, in one or more tranches, the share capital, severally (in via scindibile), until March 22, 2021, even with the exclusion of the option right pursuant to article 244I, 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 244I, 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 244I, 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.

### Shares and participation certificates

As of December 31, 2016, Newron's outstanding share capital was EUR 3,154,633.60, consisting of 15,773,168 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 2016, 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 2017.

### 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, 2016, 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.

As of December 31, 2016, 387,737 options were left of which 267,235 vested, while the remaining 120,502 will vest in 2017. 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, a number of 2,227 options were exercised at an exercise price of EUR 13.94. As a result, by December 31, 2016 a total of 185,548 were still validly granted to the beneficiaries, of which 109,054 options at a strike price of EUR 13.94 and 76,494 options at a strike price of EUR 13.88.

Of these options, 91,652 vested during 2016, additional 46,942 options will vest in 2017 while the remaining 46,954 options will vest during 2018. 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.

As of December 31, 2016 a total of 314,456 options have been granted under the 2015 Stock Option Plan. Those options will vest as follows: 138,718 in 2017; 87,854 in 2018; 78,635 in 2019 and the remaining 9,249 options in 2020. The options will expire as at March 24, 2025.

As per December 31, 2016, the total volume of granted stock options under the above plans was 943,192 options to acquire one share, each, at nominal value of EUR 0.20, each, an equivalent of 6.0% 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, 2016.

| Plan's name  | Granting Date | Exercise price<br>(in EUR) | Expiring date |                |                | Total          |
|--------------|---------------|----------------------------|---------------|----------------|----------------|----------------|
|              |               |                            | 30/03/2020    | 31/03/2023     | 24/03/2025     |                |
| ESOP 2011    | 24/03/2011    | 5.29                       | 55,451        |                |                | 55,451         |
| ESOP 2013    | 18/01/2013    | 6.32                       |               | 374,487        |                | 374,487        |
|              | 18/04/2013    | 6.66                       |               | 13,250         |                | 13,250         |
| ESOP 2014    | 28/01/2014    | 13.94                      |               | 109,054        |                | 109,054        |
|              | 16/07/2014    | 13.88                      |               | 76,494         |                | 76,494         |
| ESOP 2015    | 04/06/2015    | 28.14                      |               |                | 229,091        | 229,091        |
|              | 10/09/2015    | 24.90                      |               |                | 19,918         | 19,918         |
|              | 19/11/2015    | 25.41                      |               |                | 28,455         | 28,455         |
|              | 27/07/2016    | 15.22                      |               |                | 8,537          | 8,537          |
|              | 09/09/2016    | 20.22                      |               |                | 28,455         | 28,455         |
| <b>Total</b> |               |                            | <b>55,451</b> | <b>573,285</b> | <b>314,456</b> | <b>943,192</b> |

# 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, 2016, the Board was comprised of seven (7) directors, which all have been elected by the ordinary shareholders' meeting as of March 27, 2014. One of these directors was first elected in 2008. One member was first elected in 2012. Three directors were first elected in 2013. The remaining two directors were first elected in 2014. All directors are elected for the three-year term expiring on the date of the shareholders' meeting scheduled to approve Newron's financial statements for the year ending December 31, 2016. 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:

| <b>Name</b>      | <b>Position</b>                                                                                               | <b>Member since</b> | <b>Relevant external positions</b>                                                                                                                                                                                                                                                                                                                                                                 |
|------------------|---------------------------------------------------------------------------------------------------------------|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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; Director on the Board of Constantia Flexibles AG and 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 PJJ Con-seils; Independent Director and Chairman of the Audit Committee of Stallergenes Greer (London); Director on the Board of Directors and Chairman of the Audit Committee of Innate Pharma S.A. and Scynexis Inc. (USA) and Chairman of Sensorion S.A.                                                    |
| Bo Jesper Hansen | Non-executive director, Chairman of R&D committee, member of audit and risk committee                         | 2013                | Former Executive Chairman of SOBI AB; Chairman of the Board of Directors at Karolinska Development AB; Director on the Board of Directors of Orphazyme ApS, Ablynx (Be), Hyperion Therapeutics Inc., Genspera Inc. (both USA) CMC Contrast AB (Sweden) and Chairman of Laborie Inc (Canada)                                                                                                        |
| Robert Holland   | Non-executive director, member of R&D committee                                                               | 2013                | Former VP & Head of Neuroscience Therapeutic Area at AstraZeneca. CMO of Oxford Gene Technology Ltd and Executive Director of Early Clinical Development Consulting Ltd. and permanent consultant to the Wellcome Trust (all U.K.)                                                                                                                                                                 |
| Don de Bethizy   | Non-executive director, member of R&D committee                                                               | 2014                | Co-Founder, Former CEO & President of Targacept, Inc.; former President, CEO & director on Board of Management of Santaris Pharma; Director on the Board of Directors of Noxxon Pharma AG; President of Innovent LLC (USA) and White City Consulting ApS (Denmark); Director in the Board of Proterris Inc.; Noxxon Pharma AG; ArGEN-X NV; Chairman of the Board of Albumedix AS and Rigontec GmbH |
| 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 (ICPT); Chairman of Italian Angels for Biotech; Chairman of the Scientific Advisory Board of Zambon; member of the Board of Assobiotech and member of the jury of the European Biotechnica Award                                                                                         |

None of the non-executive members of the Board as per December 31, 2016 was a member of Newron's management in the three financial years preceding the current year.

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



**Ulrich Köstlin** is the Chairman of the Board since 2013. Ulrich was member of the Board of Management of Bayer Schering Pharma AG until 2011. He was responsible for multiple regions globally – Europe, Asia Pacific, Latin America, Japan and North America. Dr. Köstlin 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 VP Sales and Marketing and General Manager Diagnostic Imaging of the subsidiary in the USA. In 1994, Dr. Köstlin was appointed to the former Schering AG's Executive Board. He currently serves as Curator of the AREPO Foundation, Liechtenstein, Director on the Boards of Constantia Flexibles AG, Vienna and the Universitätsklinikum Würzburg, Germany. Ulrich Köstlin was born in Stuttgart, Germany and studied law at the Universities of Erlangen and Tübingen in Germany, and Geneva in Switzerland. Ulrich Köstlin holds a Doctorate from Tübingen University (Dr. iur.) and a Master of Laws degree from the University of Pennsylvania Law School. Ulrich is German.

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



**Stefan Weber** was appointed Chief Executive Officer and Executive Director of Newron in 2012. He had been Chief Financial Officer of the Company since April 2005. He has more than 25 years of industry experience in finance and has been serving as Chief Executive and Chief Financial Officer of public and private biotechnology companies since 2000. From 1987 to 1999, he was with Lohmann Group, a global producer of pharmaceutical,

medical, technical and consumer products. His final position was Head of Finance of the group. After joining Girindus, a fine chemistry process development and scale-up provider in 1999, he was appointed Chief Financial Officer in 2000. From 2001 to 2005, he was the Chief Financial Officer of Biofrontera, a company active in drug discovery and development. Stefan Weber has been responsible for executing numerous substantial financing transactions, including debt, equity and mezzanine financing as well as national and European grants. He has executed IPOs to the stock exchanges in Frankfurt and Zurich. He furthermore has been involved in a number of M&A transactions, disinvestments and strategic restructurings. He holds a master's degree in business management from Fern Universität Hagen (Diplom-Kaufmann). Stefan Weber 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 in Rhône-Poulenc and Aventis Group in France and the USA. Prior to that, he was with Banque Louis-Dreyfus. At present, he is General Partner of PJJ Conseils, a consulting firm in healthcare. He holds a doctorate in economics from University of Rennes (France).

Patrick Langlois is Independent Director and Chairman of the Audit Committee Stallergenes Greer (London), Director on the Board of Directors and Chairman of the Audit Committee of Innate Pharma S.A. (France) and Scynexis Inc (USA) and Chairman of Sensorion S.A. (France). He is French.

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



**Bo Jesper Hansen**, a director since 2013, founded Scandinavian Medical Research, while serving as Medical Advisor for Synthelabo, Pfizer, Inc., Pharmacia Corporation and Yamanouchi Pharmaceutical Co. Ltd. He acted both as Chief Executive Officer and Director of the Board of Swedish Orphan International AB from 1998 to 2010. Dr. Hansen has been with Swedish Orphan International AB since 1993, where he grew the business from a small Nordic-focused

niche specialty-/orphan drug pharma to an international organization, with over 60 products across Europe. Prior to joining Swedish Orphan International AB, Bo also co-founded the Shared Clinic "The Prostate Clinic" in Denmark. Since the merger in 2010 of Biovitrum AB and Swedish Orphan International AB, Bo served as Executive Chairman of the combined entity, SOBI AB, until May 2016. Currently, he is the Chairman of Laborie Inc. (Canada) and Chairman of the Board of Directors at Karolinska Development AB (Sweden). Bo is also a director on the Board of Director of Orphazyme ApS (DK) and Ablynx (B), Hyperion Therapeutics Inc., Genspera Inc. (both USA) and CMC Contrast AB (Sweden). He holds an MD and a PhD from the University of Copenhagen. Bo's experience includes orphan drug research and development, international marketing and contract negotiations with extensive knowledge within regulatory, pharmacovigilance, medical marketing and business development with close connections in the Orphan Drug area at executive level. He is Danish.

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



**Robert Holland**, a director since 2013, served as VP & Head, Personalised HealthCare & Biomarkers and as VP & Head of the Neuroscience Therapeutic Area at AstraZeneca. He was also a member of the R&D Leadership Team at AstraZeneca until 2012. Previously, Robert has 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 commercialisation of medicines for both neurological and psychiatric conditions and in the in-licensing and successful co-development of medicines originating from different kinds of partner companies. He has been a lecturer at The Royal London Hospital and at Merton College, Oxford in Human Physiology and Anatomy, respectively. He holds a medical as well as a doctorate degree from the University of Oxford. In addition to his position at Newron, he acts as Chief Medical Officer of Oxford Gene Technology Ltd., as Executive Director on the Board of Directors of Early Clinical Development Consulting Ltd. (both U.K.), and as permanent consultant to the Wellcome Trust (U.K.). Robert is British.

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



**J. Donald (Don) de Bethizy**, PhD, a director since March 27, 2014, brings 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, CEO and Director on the Board of Management 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 CEO for 15 years. Don led Targacept's private and public financings totaling approximately USD330 million including the company's Initial Public Offering (IPO) in April, 2006. He played a key role in developing business relationships with GSK, AstraZeneca, Aventis, and Dr. Falk Pharma which generated non-dilutive revenues of over USD 300 million. He holds an A.B.S. in Biology from University of Maryland and a M.S. and PhD from Utah State University. Don at present is President of Innovent LLC (USA) and White City Consulting ApS (Denmark), as well as a Director on the Boards of Proterris Inc (USA) Noxxon Pharma AG (Germany) and ArGEN-X NV (Netherlands), as well as Chairman of the boards of Albumedix A/S (Denmark) and Rigontec GmbH (Germany). Don 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 March 27, 2014 is CEO of EryDel S.p.A. He has over 25 year experience in Pharma and Biotech. He was Co-founder and CEO of Newron until May 2012. Under his guidance, Newron developed a pipeline of innovative therapies, with the most advanced compound safinamide approved for the treatment of Parkinson's disease. During his tenure, Newron raised significant capital from international venture capital

firms and was listed at the SIX Swiss Exchange. He also was instrumental in finalizing multi-million licensing deals with Merck Serono, Meiji Seika and Zambon. Luca is also Board member at Intercept Pharmaceuticals (ICPT), Chairman of Italian Angels for Biotech, Chairman of the Scientific Advisory Board of Zambon, member of the Board of Assobiotec, the Italian Biotech Association and member of the jury of the European Biotechnica Award. Luca graduated and performed his post-doctoral training at Milano Genetics Institute. He has authored several scientific publications and holds numerous patents. 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 material litigation, material non-budgeted expenditure, material agreements, entering into joint ventures, M&A, licensing, material lending agreements, 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, 2016, this right has not been exercised by the Board. The Board also determines the duration of the term of the Company's Executive Director. The Chairman of the Board, any Deputy Chairman as well as any Director are the legal representatives of the Company. The Board and any Director may delegate the power to carry out certain acts within the scope of their respective authority.

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

The Company's directors are elected at the Company's annual ordinary meeting of shareholders for a term of up to three financial years. The Company's directors may be re-elected for an unlimited number of consecutive terms. If the shareholders fail to elect a Chairman at the shareholders' meeting, the members of the Board elect, from amongst themselves, the Chairman, and one or more Deputy Chairmen and/or Executive Directors.

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

### Meetings

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

In 2016, a total of 11 meetings of the full Board were called, of which 3 were held physically and 8 by phone. In addition, the audit and risk committee convened twice by phone, the compensation and nomination committee convened once by phone and the R&D committee convened four times of which three times physically. While the physical meetings of the full board are called on a quarterly basis and usually take a business day, the phone meetings are called upon requirement and usually take between one and two hours. The committee meetings usually take between half an hour and two hours. The committees have a pre-determined 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 are regularly attending the Board and committee meetings 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.

### 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 regularly 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 takes this function towards the members of the audit and risk committee and the Chief Medical Officer 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.

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, 2016, the audit and risk committee consisted of Patrick Langlois (Chairman), Bo Jesper Hansen and Luca Benatti, each of whom is a non-executive member of the Board. The audit and risk committee meets at the option of its members on the same date as the Company's scheduled Board meetings and at such other times as its chairperson deems it appropriate. Main objectives of the committee are to contribute to ensuring the safeguarding of corporate assets, the efficiency and effectiveness of management procedures, the reliability of financial information and the compliance with laws and regulations, including the by-laws, the internal procedures and the internal control-system – including risk management and issuing recommendations to the Board regarding the acceptance of the Company's annual budgets and accounts. The committee's chairperson reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. For further detail with respect to the audit committee, please see Note "Auditors" on page 38.

As at December 31, 2016, 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, 2016, the R&D committee consisted of Bo Jesper Hansen (Chairman), Robert Holland, Don deBethizy and Luca Benatti, each of whom is a non-executive and independent member of the Board. The main tasks of the R&D committee are to evaluate the research and development strategies of the Company, to review and report to the Board scientific trends and emerging areas of science relevant to the Company strategy, to review and evaluate internal research and development projects from a scientific and strategic perspective, to review and provide guidance related to business development opportunities, to assist the Company in developing and accessing a network of world class scientific advisors for the purposes of guidance as well as for the identification and attraction of new opportunities and to review the Company's compliance systems with reference to scientific and regulatory matters.

### Board of Statutory Auditors

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

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

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

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

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

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

| <b>Name</b>       | <b>Position</b>                             | <b>Member since</b> |
|-------------------|---------------------------------------------|---------------------|
| 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 *           |
| Anders Haegerstrand | General Manager Newron Sweden AB **           |

\* Effective from January, 1 2017 on

\*\* Until December 31, 2016

For a biography of Stefan Weber, Newron's CEO, see "Board of Directors" page 19.

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



**Ravi Anand**, a Swiss resident, has been the Company's Chief Medical Officer since May 2005. He received his university education in New Delhi, India, and his medical training in the specialties of psychiatry and neurology in the United States. For over 20 years, Dr. Anand has worked in international drug development and registration departments of major pharmaceutical companies, including F. Hoffmann-La Roche (Switzerland),

Sandoz/Novartis (USA) and Organon (Netherlands). From 1993 to 1997, he 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. From 2001 to 2003, he served as the global Head of CNS Clinical Research at Organon. Since 2003, Dr. Anand has been acting as a consultant for Newron and other clients. During his tenure in the pharmaceutical industry, Dr. Anand has worked in all phases (I through III) of drug development as well as in medical commercialization (phase IV). Overall, he has been responsible for the conduct of clinical trials in over 30 countries. He has been involved in more than 30 investigational new drug applications, and over seven international new drug applications. He has published extensively, including over 50 papers and 200 abstracts, posters and presentations. He is both a U.S. and a Swiss citizen.



**Marco Caremi** is Executive Vice President Business Development since 2012. He has been in Vice President positions with the Company since September 2002. Marco holds a university degree in natural science from the University of Milan and has successfully completed the Accelerated Development Programme at the London Business School. He has built almost 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 had responsibility for researching and evaluating all in and out-licensing deals, analyzing 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, he held several marketing and sales positions at Schering-Plough S.p.A. Before that time, he was a sales representative, sales specialist and sales district coordinator at Polifarma S.p.A. Marco Caremi is Italian.



**Roberto Galli** is Vice President Finance since 2012. He joined Newron in 2002. Since, he has covered various managerial positions within the Finance Department and was involved in the IPO, M&A and other strategic corporate transactions. He started as auditor at Coopers & Lybrand (CL), then joining PricewaterhouseCoopers (PwC) where he served as Senior Auditor & Business Advisor dealing with companies from the pharmaceutical,

fashion, energy and automotive industries. He is also a member of the Italian Angels for Biotech Association. He has 20 years' experience in biotech, finance and auditing. He holds a degree in Business Economics from the University "Luigi Bocconi" in Milan and he is a Member of the Italian Institute of Chartered Auditors (i.e. Revisore Contabile). Roberto Galli is Italian.



**Dennis Dionne** is VP of Commercial Affairs since January 1, 2017. He joined Newron Pharmaceuticals as Executive Director of Commercial Operations in 2015. Dennis brings tremendous experience in the CNS arena as well as a diverse background across a breadth of commercial leadership roles at Johnson & Johnson (more than 20 years), Novartis (six years), and a small venture start-up. He has cultivated proven abilities to plan and manage at both

strategic and operational levels; including building full life cycle commercial strategies in pre-launch companies and managing the business through various stages of growth. He is recognized for developing innovative strategies that translate science into medical and commercial success. His combination of process skills, entrepreneurial insight, and experience provide the right balance required to drive leadership in today's demanding and competitive pharmaceutical business environment. Dennis holds a BA in Biology & Chemistry from Roger Williams University, Bristol, R.I. Post degree executive leadership programs include: general management & operational leadership, commercial policies and practices, marketing & project management, global cross-functional team leadership. Dennis Dionne is a U.S. citizen.



**Anders Haegerstrand** has been the General Manager of Newron Sweden AB and member of the Newron senior management from 2012 to December 31, 2016. He joined Newron Sweden (at that time: NeuroNova) in 2000, as CEO and first employee, and from 2004 as Chief Scientific Officer, focusing on the translation of the sNN0031 and sNN0029 programs from the discovery phase through preclinical and early clinical development. He received his training as Doc-

tor of Medicine (MD) at Karolinska Institute in Stockholm from which he also received a PhD degree and became associate professor in Neuroscience, and where he established a lab with a focus on regenerative medicine and cell transplantation during 1990 – 1995. From 1995 to 1998, he was Project Leader for a U.S. biotech collaboration and later VP of Discovery Research, both at Astra Pain Control (a part of the former Astra Group). This included responsibilities for programs ranging from early stage drug discovery to Phase I/II clinical trials. Following the merger between Astra and Zeneca in 1998, he was Vice President in the CNS and Pain Research Area Management team. Dr Haegerstrand has pharmaceutical industry and biotech experience including small molecules, peptides, proteins, cells and medical devices. He has actively participated in several investigational new drug applications and as Principal Investigator for substantial non-dilutive research grants. He has published extensively, including approximately 50 original papers and multiple posters and presentations. Anders Haegerstrand is Swedish.

### 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 proposal for such maximum total annual compensation was approved by the shareholders' meeting of March 27, 2014. Since then, the maximum total remuneration for the members of the Newron Board is EUR 320,000. The allocation of all or a part of the maximum total remuneration to the individual members is up to the decision by the Board. The compensation of the members of the Board as per December 31, 2016 consists of a fixed annual remuneration of EUR 55,000 for the Chairman of the Board and EUR 28,000 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. From January 1, 2017 on, the fixed annual remuneration of all directors will be increased by EUR 5,000.

Furthermore, non-executive directors, as per decision by the board of January 18, 2013, are participating to the Stock Option Plans 2013, 2014 and 2015 (see page 14). Under such plans, the non-executive directors have been allocated 21,061 stock options, each. 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, 2016, Stefan Weber has waived his compensation as director.

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

During 2015, the compensation and nomination committee of the Board as well as the full Board were presented a report on Board and senior management compensation by a leading external advisor, comparing Newron to peer companies in Europe (17, including amongst others Ablynx, Belgium; Biotie Therapies, Finland; Oxford Biomedica, UK; Pharming Group, NL; Prothena, Ireland; Santhera Pharmaceuticals, CH; Silence Therapeutics, UK; Skyepharma, UK; UniQure, NL; Vernalis) and the United States (20) with a comparable status of corporate and development project status, market cap, revenues and team size.

Senior management compensation consists of base salary, bonus and stock-based remuneration (stock options, for more details see Note “Stock-based remuneration” on page 14). The maximum bonus for senior management is 30% (CEO: 40%) of the base salary, based on Company performance objectives. In addition, Newron offers to Senior management company cars, mandatory social security payments and certain life and disability insurance coverage.

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

For 2016, Company’s senior management has been rewarded a bonus reflecting achievement of 75% of the Company objectives, among which the start of the sarizotan trial (potentially pivotal), completion of the Phase IIa Evenamide (NW-3509) clinical trial in schizophrenia, staying within budgeted spending, funding of the operations and strengthening of the institutional shareholder base.

The total gross compensation of the members of the Board in 2016 is outlined below:

| (In thousand EUR)                                                                                                               | Cash compensation | Stock options** | Total 2016   | Total 2015   |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------------|--------------|--------------|
| Ulrich Köstlin, non-executive Chairman, Chairman of compensation and nomination committee                                       | 63                | 65              | 128          | 127          |
| Stefan Weber, executive director*                                                                                               | 402               | 207             | 609          | 625          |
| Patrick Langlois, non-executive director, Chairman of audit and risk committee, member of compensation and nomination committee | 43                | 65              | 108          | 104          |
| Bo Jesper Hansen, non-executive director, Chairman of R&D committee and member of audit and risk committee                      | 43                | 65              | 108          | 103          |
| Robert Holland, non-executive director, member of R&D committee                                                                 | 33                | 65              | 98           | 97           |
| Don de Bethizy, non-executive director, member of R&D committee                                                                 | 33                | 87              | 120          | 116          |
| Luca Benatti, non-executive director, member of R&D committee, member of audit & risk committee                                 | 38                | 87              | 125          | 121          |
| <b>Total</b>                                                                                                                    | <b>655</b>        | <b>641</b>      | <b>1,296</b> | <b>1,293</b> |

\* Full year remuneration in his function as CEO

\*\* Evaluation under IFRS rules, not necessarily reflects personal income

For the fiscal year ended December 31, 2016, the aggregate compensation (consisting of statutory auditors' fees) paid by Newron to the Company's Board of Statutory Auditors was about EUR 43 (2015: EUR 55).

The total gross compensation and the highest individual compensation of the members of the senior management in 2016 are outlined below.

| (In thousand EUR)       | Base salary/<br>remuneration | Bonus | Stock<br>options | Total 2016 | Total 2015 |
|-------------------------|------------------------------|-------|------------------|------------|------------|
| Ravi Anand,<br>CMO      | 789                          | 71    | 141              | 1,001      | 1,034      |
| Total senior management | 1,861                        | 304   | 661              | 2,826      | 2,952      |

### Payments to former management and directors

The Company has executed one consultancy agreement with one of the former directors of the Company. The agreement has a 21-months term and has ended in December 2016. Total payments due under the agreement is EUR 21,000, of which EUR 12,000 were incurred in 2016.

### Share allotment

In the year ended December 31, 2016, no shares have been allotted to any members of the Board nor the senior management or parties closely linked to them.

The holdings of shares, stock options and stock appreciation rights in Newron by members of the Board, senior management and parties closely linked to them as of December 31, 2016, are outlined below:

|                                                                | Shares* | Stock options | of which vested |
|----------------------------------------------------------------|---------|---------------|-----------------|
| Ulrich Köstlin<br>non-executive Chairman of BoD                | 16,661  | 15,811        | 3,500           |
| Stefan Weber, CEO,<br>executive member of BoD                  | 11,001  | 141,006       | 86,632          |
| Patrick Langlois<br>non-executive Director                     | 0       | 21,061        | 7,500           |
| Bo Jesper Hansen<br>non-executive Director                     | 0       | 17,561        | 4,250           |
| Robert Holland<br>non-executive Director                       | 0       | 17,561        | 4,250           |
| Don de Bethizy<br>non-executive Director                       | 0       | 21,061        | 6,000           |
| Luca Benatti<br>non-executive Director                         | 0       | 21,061        | 6,000           |
| Ravi Anand, CMO                                                | 7,040   | 98,703        | 63,919          |
| Marco Caremi, Executive Vice President<br>Business Development | 0       | 40,317        | 13,361          |
| Roberto Galli, Vice President Finance                          | 2,500   | 69,505        | 42,439          |
| Anders Haegerstrand,<br>General Manager Newron Sweden          | 2,000   | 70,505        | 40,955          |
| Dennis Dionne **<br>Vice President Commercial Affairs          | 0       | 28,455        | 0               |

\* As far as the Company is aware.

\*\* From January 1, 2017

The weighted average exercise price of the granted stock options is EUR 13.87. The exercise ratio in all cases is 1 share for 1 stock option.

### **Additional fees and remunerations**

Besides the consulting agreement described above, 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 2016.

### **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 2016 to current and former members of the Board or senior management. In addition, as of December 31, 2016, 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 2016, 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 2016 to persons related to Board and senior management members of the Company. In addition, as of December 31, 2016, no such loans or credits were outstanding.

# Shareholders' Participation

## Ordinary meetings

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

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

## Extraordinary meetings

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

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

## Notice of meetings

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

In addition, pursuant to Article 2366 of the Italian Civil Code, a meeting will be deemed duly convened if shareholders representing 100% of the Company's share capital, together with the majority of directors and the majority of members of the Board of Statutory Audi-

tors, are present at the meeting. Persons attending may object to discussions of matters on which they have not been sufficiently informed.

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

### Attendance and voting rights

To attend any shareholders' meeting, a Newron shareholder must, at least one business day prior to the date fixed for the meeting, instruct the relevant intermediary to communicate his relevant shareholding and voting rights to the Company: for additional information regarding the attendance procedure please check "[www.newron.com/shareholders-meeting](http://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's 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  $\frac{1}{3}$ % of the voting rights (whether exercisable or not) of such company, that person must make an offer to acquire all of the listed shares of that company.

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

Should the Company as per the assessment by the Board experience an extraordinary transaction of severe impact on its corporate structure, the stock options as evidenced in Note "Stock-based remuneration" on page 14 which have not vested by that point in time will automatically vest upon such assessment and decision by the Board.

No other applicable agreements or schemes that benefit members of the Board and senior management do include change of control clauses. In particular, no agreements on severance payments in the event of takeover, special provisions on the cancellation of contractual arrangements, agreements concerning special notice periods or longer-term contracts exceeding 12 months or additional contributions to pension funds exist that protect the above mentioned 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 Reconta 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 ending 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. Reconta Ernst & Young will receive an expected fee of EUR 118 (2015: EUR 135) 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 EUR 37 were charged by Reconta Ernst & Young for other audit-related services, mainly for issuing report activities (2016 capital increase).

## 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 2016, the audit committee has held two meetings with Reconta 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 2015, the Italian GAAP Financial Statements for Newron for the year 2015 and reviewing the Interim Consolidated Financial Statements for the six months ended June 30, 2016, 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 Reconta 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 Reconta 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](http://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 multipliers 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, our web page pull service, which can be found here: [www.newron.com](http://www.newron.com) > Investors and Media > E-Mail alerts.

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 2017

Annual General Meeting of Shareholders: March 28, 2017 in the Company's offices in Bresso (Mi), Italy

Publication of half-year results: September 14, 2017

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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 Income

(In thousand Euro, except per share information)

|                                                      | Note  | For the year ended December 31 |                 |
|------------------------------------------------------|-------|--------------------------------|-----------------|
|                                                      |       | 2016                           | 2015            |
| Licence income                                       | 8     | 3,039                          | 1,800           |
| Royalties                                            | 9     | 1,698                          | 475             |
| Other income                                         | 10    | 1,989                          | 105             |
| <b>Revenue</b>                                       |       | <b>6,726</b>                   | <b>2,380</b>    |
| Research and development expenses                    | 11/12 | (12,398)                       | (18,449)        |
| Marketing and advertising expenses                   | 13    | (513)                          | (53)            |
| General and administrative expenses                  | 11/14 | (9,140)                        | (8,278)         |
| <b>Operating result</b>                              |       | <b>(15,325)</b>                | <b>(24,400)</b> |
| Financial result net                                 | 15    | 121                            | (583)           |
| <b>Result before tax</b>                             |       | <b>(15,204)</b>                | <b>(24,983)</b> |
| Income tax                                           | 16    | (33)                           | 2,167           |
| <b>Net loss</b>                                      |       | <b>(15,237)</b>                | <b>(22,816)</b> |
| <b>Loss per share</b>                                |       |                                |                 |
| Basic and diluted                                    | 17    | (1.04)                         | (1.66)          |
| <b>Weighted average number of shares (thousands)</b> |       | <b>14,688</b>                  | <b>13,722</b>   |

(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  | 2016                           | 2015            |
| Net loss for the period                                                                       |       | (15,237)                       | (22,816)        |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods:        |       |                                |                 |
| Net gain on available-for-sale assets                                                         | 21/22 | 23                             | (29)            |
| Exchange differences on translation of foreign operations                                     |       | 90                             | 40              |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods     |       | 113                            | 11              |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods:    |       |                                |                 |
| Remeasurements on defined benefit plans                                                       | 27    | 26                             | 12              |
| Net other comprehensive income not to be reclassified to profit or loss in subsequent periods |       | 26                             | 12              |
| Other comprehensive loss for the period, net of tax                                           |       | 139                            | 23              |
| <b>Total comprehensive loss for the period, net of tax</b>                                    |       | <b>(15,098)</b>                | <b>(22,793)</b> |

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

# Consolidated Statement of Financial Position

| (In thousand Euro)                          |      | As of December 31 |               |
|---------------------------------------------|------|-------------------|---------------|
|                                             | Note | 2016              | 2015          |
| <b>Assets</b>                               |      |                   |               |
| Non-current assets                          |      |                   |               |
| Property, plant and equipment               | 18   | 120               | 79            |
| Intangible assets                           | 19   | 261               | 265           |
| Non-current receivables                     |      | 70                | 62            |
|                                             |      | 451               | 406           |
| Current assets                              |      |                   |               |
| Inventories                                 |      | 5                 | 38            |
| Receivables and prepayments                 | 20   | 9,667             | 3,005         |
| Available for sale financial assets         | 21   | 3,520             | 4,920         |
| Cash and cash equivalents                   | 22   | 42,948            | 36,011        |
|                                             |      | 56,140            | 43,974        |
| <b>Total assets</b>                         |      | <b>56,591</b>     | <b>44,380</b> |
| <b>Shareholders, equity</b>                 |      |                   |               |
| Share capital                               | 23   | 3,155             | 2,844         |
| Share premium and other reserves            | 24   | 59,518            | 61,580        |
| Share option reserve                        | 25   | 7,556             | 5,392         |
| Retained earnings                           |      | (19,782)          | (31,914)      |
| Translation differences                     |      | (700)             | (790)         |
| <b>Total shareholders, equity</b>           |      | <b>49,747</b>     | <b>37,112</b> |
| <b>Liabilities</b>                          |      |                   |               |
| Non-current liabilities                     |      |                   |               |
| Deferred tax liability                      |      | 75                | 75            |
| Long-term borrowings                        | 26   | 0                 | 364           |
| Employee severance indemnity                | 27   | 124               | 316           |
|                                             |      | 199               | 755           |
| Current liabilities                         |      |                   |               |
| Short-term borrowings                       | 26   | 364               | 362           |
| Trade and other payables                    | 28   | 6,281             | 6,151         |
|                                             |      | 6,645             | 6,513         |
| <b>Total liabilities</b>                    |      | <b>6,844</b>      | <b>7,268</b>  |
| <b>Shareholders, equity and liabilities</b> |      | <b>56,591</b>     | <b>44,380</b> |

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

# Consolidated Statement of Changes in Equity

| (In thousand Euro)                                 | Note | Share capital | Share premium | Share option reserve | Foreign currency translation reserve | Retained earnings | Total           |
|----------------------------------------------------|------|---------------|---------------|----------------------|--------------------------------------|-------------------|-----------------|
| Net loss                                           |      |               |               |                      |                                      | (22,816)          | (22,816)        |
| Other comprehensive income                         |      |               |               |                      | 40                                   | (17)              | 23              |
| <b>Total comprehensive loss for the period</b>     |      | <b>0</b>      | <b>0</b>      | <b>0</b>             | <b>40</b>                            | <b>(22,833)</b>   | <b>(22,793)</b> |
| Previous year loss allocation                      |      |               | (7,900)       |                      |                                      | 7,900             | 0               |
| Issue of shares                                    |      | 210           | 28,149        |                      |                                      |                   | 28,359          |
| Issuing costs                                      |      |               | (701)         |                      |                                      |                   | (701)           |
| Exercise of options                                |      | 25            | 710           |                      |                                      |                   | 735             |
| Exercise of options – reclassification of reserves |      |               | 419           | (419)                |                                      |                   | 0               |
| Share option scheme                                |      |               |               | 2,251                |                                      |                   | 2,251           |
| <b>Balance at December 31, 2015</b>                |      | <b>2,844</b>  | <b>61,580</b> | <b>5,392</b>         | <b>(790)</b>                         | <b>(31,914)</b>   | <b>37,112</b>   |
| Net loss                                           |      |               |               |                      |                                      | (15,237)          | (15,237)        |
| Other comprehensive income                         |      |               |               |                      | 90                                   | 49                | 139             |
| <b>Total comprehensive loss for the period</b>     |      | <b>0</b>      | <b>0</b>      | <b>0</b>             | <b>90</b>                            | <b>(15,188)</b>   | <b>(15,098)</b> |
| Previous year loss allocation                      |      |               | (27,320)      |                      |                                      | 27,320            | 0               |
| Issue of shares                                    |      | 306           | 26,571        |                      |                                      |                   | 26,877          |
| Issuing costs                                      |      |               | (1,600)       |                      |                                      |                   | (1,600)         |
| Exercise of options                                |      | 5             | 167           |                      |                                      |                   | 172             |
| Exercise of options – reclassification of reserves |      |               | 121           | (121)                |                                      |                   | 0               |
| Share option scheme                                |      |               |               | 2,285                |                                      |                   | 2,285           |
| <b>Balance at December 31, 2016</b>                |      | <b>3,155</b>  | <b>59,518</b> | <b>7,556</b>         | <b>(700)</b>                         | <b>(19,782)</b>   | <b>49,747</b>   |

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

# Consolidated Statement of Cash Flow

| (In thousand Euro)                                                                  |       | For the year ended December 31 |          |
|-------------------------------------------------------------------------------------|-------|--------------------------------|----------|
|                                                                                     | Note  | 2016                           | 2015     |
| Result before taxes                                                                 |       | (15,204)                       | (24,983) |
| Adjustments for:                                                                    |       |                                |          |
| Depreciation and amortisation                                                       | 18/19 | 33                             | 71       |
| Impairment of In-process R&D                                                        |       | 0                              | 6,725    |
| Impairment of Available for sale investments                                        |       | 0                              | 584      |
| Grants and other non monetary income                                                | 10    | (6,784)                        | (1,797)  |
| Share option expenses                                                               | 25    | 2,285                          | 2,251    |
| Employee severance indemnity expense                                                |       | (59)                           | 111      |
| Changes in working capital:                                                         |       |                                |          |
| Inventories                                                                         |       | 33                             | 63       |
| Current receivables and prepayments and deferred cost (excluding grants receivable) | 20    | (9)                            | 609      |
| Trade and other payables and deferred income (excluding advances of grants)         | 28    | 130                            | 2,020    |
| Government grants received                                                          |       | 0                              | 1,504    |
| Change in non-current receivables                                                   |       | (8)                            | (20)     |
| Cash used in operating activities                                                   |       | (19,583)                       | (12,862) |
| Cash flows from investing activities                                                |       |                                |          |
| Disposal of financial assets                                                        | 21    | 1,400                          | 2,026    |
| Purchase of property, plant and equipment                                           | 18    | (69)                           | (60)     |
| Purchase of intangible assets                                                       | 19    | (3)                            | (4)      |
| Interest received                                                                   | 15    | 106                            | 123      |
| Net cash flows from/(used in) investing activities                                  |       | 1,434                          | 2,085    |
| Cash flows from financing activities                                                |       |                                |          |
| Repayment of borrowings                                                             | 26    | (362)                          | (360)    |
| Proceeds from issue of shares                                                       | 23/24 | 27,048                         | 29,093   |
| New shares issuing costs                                                            | 24    | (1,600)                        | (701)    |
| Net cash flows from financing activities                                            |       | 25,086                         | 28,032   |
| Net increase in cash and cash equivalents                                           |       | 6,937                          | 17,255   |
| Cash and cash equivalents at January 1,                                             |       | 36,011                         | 18,756   |
| Cash and cash equivalents at the end of the year                                    |       | 42,948                         | 36,011   |

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

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 (since August 3, 2015 previously at the Main 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 24, 2017.

## 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 financial statements and notes to the financial statements are rounded to the nearest thousand EUR except when otherwise indicated.

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 further drugs to the market, beyond Xadago/safinamide. Historically, Newron has primarily used capital contributions from shareholders and limited government grants and loans, to finance the cash needs of its continuing development activities.

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

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to make judgements in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

#### **A Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2016. 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 state-

ment 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, 2016. 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 performed in Italy, Switzerland, United Kingdom, Sweden and USA. The Company does not consider the geographies to be separate segments.

#### c) Related party transactions

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

#### d) Foreign currency translation

##### Measurement currency

Items included in the financial statements of each entity are recognised and subsequently measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 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<br>Euro (average rates) |         | Rates as of December 31 |         |
|-------|----------------------------------------------|---------|-------------------------|---------|
|       | 2016                                         | 2015    | 2016                    | 2015    |
| CHF 1 | 0.9173                                       | 0.93645 | 0.93119                 | 0.92293 |
| GBP 1 | 1.22029                                      | 1.37760 | 1.16798                 | 1.29207 |
| SEK 1 | 0.10561                                      | 0.10691 | 0.10468                 | 0.10882 |
| USD 1 | 0.90342                                      | 0.90131 | 0.94868                 | 0.91853 |

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:

|                                      |                                      |
|--------------------------------------|--------------------------------------|
| Leasehold improvements               | remaining life of the lease contract |
| 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

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

income statement on a straight-line basis over the period of the lease.

#### g) Research and development

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

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

#### h) Intangible assets

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

#### 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 are tested annually for impairment. When selling approval has been obtained, the projects are reclassified to developed technologies with the subsequent commencement of the amortization process.

### **i) Impairment of non-current assets**

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

### **j) Investments**

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

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

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

The fair values of listed investments are based on current market prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair values by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option-pricing models refined to reflect the Company's specific circumstances. At each balance sheet date, the Group assesses whether a financial asset or group of financial assets is impaired. If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss.

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

#### **k) Inventories**

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

#### **l) Trade and other Receivables**

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

#### **m) Cash and cash equivalents**

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

#### **n) Available for sale financial assets – current**

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

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in Other Comprehensive Income (OCI) and credited in the Retained earnings reserve until the investment is derecognised. If sold, the cumulative gain or loss is recognised in other operating income; if the investment is determined to be impaired, the cumulative loss is reclassified from

the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the Effective Interest Rate method.

#### **o) Share capital**

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

#### **p) Borrowings**

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

#### **q) Current and deferred income taxes**

The income tax charge is based on profit for the year and includes deferred taxes.

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

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

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

#### **r) Employee benefits**

##### *Employee severance indemnity*

(Trattamento di Fine Rapporto, T.F.R.)

In accordance with Italian legislation, an employee benefit is accrued for service to date and is payable immediately when the employee leaves the Company virtually for any reason. Accordingly, the benefit payable will depend on the employee's years of service and compensation.

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

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

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

##### *Pension costs*

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

##### *Share-based compensation*

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

#### **s) Revenue recognition – Agreement with multiple elements**

The Group derived a significant portion of its revenues from an agreement with a business partner involving upfront payments and multiple elements such as reimbursement of research & development costs incurred, milestones fees upon the achievement of certain events and royalties on the sales by the business partner and/or its affiliates to third parties. Upfront payments are deferred and recognized on a straight-line basis over the estimated period of the product development phase, milestone fees are recognized as the right of ownership is transferred to the business partner at the achievement of certain events and royalties are recognized on an accrual basis, consistent with the sales by the business partner.

The Group reviewed the milestone achievements and the information about sales by the business partner to determine the individual components of revenue.

#### t) Grants

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

#### u) Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

#### v) Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transac-

tion 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.

### 3 Change in accounting policies

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

#### New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015, except for the adoption of new standards and interpretations effective as of January 1, 2016. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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

#### *Amendments to IFRS 11 Joint Arrangements:*

##### *Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not

apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016 with early adoption permitted.

These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

#### *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.

#### **Annual Improvements 2012–2014 Cycle**

##### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

## IFRS 7 Financial Instruments: Disclosures

### (i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

### (ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

## IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

## IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

## Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact on the Group.

### Standard issued but not yet effective

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group plans to adopt the new standard on the required effective date using the full retrospective method.

During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

Based on the preliminary assessment, the Group expects that the application of the new standard would not result in any significant impact on the consolidated financial statements.

#### 4 Seasonality

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

#### 5 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 minimize 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 of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price 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 whereas it is not exposed to commodity price risk, other price risk and interest rate risk fluctuations since the Group's borrowing is essentially a loan received from the government at subsidised interest rates.

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

The Group did not enter into foreign exchange contracts or other financial instruments in order to hedge its foreign exchange risk. Management has performed a sensitivity analysis applying reasonably possible change in the Swiss Francs, UK Pounds, Swedish Krona and U.S. 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 21 & 22 for additional information).

#### Liquidity risk

Management monitors the Group's cash position on rolling forecasts based on expected cash flow to enable the Group to finance research and development activities. The Group's principal source of liquidity is its cash reserves which were obtained through the issuing of new shares at IPO and through subsequent fund raisings. The Group's policy states to invest these funds in low risk investments including interest bearing deposits. The financial status at December 31, 2016 assures that the Group's operations will be well funded into 2018, 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, 2016

| Maturity table           | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total        |
|--------------------------|--------------------|----------------|--------------|--------------|--------------|
| Short-term borrowings    | 182                | 182            | -            | -            | 364          |
| Long-term borrowings     | -                  | -              | -            | -            | -            |
| Trade and other payables | 6,281              | -              | -            | -            | 6,281        |
| <b>Total</b>             | <b>6,463</b>       | <b>182</b>     | <b>-</b>     | <b>-</b>     | <b>6,645</b> |

#### December 31, 2015

| Maturity table           | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total        |
|--------------------------|--------------------|----------------|--------------|--------------|--------------|
| Short-term borrowings    | 181                | 181            | -            | -            | 362          |
| Long-term borrowings     | -                  | -              | 364          | -            | 364          |
| Trade and other payables | 6,151              | -              | -            | -            | 6,151        |
| <b>Total</b>             | <b>6,332</b>       | <b>181</b>     | <b>364</b>   | <b>-</b>     | <b>6,877</b> |

## 6 Critical accounting estimates, assumptions and judgments

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 recognition – Agreement with multiple elements*

The Group derived a significant portion of its revenues from an agreement with a business partner involving upfront payments and multiple elements such as reimbursement of research & development costs incurred, milestones fees upon the achievement of certain events and royalties on the sales by the business partner and/or its affiliates to third parties. Upfront payments are deferred and recognized on a straight-line basis over the estimated period of the product development phase, milestone fees are recognized as the right of ownership is transferred to the business partner at the achievement of certain events and royalties are recognized on an accrual basis, consistent with the sales by the business partner. The Group reviewed the milestone achievements and the information about sales by the business partner to determine the individual components of revenue.

### *Share-based compensation expense*

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

### *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, 2016 have been treated as expenses as commercial and technical feasibility continues to be assessed. There are no intangible assets in relation to development expenditure except the In-process R&D projects recognized as part of business combinations.

#### *Deferred tax assets*

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

In determining the recognition of deferred tax assets, the Group's assessment of future taxable income, available taxable temporary differences, tax planning and applicable limitations on the use of tax loss 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.

#### *Impairment of intangible assets with indefinite useful lives*

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually either individually or at the cash generating unit level in accordance with IAS 36.

The Group's impairment test for intangible assets with indefinite useful lives is based on a calculation performed with a discounted cash flow model. The cash flows are derived from the Group's budget and do not include restructuring activities that the Group is not committed to or significant future investments that will enhance the asset base of the cash generating unit being tested.

#### *Impairment of Available for sale financial assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter

bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future

cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be

objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

## 7 Group information

### Information about subsidiaries

The consolidated financial statements of the Group include:

| Name                                   | Principal activities | Country of incorporation | % equity interest as of December 31, |      |
|----------------------------------------|----------------------|--------------------------|--------------------------------------|------|
|                                        |                      |                          | 2016                                 | 2015 |
| Newron Suisse SA                       | Clinical development | Switzerland              | 100                                  | 100  |
| Hunter Fleming private limited company | Biotech              | United Kingdom           | 100                                  | 100  |
| Newron Sweden AB                       | Biotech              | Sweden                   | 100                                  | 100  |
| Newron Pharmaceuticals U.S. Inc        | Clinical development | United States            | 100                                  | 100  |

Entity with significant influence over the Group

None.

## 8 Licence income

| (In thousand Euro) | For the year ended December 31 |       |
|--------------------|--------------------------------|-------|
|                    | 2016                           | 2015  |
| Licence income     | 3,039                          | 1,800 |

Licence income, amounting to EUR 3,039 (2015: EUR 1,800), is related to the non-refundable milestone payments cashed-in from Zambon S.p.A. upon granting of pricing approval of Xadago® (safinamide) in certain European countries and identification of the US partner.

## 9 Royalties

| (In thousand Euro) | For the year ended December 31 |      |
|--------------------|--------------------------------|------|
|                    | 2016                           | 2015 |
| Royalties          | 1,698                          | 475  |

Following the European Commission approval of the use of Xadago® (safinamide) for the treatment of idiopathic Parkinson's disease, starting by May 15, 2015, Zambon has launched Xadago® in several European countries among which Germany, Italy, Spain, and the United Kingdom. In addition, soon after Xadago® has been approved by Swissmedic as add-on therapy to levodopa alone or in combination with other therapies for patients with Parkinson's disease in mid-to late-stage and motor fluctuations, it was also launched in Switzerland. Royalties payable to Newron according to the agreement in place with Zambon, have been communicated to Newron by its partner.

In February 2016, Italian Authorities approved Xadago® selling price and imposed a ceiling on yearly sales. As Italian sales are growing fast, in the current year such limit has been overtaken; since then, royalties on Italian sales are not recognized.

## 10 Other income

| (In thousand Euro) | For the year ended December 31 |      |
|--------------------|--------------------------------|------|
|                    | 2016                           | 2015 |
| Other income       | 1,989                          | 105  |

Other income increased by EUR 1,884 as a consequence of the recognition of a research and development tax credit (R&D tax credit), amounting to EUR 1,915. As stated by art. 1, paragraph 35 of the Italian Law 190/2014 – the so called “2015 Stability Law” – and clarified, by the Italian Tax Authority in the Official Memorandum 5/E dated March 23, 2016, companies investing in research and development activities are allowed to recognize an R&D tax credit in the period 2015–2020 that can be used to offset certain taxes and contributions. According to the application guidelines issued by the Tax Authority, R&D tax credit for a specified year is recognized to the extent of a defined percentage (from 25% up to 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 till 2020.

The amount recognized among Other income represents the tax credit related to R&D expenses incurred in 2015. The tax credit related to expenses incurred in 2016 amounted to EUR 5,000, classified as a reduction of the corresponding R&D expenses. For additional information, please refer to notes 12 and 14.

## 11 Staff costs

| (In thousand Euro)                               | For the year ended December 31 |              |
|--------------------------------------------------|--------------------------------|--------------|
|                                                  | 2016                           | 2015         |
| Wages and salaries                               | 3,550                          | 3,479        |
| Pension costs – defined contribution plans       | 514                            | 604          |
| Share options granted to directors and employees | 2,285                          | 2,251        |
| Employee severance indemnity costs               | (59)                           | 74           |
| Social security costs                            | 369                            | 747          |
|                                                  | <b>6,659</b>                   | <b>7,155</b> |

The average number of Group employees in 2016 was 23 (2015: 23), of whom 1 (2015: 1) was part-time. The decrease in Staff costs is mostly related to the combined effect of: i) the decrease in social contributions paid/accrued on exercised/vested options in certain countries; ii) the release of the employee benefit obligation related to an employee based in Switzerland who left the company in July 2016; iii) the reduction by EUR 356 in Wages and salaries, Pension costs and Social securities, due to the recognition of the 2016 R&D tax credit, and iv) the overall increase in Wages and salaries mainly as a consequence of the decrease in hours dedicated to financed projects or activities reimbursed by third parties (please refer to Note 12 for additional information).

## 12 Research and development expenses

| (In thousand Euro)                                | For the year ended December 31 |               |
|---------------------------------------------------|--------------------------------|---------------|
|                                                   | 2016                           | 2015          |
| Services received from subcontractors             | 4,991                          | 4,646         |
| Staff costs                                       | 2,973                          | 3,634         |
| Consultancy fees                                  | 830                            | 1,409         |
| Material and consumable used                      | 2,634                          | 1,262         |
| Laboratory operating lease cost                   | 360                            | 248           |
| Travel expenses                                   | 523                            | 470           |
| Depreciation, amortisation and impairment expense | 0                              | 6,774         |
| Other research and development costs              | 87                             | 6             |
|                                                   | <b>12,398</b>                  | <b>18,449</b> |

As detailed above, the Company recognized EUR 5,000 (the maximum allowed by law) as tax credit related to R&D expenses incurred in 2016; the above amount was related by EUR 4,935 and EUR 65 respectively to R&D and Administrative expenses (mainly management of intellectual properties – direct and indirect costs). As a consequence of the above, Services received from sub-contractors, Consultancy fees and Material and consumable used have been reduced respectively by EUR 2,730, 394 and 1,460.

The increase by EUR 345 in Services received from subcontractors is mainly due to the increase in development activities performed by the Group on its projects NW3509 and sarizotan.

Material and consumable used increased as a consequence of the decision taken in June 2016 to terminate the agreement with Merck KGaA regarding the purchase of additional drug substance (sarizotan); accordingly, the Company paid to Merck KGaA a fee of EUR 650 (for further details, please refer to Note 30) and recognized to profit and loss additional EUR 500 booked in 2015 as Prepayments. In 2016 the company has also started the production of the sarizotan's liquid formulation.

Since May 14, 2012, research and development expenses borne by the Group to complete the development of safinamide, prepare the applications and file for marketing approval in Europe and the U.S. are reimbursed by Zambon. Since the submission of the safinamide dossier to the European Medicines Agency (EMA) and to the Food and Drug Administration (FDA), Newron is also supporting Zambon in managing the post-filing regulatory review. Based on the amended agreement, Zambon is reimbursing to Newron all the expenses incurred in providing such assistance, including personnel expenses which are invoiced at cost plus mark-up. As of December 2016, Zambon has reimbursed an amount equal to EUR 1,905 (2015: EUR 3,188).

The Research and development expenses are presented also net of the costs that will be reimbursed by other external parties (i.e. Ministries; Foundations; etc.) according to different scientific research programmes granted to the Group. As a consequence of the interruption, in October 2015, of the two projects managed by Newron Sweden AB, the Company has no granted projects.

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

| (In thousand Euro)                       | For the year ended December 31 |               |
|------------------------------------------|--------------------------------|---------------|
|                                          | 2016                           | 2015          |
| Research and development expenses, gross | 19,238                         | 23,297        |
| Reimbursed by Zambon                     | (1,905)                        | (3,188)       |
| R&D Tax Credit                           | (4,935)                        | 0             |
| Granted project                          | 0                              | (1,660)       |
|                                          | <b>12,398</b>                  | <b>18,449</b> |

Since inception, no development costs have been capitalised with the exception of the Intangible assets recognised in the context of the purchase price allocation processes related to the acquisition of i) Hunter-Fleming private limited company (occurred in 2008) and ii) Newron Sweden AB (occurred in 2012).

### 13 Marketing and advertising expenses

Marketing and advertising expense are equal to EUR 513 (2015: EUR 53). The increase is mainly due to the inception of two global surveys performed with Rett syndrome patients with debilitating condition and their families. The surveys will be comprised of two different analyses, one to be completed by at least 750 caregivers and the other by at least 210 health care providers.

### 14 General and administrative expenses

| (In thousand Euro)                          | For the year ended December 31 |              |
|---------------------------------------------|--------------------------------|--------------|
|                                             | 2016                           | 2015         |
| Staff costs                                 | 3,686                          | 3,521        |
| Consultancy and other professional services | 3,133                          | 2,802        |
| Intellectual properties                     | 1,222                          | 1,229        |
| Travel expenses                             | 233                            | 260          |
| Operating lease cost                        | 316                            | 152          |
| Depreciation and amortization expense       | 33                             | 22           |
| Other expenses                              | 517                            | 292          |
|                                             | <b>9,140</b>                   | <b>8,278</b> |

General and administrative expenses increased by EUR 862 mostly as a consequence of the increase in: i) Staff costs (please refer to Note 11 for additional information); ii) Consultancy and other professional expenses mainly due to the fees incurred by the Company for the issuance of new shares and iii) Other expenses among which there were donations to Rett syndrome Organizations.

As commented in note 12, the Company in 2016 has reclassified EUR 65 of its R&D tax credit income as a deduction of General and administrative expenses. The below table shows the gross/net amounts:

| (In thousand Euro)                         | For the year ended December 31 |              |
|--------------------------------------------|--------------------------------|--------------|
|                                            | 2016                           | 2015         |
| General and administrative expenses, gross | 9,205                          | 8,278        |
| R&D Tax Credit                             | (65)                           | 0            |
|                                            | <b>9,140</b>                   | <b>8,278</b> |

### 15 Financial result, net

| (In thousand Euro)                         | For the year ended December 31 |              |
|--------------------------------------------|--------------------------------|--------------|
|                                            | 2016                           | 2015         |
| Interest income                            | 238                            | 140          |
| Interest expense                           | (132)                          | (17)         |
| Foreign exchange gains                     | 175                            | 109          |
| Foreign exchange losses                    | (94)                           | (182)        |
| Write-off of available for sale investment | 0                              | (584)        |
| Other costs, net                           | (66)                           | (49)         |
|                                            | <b>121</b>                     | <b>(583)</b> |

Financial income increased by EUR 704 with respect to prior year mainly as a consequence of the write-off of available for sale investment and the recognition of foreign exchange losses occurred in 2015. The Group invested available financial resources pursuant to the policy approved by the Board of Directors as described in Note 2 j) Investments. For additional information, please refer also to Notes 21 and 22.

### 16 Income tax

Income tax amounted to EUR 33 as of December 31, 2016 (2015: income of EUR 2,167). In the previous year, the amount was mainly related to the release of Deferred Tax Liabilities amounting to EUR 2,193 following the impairment of assets.

### 17 Loss per share

The basic loss per share is calculated dividing the net loss attributable to shareholders by the weighted average number of ordinary and preferred (if any) shares outstanding during the year. Preferred shares were included in the calculation as they had similar rights to those of the ordinary shareholders.

| (In thousand Euro)                            | For the year ended December 31 |          |
|-----------------------------------------------|--------------------------------|----------|
|                                               | 2016                           | 2015     |
| Net loss attributable to shareholders         | (15,237)                       | (22,816) |
| Weighted average number of shares (thousands) | 14,688                         | 13,722   |
| Loss per share – basic and diluted (in EUR)   | (1.04)                         | (1.66)   |

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. 943,192- see also Note 25) may have a dilutive effect on the net profit per share.

### 18 Property, plant and equipment

| (In thousand Euro)              | Leasehold improvements | Laboratory and office equipment | Total      |
|---------------------------------|------------------------|---------------------------------|------------|
| <b>Cost</b>                     |                        |                                 |            |
| At January 1, 2015              | 498                    | 2,040                           | 2,538      |
| Addition                        | 0                      | 58                              | 58         |
| Disposals                       | 0                      | (638)                           | (638)      |
| Exchange differences            | 0                      | (4)                             | (4)        |
| At December 31, 2015            | 498                    | 1,457                           | 1,955      |
| <b>Accumulated depreciation</b> |                        |                                 |            |
| At January 1, 2015              | (498)                  | (1,973)                         | (2,471)    |
| Addition                        | 0                      | (64)                            | (64)       |
| Disposals                       | 0                      | 660                             | 660        |
| At December 31, 2015            | (498)                  | (1,377)                         | (1,875)    |
| <b>Net book value</b>           | <b>0</b>               | <b>79</b>                       | <b>79</b>  |
| <b>Cost</b>                     |                        |                                 |            |
| At January 1, 2016              | 498                    | 1,457                           | 1,955      |
| Additions                       | 0                      | 69                              | 69         |
| Disposals                       | 0                      | 0                               | 0          |
| Exchange differences            | 0                      | 0                               | 0          |
| At December 31, 2016            | 498                    | 1,526                           | 2,024      |
| <b>Accumulated depreciation</b> |                        |                                 |            |
| At January 1, 2016              | (498)                  | (1,377)                         | (1,875)    |
| Additions                       | 0                      | (28)                            | (28)       |
| Disposals                       | 0                      | 0                               | 0          |
| At December 31, 2016            | (498)                  | (1,405)                         | (1,903)    |
| <b>Net book value</b>           | <b>0</b>               | <b>120</b>                      | <b>120</b> |

The Group has incurred significant losses since inception. As a result, property, plant and equipment were reviewed for impairment. Management assessed that the property, plant and equipment fair value less costs to sell exceeds its carrying amount, and no impairment write-down was required.

## 19 Intangible assets

| (In thousand Euro)                      | Licences and software | In-process R&D | Total      |
|-----------------------------------------|-----------------------|----------------|------------|
| Cost                                    |                       |                |            |
| At January 1, 2015                      | 348                   | 18,758         | 19,106     |
| Additions                               | 4                     | 0              | 4          |
| At December 31, 2015                    | 352                   | 18,758         | 19,110     |
| Accumulated amortization and impairment |                       |                |            |
| At January 1, 2015                      | (330)                 | (11,783)       | (12,113)   |
| Impairment                              | 0                     | (6,725)        | (6,725)    |
| Additions                               | (7)                   | 0              | (7)        |
| At December 31, 2015                    | (337)                 | (18,508)       | (18,845)   |
| <b>Net book value – Newron Group</b>    | <b>15</b>             | <b>250</b>     | <b>265</b> |
| Cost                                    |                       |                |            |
| At January 1, 2016                      | 352                   | 18,758         | 19,110     |
| Additions                               | 3                     | 0              | 3          |
| At December 31, 2016                    | 355                   | 18,758         | 19,113     |
| Accumulated amortization and impairment |                       |                |            |
| At January 1, 2016                      | (337)                 | (18,508)       | (18,845)   |
| Impairment                              | 0                     | 0              | 0          |
| Additions                               | (7)                   | 0              | (7)        |
| At December 31, 2016                    | (344)                 | (18,508)       | (18,852)   |
| <b>Net book value – Newron Group</b>    | <b>11</b>             | <b>250</b>     | <b>261</b> |

IAS 36 requires assessing an asset not in use for impairment on an annual basis by comparing the carrying value to its recoverable amount. The recoverable amount is the higher of the fair value less cost to sell and the value in use. In prior year, management used a risk-adjusted Net Present Value (NPV) assessment to test for impairment the above intangible assets. The assessment was performed based on industry average rates for successful development of the projects to the market (5% by end of drug discovery, 13% by end of preclinical development, 21% by end of clinical phase I, 46% by end of clinical phase II and 76% by end of clinical phase III), a usual discount rate to future cash-in and outflows (15% p.a.), the properties of the compounds and their target product profile, the sales potential as well as comparable transaction terms for licensing of the compounds usually after phase II proof of concept. During the current year, given that the development of the IPR&D has been terminated both in Hunter-Fleming private limited company and Newron Sweden AB, the Group evaluated the assets at their fair value less cost to sell, amounting to EUR 50 per each compound.

As uncertainty remains as to whether a final and successful market registration will be achieved, a risk of additional future adjustments to the carrying amount of the above in-process R&D stays.

### Hunter-Fleming private limited company

Upon the acquisition of Hunter-Fleming private limited company in 2008, an amount of EUR 11,933 was allocated to four development projects – currently three as in year 2009 one compound was returned to its inventor – based on a risk-adjusted NPV assessment. These projects have been classified as In-process R&D and are currently evaluated at their fair value less cost to sell, amounting to EUR 50 per each compound. The following table shows a break-down of the book value of each project:

| Project | Development phase | Book value 2015 | Write-off | Book value 2016 |
|---------|-------------------|-----------------|-----------|-----------------|
| HF0220  | Clinical phase II | 50              | 0         | 50              |
| HF0299  | Clinical phase I  | 50              | 0         | 50              |
| HF1220  | Discovery         | 50              | 0         | 50              |
|         |                   | <b>150</b>      | <b>0</b>  | <b>150</b>      |

#### 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 are currently evaluated at their fair value less cost to sell, amounting to EUR 50 per each compound.

The following table shows a break-down of the results of the book value of the projects:

| Project | Development phase | Book value 2015 | Write-off | Book value 2016 |
|---------|-------------------|-----------------|-----------|-----------------|
| sNN0029 | Clinical phase I  | 50              | 0         | 50              |
| sNN0031 | Clinical phase II | 50              | 0         | 50              |
|         |                   | <b>100</b>      | <b>0</b>  | <b>100</b>      |

## 20 Receivables and prepayments

| (In thousand Euro)           | As of December 31 |              |
|------------------------------|-------------------|--------------|
|                              | 2016              | 2015         |
| Receivables                  | 1,329             | 1,219        |
| Government grants receivable | 14                | 264          |
| Prepayments                  | 1,013             | 1,076        |
| VAT receivable               | 353               | 393          |
| Other receivables            | 6,958             | 53           |
|                              | <b>9,667</b>      | <b>3,005</b> |

Receivables are almost entirely represented by invoices and accruals related to both the reimbursement, by Newron' partner Zambon Group, of safina-mide research and development costs borne by the Company in activities related to the submission to the Food and Drug Administration (FDA) and royalties on net sales performed by Zambon Group in 10 European countries and Switzerland.

Other receivables include the accrual of the R&D tax credit, equal to EUR 6,915; for additional information, please refer to note 10, 12 and 14.

## 21 Available for sale financial assets – current

| (In thousand Euro) | As of December 31 |              |
|--------------------|-------------------|--------------|
|                    | 2016              | 2015         |
| Listed bonds       | 3,520             | 4,920        |
|                    | <b>3,520</b>      | <b>4,920</b> |

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

## 22 Cash and cash equivalents

| (In thousand Euro)       | As of December 31 |               |
|--------------------------|-------------------|---------------|
|                          | 2015              | 2015          |
| Cash at bank and in hand | 26,835            | 26,203        |
| Short-term investments   | 16,113            | 9,808         |
|                          | <b>42,948</b>     | <b>36,011</b> |

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

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

Group’s liquidity, including Available for sale financial assets and Cash and cash equivalents, amounts approximately to Euro 46.5 million.

## 23 Share capital

As of December 31, 2015, Newron’s outstanding share capital was EUR 2,843,834.40, consisting of 14,219,172 ordinary shares with par value equal to Euro 0.20 each. There is no authorised share capital.

A summary of the changes in share capital is as follows:

| (In Euro)                                          | Total        |
|----------------------------------------------------|--------------|
| As of December 31, 2014 – Newron Group             | 2,608,507.80 |
| – issue of ordinary share (Capital Increase)       | 168,614.40   |
| – issue of ordinary share (Capital Increase)       | 41,872.80    |
| – issue of ordinary share (Stock options exercise) | 24,839.40    |
| As of December 31, 2015 – Newron Group             | 2,843,834.40 |
| – issue of ordinary share (Capital Increase)       | 41,872.80    |
| – issue of ordinary share (Capital Increase)       | 4,820.40     |
| – issue of ordinary share (Stock options exercise) | 264,106.00   |
| As of December 31, 2016 – Newron Group             | 3,154,633.60 |

On March 24, 2015, the extraordinary shareholders’ meeting resolved, among other items, to increase the Company’s share capital by up to 10%, or the equivalent of an amount of up to EUR 260,850.00, corresponding to up to 1,304,250 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. The Company as of April 30, 2015 announced that existing shareholders and new international institutional investors have subscribed 843,072 ordinary shares (nominal value equal to EUR 0.20) by means of a private placement.

On November 20, 2015 the Company announced that that it has completed a private placement of 209,364 shares (nominal value equal to EUR 0.20) with a leading U.S.-based biotechnology and healthcare specialist fund. Under the agreement, the fund holds an option to subscribe to additional 209,364 newly issued ordinary shares no later than June 30, 2016: the subscription price is governed by the March 24, 2015 extraordinary shareholders’ meeting authorization. On March 23, 2016

the U.S. based fund exercised its options: accordingly, the Company has issued 209,364 shares (nominal value equal to EUR 0.20).

During the year ended on December 31, 2015, certain stock option holders have exercised their right: accordingly, the Company issued 124,197 new ordinary shares (par value equal to EUR 0.20).

On March 22, 2016, the extraordinary shareholders' meeting resolved, among other items, to increase the Company's share capital of an amount of up to EUR 711,177.20, corresponding to up to 3,555,886 newly issued Newron' ordinary shares with a par value of EUR 0.20 per share. The extraordinary shareholders' meeting resolved to exclude any pre-emptive rights to the Company's current shareholders to subscribe such capital increase and to grant to the Board of Directors of the powers to issue either shares or convertible bonds.

On October 7, 2016 the Company announced that it has completed a private placement of new 1,320,530 shares (nominal value of EUR 0.20) via an accelerated book building procedure: shares have been subscribed by institutional investors.

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

As of December 31, 2016, the subscribed share capital was equal to Euro 3,154,633.60, divided into 15,773,168 ordinary shares with par value equal to Euro 0.20 each. There is no authorised share capital.

As detailed in Note 33 "Events after the balance sheet date", due to the exercise of options by certain options holders occurred in January 2017, as of the date of the approval for issuance of these consolidated financial statements the share capital will increase up to EUR 3,155,708.60 consisting of 15,778,543 ordinary shares with a par value of EUR 0.20 each.

## 24 Share premium and other reserves

| (In thousand EUR)                          | As of December 31 |         |
|--------------------------------------------|-------------------|---------|
|                                            | 2016              | 2015    |
| At the beginning of the year               | 61,580            | 40,903  |
| Loss allocation                            | (27,320)          | (7,900) |
| Issue of shares                            | 26,571            | 28,149  |
| Issue of shares (exercise of options)      | 167               | 710     |
| Reclassification from share option reserve | 121               | 419     |
| Share capital issue costs                  | (1,600)           | (701)   |
| At the end of the period                   | 59,518            | 61,580  |

Share premium and other reserves increased in 2016 mainly due to the issuance of shares described in Note 23. In addition, because of the exercise of options, the related cost accrued into the Share options reserve throughout the vesting period was reclassified into the Share premium reserve.

## 25 Share options reserve

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

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

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

As of December 31, 2016, the Company has granted a total of n. 943,192 options.

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

| (In percent)              |       |
|---------------------------|-------|
| Dividend yield            | 0.00  |
| Expected volatility       | 70.00 |
| Resignation rate expected | 3.00  |

A summary of the granted options is as follows:

|                             | Employee Share Option Plans |                |                |                |                |
|-----------------------------|-----------------------------|----------------|----------------|----------------|----------------|
|                             | 2011                        | 2013           | 2014           | 2015           | Total          |
| At January 1, 2015          | 107,264                     | 481,996        | 187,775        | 0              | 777,035        |
| Granted                     |                             |                |                | 277,464        | 277,464        |
| Exercised                   | (51,813)                    | (72,384)       |                |                | (124,197)      |
| <b>At December 31, 2015</b> | <b>55,451</b>               | <b>409,612</b> | <b>187,775</b> | <b>277,464</b> | <b>930,302</b> |
| Granted                     |                             |                |                | 36,992         | 36,992         |
| Exercised                   |                             | (21,875)       | (2,227)        |                | (24,102)       |
| <b>At December 31, 2016</b> | <b>55,451</b>               | <b>387,737</b> | <b>185,548</b> | <b>314,456</b> | <b>943,192</b> |

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

In 2016, option grants resulted in personnel net expenses of EUR 2,285, with a corresponding increase in the share option reserve. R&D personnel expenses are equal to EUR 834 (2015: EUR 802) whereas EUR 1,451 refers to G&A personnel (2015: EUR 1,449).

| 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              | 3.25                                                | 55'451              |
| ESOP 2013   | 6.32                     | 374'487             | 6.25                                                | 261'110             |
| ESOP 2013   | 6.66                     | 13'250              | 6.25                                                | 6'125               |
| ESOP 2014   | 13.88                    | 76'494              | 6.25                                                | 38'247              |
| ESOP 2014   | 13.94                    | 109'054             | 6.25                                                | 53'405              |
| ESOP 2015   | 24.90                    | 19'918              | 8.25                                                | 0                   |
| ESOP 2015   | 25.41                    | 28'455              | 8.25                                                | 0                   |
| ESOP 2015   | 28.14                    | 229'091             | 8.25                                                | 0                   |
| ESOP 2015   | 15.22                    | 8'537               | 8.25                                                | 0                   |
| ESOP 2015   | 20.22                    | 28'455              | 8.25                                                | 0                   |
|             |                          | <b>943'192</b>      |                                                     | <b>414'338</b>      |

On January 18 and 28, 2017, respectively n. 113,377 and n. 27,818 options will become exercisable. On April 18, 2017, additional n. 7,125 options will vest and further 114,532 will become exercisable on June 4, 2017. During the second half of 2017, additional 43,310 will vest, out of which 19,124 on July 16, 9,959 on September 10 and 14,227 on November 19 respectively. Finally, in 2017, a total of 306,162 options will vest out of which 167,444 will expire on March 31, 2023 and 138,718 on March 24, 2025.

## 26 Borrowings

| (In thousand Euro)      | As of December 31 |            |
|-------------------------|-------------------|------------|
|                         | 2016              | 2015       |
| At beginnig of year     | 726               | 1,087      |
| Repayment               | (362)             | (361)      |
| <b>Total borrowings</b> | <b>364</b>        | <b>726</b> |
| Long term               | 0                 | 364        |
| Short term              | 364               | 362        |

In 2008 Newron was awarded with a EUR 5 million grant by the Italian government's Ministero dell' Istruzione, dell' Università e della Ricerca - M.I.U.R. About 60% of the grant bears interest of 0.5% per year and is required to be fully repaid within 10 years from the grant date through two yearly instalments (January 1 and July 1) ending on January 1, 2018.

## 27 Employee severance indemnity

Certain Group companies provide for their employee severance indemnities, which are considered to be a defined benefit schemes.

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

| (In percent)                  | As of December 31 |      |
|-------------------------------|-------------------|------|
| Actuarial assumptions         | 2016              | 2015 |
| Discount rate                 | 1.31              | 2.03 |
| Inflation rate                | 1.50              | 1.50 |
| Future salary increase        | 1.50              | 1.50 |
| Future pension (TFR) increase | 2.625             | 2.63 |

The amount recognised on the balance sheet in respect of the Group's defined benefit plan amounted to EUR 124 (2015: EUR 316).

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

| (In thousand Euro)                                         | As of December 31 |            |
|------------------------------------------------------------|-------------------|------------|
|                                                            | 2016              | 2015       |
| Defined Benefit Obligation at the beginning of the period  | 768               | 673        |
| Curtailment                                                | (18)              | 0          |
| Service cost                                               | 37                | 77         |
| Interest costs                                             | 7                 | 11         |
| Indemnity paid out                                         | (290)             | 0          |
| Actuarial (gains)/losses                                   | 36                | 7          |
| <b>Defined Benefit Obligation at the end of the period</b> | <b>540</b>        | <b>768</b> |

## 28 Trade and other payables

| (In thousand Euro)           | As of December 31 |              |
|------------------------------|-------------------|--------------|
|                              | 2016              | 2015         |
| Trade payables               | 1,983             | 1,636        |
| Accrued expenses             | 2,371             | 2,351        |
| Pension contribution payable | 270               | 282          |
| Social security              | 645               | 746          |
| Other payables               | 1,012             | 1,136        |
|                              | <b>6,281</b>      | <b>6,151</b> |

Trade payables increased by Euro 347 mainly as a consequence of the ongoing development activities performed by the Group.

## 29 Deferred income taxes

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

| (In thousand Euro)                    | For the year ended December 31, |                |
|---------------------------------------|---------------------------------|----------------|
|                                       | 2016                            | 2015           |
| Other (IAS 19)                        | (94)                            | (160)          |
| <b>Total taxable differences</b>      | <b>(94)</b>                     | <b>(160)</b>   |
| Net gain on available for sale assets | 23                              | 31             |
| <b>Total taxable differences</b>      | <b>23</b>                       | <b>31</b>      |
| Net temporary differences             | (71)                            | (129)          |
| Tax losses carry forwards             | 167,238                         | 148,501        |
| <b>Total differences</b>              | <b>167,167</b>                  | <b>148,372</b> |
| Deferred tax asset                    | 39,153                          | 34,591         |

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.

On December 28, 2015, the Italian Government has issued the Law 208/2015 according to which, among other topics, from 2017 on, the Corporates' income will be taxed at 24% (currently the tax rate is equal to 27.5%).

Tax loss carry-forwards expire as follows:

| (In thousand Euro)          | As of December |                |
|-----------------------------|----------------|----------------|
|                             | 2016           | 2015           |
| No expiry date              | 35,981         | 36,817         |
| No expiry date – DL 98/2011 | 131,257        | 111,655        |
|                             | <b>167,238</b> | <b>148,472</b> |

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 19,364 related to Hunter-Fleming private limited company (equal to 16,579 GBP translated at the year-end exchange rate) and EUR 10,609 related to Newron Sweden AB (equal to 101,343 SEK translated at the year-end exchange rate). This amount has been negatively affected (about 2.5 million Euro) by the exchange rate fluctuation that have impacted both the UK Sterling and the Swedish Krona.

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

### 30 Commitments and contingent liabilities

#### Operating lease commitments – whereby the Group is the lessee

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

Newron Suisse SA leases its offices from Livit AG. The lease expired on March 30, 2016; currently Newron Suisse SA does not rent premises.

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

Newron Pharmaceuticals US Inc. leases its offices from Symphony Workplaces. The lease expires on December 31, 2017.

Hunter-Fleming private limited company does not rent premises.

During the year ended December 31, 2016, a net expense for operating leasing amounting to Euro 677 was recognised in the statement of income (2015: Euro 400).

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

| (In thousand Euro)                           | As of December 31 |              |
|----------------------------------------------|-------------------|--------------|
|                                              | 2016              | 2015         |
| No later than 1 year                         | 475               | 480          |
| Later than 1 year and not later than 5 years | 1,054             | 842          |
|                                              | <b>1,529</b>      | <b>1,322</b> |

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 but not yet incurred for at the balance sheet date is equal to approximately 7 million Euro. The Company shall not incur material penalty fees for the termination of any of these contracts.

As disclosed in Note 12 the Company has decided to terminate the agreement with Merck KGaA in June 2016 under which a penalty fee amounting to Euro 650 was paid and recognized to profit & loss of the period among R&D costs (Material and consumable used).

#### Contingent liabilities

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

### 31 Financial instruments by category

#### As of December 31, 2016

| (in thousand Euro)                               | Cash,<br>loans and<br>receivables | Assets at<br>fair value<br>through<br>profit or<br>loss | Held-to-<br>maturity<br>invest-<br>ments | Available-<br>for-sale<br>financial<br>assets | Liabilities<br>at fair val-<br>ue through<br>profit or<br>loss | Other<br>financial<br>liabilities<br>at amor-<br>tized cost |
|--------------------------------------------------|-----------------------------------|---------------------------------------------------------|------------------------------------------|-----------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------|
| <b>Assets</b>                                    |                                   |                                                         |                                          |                                               |                                                                |                                                             |
| Non current receivables                          | 70                                | -                                                       | -                                        | -                                             | -                                                              | -                                                           |
| Available for sale financial assets –<br>current | -                                 | -                                                       | -                                        | 3,520                                         | -                                                              | -                                                           |
| Cash and cash equivalents                        | 42,948                            | -                                                       | -                                        | -                                             | -                                                              | -                                                           |
| Trade and other receivables                      | 2,357                             | -                                                       | -                                        | -                                             | -                                                              | -                                                           |
| <b>Total</b>                                     | <b>45,375</b>                     | <b>-</b>                                                | <b>-</b>                                 | <b>3,520</b>                                  | <b>-</b>                                                       | <b>-</b>                                                    |
| <b>Liabilities</b>                               |                                   |                                                         |                                          |                                               |                                                                |                                                             |
| Trade and other payables                         | -                                 | -                                                       | -                                        | -                                             | -                                                              | 6,011                                                       |
| Short-term borrowings                            | -                                 | -                                                       | -                                        | -                                             | -                                                              | 364                                                         |
| Long-term borrowings                             | -                                 | -                                                       | -                                        | -                                             | -                                                              | -                                                           |
| <b>Total</b>                                     | <b>-</b>                          | <b>-</b>                                                | <b>-</b>                                 | <b>-</b>                                      | <b>-</b>                                                       | <b>6,375</b>                                                |

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

#### As of December 31, 2015

| (in thousand Euro)                               | Cash,<br>loans and<br>receivables | Assets at<br>fair value<br>through<br>profit or<br>loss | Held-to-<br>maturity<br>invest-<br>ments | Available-<br>for-sale<br>financial<br>assets | Liabilities<br>at fair val-<br>ue through<br>profit or<br>loss | Other<br>financial<br>liabilities<br>at amor-<br>tized cost |
|--------------------------------------------------|-----------------------------------|---------------------------------------------------------|------------------------------------------|-----------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------|
| <b>Assets</b>                                    |                                   |                                                         |                                          |                                               |                                                                |                                                             |
| Non current receivables                          | 62                                | -                                                       | -                                        | -                                             | -                                                              | -                                                           |
| Available for sale financial assets –<br>current | -                                 | -                                                       | -                                        | 4,920                                         | -                                                              | -                                                           |
| Cash and cash equivalents                        | 36,011                            | -                                                       | -                                        | -                                             | -                                                              | -                                                           |
| Trade and other receivables                      | 2,560                             | -                                                       | -                                        | -                                             | -                                                              | -                                                           |
| <b>Total</b>                                     | <b>38,633</b>                     | <b>-</b>                                                | <b>-</b>                                 | <b>4,920</b>                                  | <b>-</b>                                                       | <b>-</b>                                                    |
| <b>Liabilities</b>                               |                                   |                                                         |                                          |                                               |                                                                |                                                             |
| Trade and other payables                         | -                                 | -                                                       | -                                        | -                                             | -                                                              | 5,869                                                       |
| Short-term borrowings                            | -                                 | -                                                       | -                                        | -                                             | -                                                              | 362                                                         |
| Long-term borrowings                             | -                                 | -                                                       | -                                        | -                                             | -                                                              | 364                                                         |
| <b>Total</b>                                     | <b>-</b>                          | <b>-</b>                                                | <b>-</b>                                 | <b>-</b>                                      | <b>-</b>                                                       | <b>6,595</b>                                                |

## 32 Related party transactions

### i) Related entity

The Company does not have related entities.

#### As of December 31, 2016

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

#### As of December 31, 2015

| (in thousand Euro)   | Sales to/Cost reimbursed by related parties | Royalties | Purchases from related parties | Amounts owed by related parties, net | Amounts owed to related parties |
|----------------------|---------------------------------------------|-----------|--------------------------------|--------------------------------------|---------------------------------|
| Zambon (whole group) | 5,421                                       | 475       | 142                            | 502                                  | 3                               |

### iii) Key management personnel

The total remuneration of key management personnel is as follows:

| (In thousand Euro)            | For the year ended December 31 |              |
|-------------------------------|--------------------------------|--------------|
|                               | 2016                           | 2015         |
| Salaries                      | 1,788                          | 1,692        |
| Bonuses                       | 304                            | 404          |
| Social security contributions | 335                            | 312          |
| Share option compensation     | 661                            | 793          |
| Employee severance indemnity  | 73                             | 63           |
|                               | <b>3,161</b>                   | <b>3,264</b> |

### 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, 2016 and December 31, 2015, as well as balances with related parties as of December 31, 2016 and December 31, 2015:

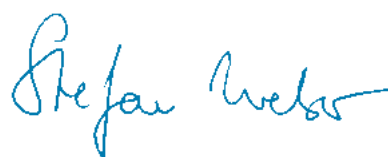
## 33 Events after the balance sheet date

On January 3, 2017 the Company announced preliminary results of its Phase IIa study with Evenamide (NW-3509) as an add-on therapy for the treatment of schizophrenia: the study has met its objectives of good tolerability, safety, and preliminary evidence of efficacy.

On January 10, 2017 the Company announced that its partner Zambon has entered into a long term partnership with Seqirus covering Zambon's Parkinson's disease product (Xadago®) in Australia and New Zealand.

Until February 23, 2017, certain option-holders have exercised 5,375 options; as soon as the relevant filing with the Chamber of Commerce will be executed, Newron's outstanding share capital will increase up to EUR 3,155,708.60 consisting of 15,778,543 ordinary shares with a par value of EUR 0.20 each.

Bresso, February 24, 2017



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

# Auditors' Report

## INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

### Opinion

We have audited the consolidated financial statements of Newron Pharmaceuticals S.p.A. and its subsidiaries (the "Newron Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated financial statements of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, 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), 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.

#### Revenue recognition – Agreement with multiple elements

|                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Area of focus</b> | The Group derived a significant portion of its revenues from an agreement with a business partner involving upfront payments and multiple elements such as reimbursement of research & development costs incurred, milestones fees upon the achievement of certain events and royalties on the sales by the business partner and/or its affiliates to third parties. Upfront payments are deferred and recognized on a straight-line basis over the estimated period of the product development phase, milestone fees are recognized as the right of ownership is transferred to the business partner at the achievement of certain events and royalties are recognized on an accrual basis, consistent with the |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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sales by the business partner.

The Group reviewed the milestone achievements and the information about sales by the business partner to determine the individual components of revenue.

Due to the judgment involved in that management's assessment we considered revenue recognition significant to our audit, requiring special audit attention.

See Note 5 "Critical accounting estimates, assumptions and judgments" on page 20 and Note B s) "Summary of significant accounting policies - Revenue recognition" in the financial statements on page 14.

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**Our audit response**

We obtained an understanding of the agreement and assessed the application of Group's revenue recognition policies and the related accounting in accordance with IAS18. Based on the contractual terms of the contract we assessed the identification of all relevant elements, the allocation of revenue to the various elements in the contracts, as well as, the assessment of the timing of the revenue recognized. Among others, we tested recognition of milestone fees based on the milestones achievement and we tested royalties based on the sales information provided by the business partner.

**Measurement of clinical trials costs**

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**Area of focus**

The Group incurred costs related to clinical trials, which represent a significant portion of research & development costs. accounting of these costs involves judgement on the determination of the appropriate timing of recognition based on the assessment of actual services received according to contracts with suppliers, generally multi-annual, which may differ from the billing schedules and thus may include a significant accrual or deferral amount. The Group determined the stage of completion of the clinical trials as of the balance sheet date based on information received by the suppliers and monitoring of progress of clinical trials by the Group's clinical team, supervised by the finance department.

See Note 12 "Research and development expenses".

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**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.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Corporate Governance.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

Milan, February 28, 2017

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 2016     | FY 2015     |
|-----------------------------------------------------------------------------------------------|-------------|-------------|
| Number of fully paid-in shares as at December 31                                              | 15,773,168  | 14,219,172  |
| Year high (in CHF)                                                                            | 27.70       | 35.85       |
| Year low (in CHF)                                                                             | 13.85       | 21.50       |
| Year-end (in CHF)                                                                             | 20.15       | 25.60       |
| Loss per share (in EUR)                                                                       | 1.04        | 1.66        |
| Cash and cash equivalents, other short-term financial assets as at December 31 (in EUR 1,000) | 46,468      | 40,931      |
| Market capitalization as at December 31 (in CHF)                                              | 317,829,335 | 364,010,803 |

## Major shareholders\*

|                 |
|-----------------|
| Investor AB     |
| Zambon          |
| Aviva Investors |

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

## Financial calendar

|                                   |                    |
|-----------------------------------|--------------------|
| Publication of Annual Report 2016 | March 2, 2017      |
| Press and Analyst Conference      | March 2, 2017      |
| Annual Shareholders' meeting 2017 | March 28, 2017     |
| Half year report 2017             | September 14, 2017 |

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#### Important Notices

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

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

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

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

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

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