



Allosteric Modulators for
Human Health

Annual Report 2017

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Key Facts / Addex Therapeutics

Focus:	Oral small molecule allosteric modulation-based drug discovery and development against diseases with high unmet medical needs. Rare diseases with orphan drug designation potential
Disease area:	Central Nervous System (CNS)
Lead programs:	Dipraglurant for the treatment of Parkinson's disease levodopa-induced dyskinesia (PD-LID); Dipraglurant for the treatment of dystonia; ADX71149 for epilepsy and undisclosed CNS disorders (licensed to Janssen Pharmaceuticals Inc.); and ADX71441 for the treatment of addiction (licensed to Indivior PLC);
Total full time equivalent employees and consultants as of December 31, 2017:	8
Stock symbol / exchange:	ADXN (ISIN:CH0029850754) / SIX Swiss Exchange
Shares outstanding as of December 31 st , 2017:	15,384,988
Cash as of December 31, 2017:	CHF2.6 million
Headquarters:	Geneva, Switzerland

Letter to Shareholders

Dear Shareholders,

During 2017, our significant efforts in business development and investor communications resulted in the conclusion of an important partnership with Indivior PLC and a transformational CHF40 million financing announced in the first quarter of 2018. These two significant achievements have firmly put us back on track to deliver on the promise of our exciting portfolio of allosteric modulator drug candidates.

The ongoing support from The Michael J. Fox Foundation for Parkinson's Research (MJFF) during 2017 has enabled us to continue to make progress in preparing dipraglurant for the start of registration studies in levodopa-induced dyskinesia (LID) associated with Parkinson's disease (PD-LID). In addition, we continued to make progress in evaluating the potential of dipraglurant for the treatment of dystonia. The recently announced financing now provides us with the funding to advance dipraglurant into registration studies for PD-LID and complete a proof of concept study in dystonia, both of which we expect to start by the end of 2018.

We also made significant progress in advancing our gamma-aminobutyric acid subtype B receptor ("GABA B") positive allosteric modulator ("PAM") program, ADX71441. We published important data demonstrating the effectiveness of ADX71441 in preclinical models of alcohol use disorder and pain, and secured a USD5.3 million grant from the US National Institute of Drug Abuse ("NIDA") to finance the progression of ADX71441 into clinical development. On January 3, 2018, we announced a partnership with Indivior PLC, the world leader in addiction therapies, for GABA B PAM, including the global development and commercialization of ADX71441 with an initial focus on the treatment of addiction. Under the terms of the agreement, Addex received USD5.0 million upfront, USD4.0 million of committed research funding over two years, USD330 million of potential development, regulatory and commercialization milestones, and tiered royalties up to double-digit. Addex retains the right to select compounds from the GABA B PAM research collaboration for certain indications outside addiction, including the rare disease, Charcot-Marie-Tooth type 1a neuropathy (CMT1A).

During the year, we continued to make progress in advancing our discovery programs, including our tyrosine kinase type B (TrkB) PAM program for which we received a grant of USD0.8 million from MJFF to fund early lead optimization activities. Our ongoing, Swiss Government funded collaborations, with Universities of Lausanne and Geneva, made good progress in advancing our understanding of the mechanisms of action for our mGluR7 (psychiatry) / mGluR4 (neurodegeneration) and TrkB (neurodegeneration) programs.

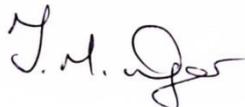
We also continued to develop important strategic alliances with industry partners, patient advocacy groups, academic institutions and governmental organizations to advance development of our promising portfolio of allosteric modulator drug candidates.

2018 will be an exciting year for Addex as we rebuild the team to execute on our plans to start the first registration trial with dipraglurant for PD-LID and the proof of concept in focal cervical dystonia. We will also strengthen the team in discovery as we execute on our GABA B PAM partnership with Indivior PLC, deploy resources to advance our preclinical programs to their next important value creating milestones and strengthen our leading position in allosteric modulation drug discovery. We are committed to building significant value for our shareholders and believe the recent financing now provides us with the financial resources necessary to deliver on the promise of our portfolio of exciting allosteric modulator drug candidates. We will continue to evaluate strategic options for our portfolio of drug candidates and advance their development for the benefit of patients.

Finally, we would like to acknowledge and thank our employees and collaboration partners for their dedication, loyalty and perseverance. We would also like to thank our shareholders for their much valued support.



Vincent Lawton
Chairman of the Board



Tim Dyer
Chief Executive Officer

Financial Review

Overview

The following review and discussion of the financial results for 2017 should be read in conjunction with the consolidated financial statements and related notes, which have been prepared in accordance with International Financial Reporting Standards and are presented in this Annual Report.

We are a development-stage biopharmaceutical company focused on building a sustainable pharmaceutical business around our expertise in the discovery and development of oral small molecule allosteric modulators of G-protein coupled receptors. As a result, commercialization is currently limited to out-licensing of selected discovery and development stage programs.

During 2017, our financial results are driven primarily by activities related to the development of dipraglurant for PD-L1D and dystonia; ADX71441 for addiction and our TrkB PAM program for neurodegeneration. In addition, we were engaged in a number of business development activities as well as activities related to securing resources to advance our portfolio, including entering into collaborations with patient advocacy groups, academic institutions and governmental organizations to characterize our portfolio of drug candidates and access expertise to complement our internal resources. At December 31, 2017, our headcount was 8 FTEs compared to 7 FTEs at December 31, 2016, and our average headcount was stable at 8 FTEs in 2017, compared to 6 FTEs in 2016. In addition to our headcount, we engaged a number of consultants and service providers to complement our internal resources.

Research and development expenditure increased slightly to CHF2.6 million and general and administrative expenses remained stable at CHF1.1 million. CHF0.5 million has been recognized as income in the year and our net loss increased to CHF3.3 million. We ended the year with a cash position of CHF2.6 million.

Results of operations

The following table presents our consolidated results of operations for the fiscal years 2017 and 2016:

Amounts in millions of Swiss francs	For the years ended December 31	
	2017	2016
Income	0.5	0.4
Research and development expenses..	(2.6)	(2.4)
General and administrative expenses...	(1.1)	(1.1)
Total operating costs	(3.7)	(3.5)
Operating loss	(3.2)	(3.1)
Finance costs, net.....	(0.1)	(0.0)
Net loss for the year	(3.3)	(3.1)

Income

Income was CHF0.5 million in 2017 compared to CHF0.4 million in 2016. In 2017 income comprised CHF0.5 million of grants from The Michel J. Fox Foundation for Parkinson's Research to cover certain clinical activities related to dipraglurant development in Parkinson's disease levodopa-induced dyskinesia and discovery activities related to our TrkB PAM program.

Research and development expenses

R&D expenses increased by 8% to CHF2.6 million in 2017, compared to CHF2.4 million in 2016, mainly due to an increase in the number of staff and consultants deployed on the preparation of dipraglurant for registration studies in PD-L1D and outsourced research costs on our TrkB PAM program. R&D expenses consist primarily of costs associated with research, preclinical and clinical testing and related staff costs. They also include depreciation of laboratory equipment and leasehold improvements, costs of materials used in research, costs associated with renting and operating facilities and equipment, as well as fees paid to consultants, patent costs and other outside service fees and overhead costs. These expenses include costs for proprietary and third party R&D.

General and administrative expenses

G&A expenses remained stable at CHF1.1 million in 2017 compared to 2016. G&A expenses consist primarily of staff costs, professional fees for legal, tax and strategic purposes and overheads related to general management, human resources, finance, information technology, business development and communication functions.

Finance costs, net

The finance result, net in 2017 of CHF45 thousand is related primarily to exchange differences.

Net loss for the year

The net loss for the 2017 financial year was CHF3.3 million compared to CHF3.1 million for 2016 primarily due to the cost of operations and slight increase in R&D expenses. Basic and diluted loss per share decreased to 0.25 for 2017, compared to CHF0.28 for 2016 primarily due to the increase in the outstanding issued share capital in May 2017.

Balance sheet & cash flows

Cash and cash equivalents increased by 83% to CHF2.6 million at December 31, 2017, compared to CHF1.4 million at December 31, 2016. This increase of CHF1.2 million is mainly due to the gross proceeds of CHF3.5 million from the sale of treasury shares partially offset by the cash used in operations of CHF2.2 million.

The investment in property, plant and equipment was limited during the 2017 financial year. The net book value of property, plant and equipment decreased by 84% to CHF2,751 at December 31, 2017 compared to CHF17,303 at December 31, 2016, primarily due to the annual depreciation charge.

Total shareholders' equity has increased to CHF1.3 million at December 31, 2017 compared to CHF0.2 million at December 31, 2016, mainly due to the proceeds from the issue of new shares partially offset by the net loss of the year.

Post balance sheet event

On March 28, 2018, the Company increased its share capital by issuing 13,037,577 new shares with a nominal value of CHF1 each at an issue price of CHF3.13 per share. Of these new shares, 12,917,129 were placed with investors raising CHF40.4 million of gross proceeds and the remaining 120,448 new shares were recorded as treasury shares, bringing the total outstanding issued share capital to 28,564,031. Each new share received a 7 year warrant to purchase 0.45 of a share at a price of CHF3.43.

On January 2, 2018, the group signed a licencing and collaboration agreement with Indivior PLC for the global development and commercialization of ADX71441 for the treatment of addiction. An upfront payment of USD5.0 million has been received in January 2018.

Shares and shareholders' information

At December 31, 2017, the Company had 15,384,988 (2016: 13,454,553) outstanding issued shares and a free float of approximately 100%. Of the outstanding issued shares at December 31, 2017, 1,964,973 shares were held in treasury (at December 31, 2016: 1,891,006 shares). As part of the May 2017 capital increase, 1,930,435 shares were acquired by the Group and recorded as treasury shares at CHF1. During 2017, the Group sold 1,856,468 treasury shares and recorded net proceeds of CHF3,380,747 in equity. The closing share price and market capitalization increased to CHF2.29 and CHF35.2 million at December 31, 2017, compared to CHF1.84 and CHF24.8 million at December 31, 2016, respectively.

2017 outlook

As a result of the capital increase completed on March 28, 2018 raising CHF40 million of gross proceeds and the partnership entered into with Indivior PLC on 2 January 2018, we have the financial resources to execute on advancing our portfolio of allosteric modulator drug candidates to their next important value inflection points. In particular, we will advance dipraglurant for PD-L1 and dystonia, and our partner, Indivior is expected to advance ADX71441 into phase 1. We will also advance our discovery programs and continue to invest in our allosteric modulator technology platform. While we will strengthen our team as we add resources across the organization continue, we will continue to pursue collaborations with industry, patient advocacy groups, academic institutions and governmental organizations to drive forward our portfolio of allosteric modulator drug candidates.

Corporate Governance Report

General information

Addex Therapeutics Ltd's articles of association (the "Articles"), organizational rules (the "Organizational Rules") and policies provide the basis for the principles of Corporate Governance. This report has been prepared in accordance with the SIX Swiss Exchange Directive on Information Related to Corporate Governance effective as of October 1, 2014.

Group structure

Description of Addex' operational group structure

Addex Therapeutics Ltd ("Addex" or the "Company"; CHE-113.514.094) is the holding and finance company of the Group. Addex Pharma SA (CHE-109.561.624), based in Geneva, Switzerland, a 100% subsidiary of Addex Therapeutics Ltd, is in charge of research, development, registration, commercialization, and holds the Group's intellectual property. Addex Pharma SA has a share capital of CHF3,987,492 divided into 3,987,492 registered shares with a nominal value of CHF1 each. Addex Pharmaceuticals France SAS, based in Archamps, France, is a 100% subsidiary of Addex Pharmaceuticals Ltd. Addex Pharmaceuticals France SAS has a share capital of EUR37,000 divided into 37,000 registered shares with a nominal value of EUR1 each.

Listed company

Addex Therapeutics Ltd has its registered office c/o Addex Pharma SA, Chemin des Aulx 12, P.O. Box 68, CH-1228 Plan-les-Ouates, Geneva, Switzerland. Its shares have been listed on the SIX Swiss Exchange (SIX) since May 21, 2007 under the Swiss security number (*Valorennummer*) 2985075. The ISIN is CH0029850754, the common code is 030039254 and the ticker symbol is ADXN. On December 31, 2017, the market capitalization of Addex was CHF35,231,653.

Significant shareholders

As far as can be ascertained from the information available, the following shareholders own 3% or more of the Company's share capital as at December 31, 2017 based on published notifications to the SIX:

Shareholder	Shares held ¹	% of voting rights ²	% of capital ²
Addex Pharma SA ³	1,964,973	12.77%	12.77%
Herculis Partners Aries Fund, Herculis Partners Taurus Fund ⁴	582,695	3.79%	3.79%

¹ This table presents the shares held by the shareholders listed therein. The derivative holdings held by such shareholders are not included.

² Based on the share capital registered in the Commercial Register as of December 31, 2017 (i.e. CHF 15,384,988, divided into 15,384,988 registered shares).

³ Addex Pharma SA, Chemin des Aulx 12, CH-1228 Plan-les-Ouates, Switzerland; the beneficial owner is Addex Therapeutics Ltd, Chemin des Aulx 12, CH-1228 Plan-les-Ouates, Switzerland.

⁴ Herculis Partners Aries Fund, Austrasse 9, 9490 Vaduz, LIE and Herculis Partners Taurus Fund, Austrasse 9, 9490 Vaduz, LIE; the beneficial owner is IMF Independent Fund Management AG Austrasse 9, 9490 Vaduz, LIE.

For a comprehensive list of notifications of shareholdings received during 2017 pursuant to article 120 of the Financial Market Infrastructure Act (**FMIA**) and its implementing ordinances, refer to the SIX website (<https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>).

Refer to Post Balance Sheet Events section for impact of capital increase of March 28, 2018.

Cross-shareholdings

There are no cross-shareholdings in terms of capital shareholdings or voting rights in excess of 5%.

Shareholder structure

There were 2,304 shareholders registered in the share register on December 31, 2017. The distribution of shareholdings is divided as follows:

Number of shares	Number of registered shareholders on December 31, 2017
1 to 100	281
101 to 1,000	975
1,001 to 10,000	929
10,001 to 100,000	114
100,001 to 1,000,000	4
1,000,001 to 10,000,000	1

The shareholder base on December 31, 2017 was constituted as follows:

Shareholder structure according to category of investors

(weighted by number of shares)

Private persons	43.55%
Institutional shareholders	21.63%
Not registered	34.81%

Shareholder structure by country

(weighted by number of shares)

United States	0.10%
Switzerland	59.56%
France	0.11%
Germany	0.08%
Other	5.33%
Not registered	34.81%

Capital structure

As of December 31, 2017, the share capital amounted to CHF15,384,988 consisting of 15,384,988 issued shares with a nominal value of CHF1 per share. As of December 31, 2017, the Company, indirectly, held 1,964,973 of its own shares. These shares are recorded as treasury shares.

Authorized share capital

As of December 31, 2017 and according to the Articles, the Board of Directors (Board) is authorized, at any time until June 22, 2019 to increase the share capital in an amount of CHF7,692,494 through the issuance of 7,692,494 fully paid registered shares with a nominal value of CHF1 each. An increase in partial amounts is permitted. The Board shall determine the issue price, the type of payment, the date of issue of new shares, the conditions for the exercise of pre-emptive rights and the beginning date for dividend entitlement. In this regard, the Board may issue new shares by means of a firm underwriting through a banking institution, a syndicate or another third party with a subsequent offer of these shares to the current shareholders (unless the pre-emptive rights of current shareholders are excluded). The Board may permit pre-emptive rights that have not been exercised to expire or it may place these rights and/or shares as to which pre-emptive rights have been granted but not exercised, at market conditions or use them for other purposes in the interest of the Company.

The subscription and acquisition of the new shares, as well as each subsequent transfer of the shares, shall be subject to the restrictions set forth in Article 5 of the Articles.

The Board is authorized to restrict or exclude the pre-emptive rights of shareholders and allocate such rights to third parties if the shares are to be used (1) for the acquisition of enterprises, parts of an enterprise, or participations, or for new investments, or, in case of a share placement, for the financing or refinancing of such transactions; or (2) for the purpose of the participation of strategic partners (including in the event of a public tender offer) or for the purpose of an expansion of the shareholder constituency in certain investor markets; or (3) for the granting of an over-allotment option (Greenshoe) of up to 20 percent to the banks involved in connection with a placement of shares; or (4) for raising capital in a fast and flexible manner, which would not be achieved without the exclusion of the statutory pre-emptive rights of the existing shareholders.

Conditional share capital

According to the Articles, the share capital of the Company may be increased by a maximum aggregate amount of CHF3,500,000 through the issuance of a maximum of 3,500,000 registered shares, which shall be fully paid-in, with a par value of CHF1 per share by the exercise of option rights or subscription rights attached to *bons de jouissance* which the employees, directors and/or consultants of the Company or a group company are granted according to respective regulations of the Board. The pre-emptive rights of the shareholders are excluded. The acquisition of registered shares through the exercise of option rights or subscription rights granted to the holders of *bons de jouissance* and the subsequent transfer of the registered shares shall be subject to the transfer restrictions provided in Article 5 of the Articles.

The share capital of the Company may be increased by a maximum aggregate amount of CHF4,192,494 through the issuance of a maximum of 4,192,494 registered shares, which shall be fully paid-in, with a par value of CHF1 per share by the exercise of option and/or conversion rights which are granted to shareholders of the company and/or in connection with the issue of bonds, similar obligations or other financial instruments by the Company or another group company. In the case of such grants of option and/or conversion rights, the advanced subscription right of shareholders is excluded. The holders of option and/or conversion rights are entitled to receive the new shares. The Board shall determine the terms of the option and/or conversion rights. The acquisition of registered shares through the exercise of option or conversion rights and the subsequent transfer of the registered shares shall be subject to the transfer restrictions provided in Article 5 of the Articles.

The Board is authorized to restrict or exclude the advanced subscription rights of shareholders (1) if the debt or other financial instruments and/or conversion rights or warrants are issued for the purpose of financing or refinancing of the acquisition of enterprises, parts of an enterprise, or participations or new investments or (2) if such debt or other financial instruments and/or conversion rights or warrants are issued on the national or international capital markets and for the purpose of a firm underwriting by a banking institution or a consortium of banks with subsequent offering to the public or (3) if such debt or other financial instruments and/or conversion rights or warrants are issued for raising capital in a fast and flexible manner, which would not be achieved without the exclusion of the advanced subscription rights of the existing shareholders. If the advance subscription rights are excluded by the Board, the following shall apply: the issuance of convertible bonds or warrants or other financial market instruments shall be made at the prevailing market conditions (including dilution protection provisions in accordance with market practice) and the new shares shall be issued pursuant to the relevant conversion or exercise rights in connection with bond or warrant issue conditions. Conversion rights may be exercised during a maximum 10-year period, and warrants may be exercised during a maximum 7-year period, in each case from the date of the respective issuance..

Changes in capital

On May 29, 2017, the Group increased its share capital by CHF1,930,435 (1,930,435 registered shares with nominal value of CHF1 per share) out of authorized share capital. The 1,930,435 new shares were subscribed by the Company's 100% owned subsidiary, Addex Pharma SA at CHF1 and recorded as treasury shares.

For further information on changes in capital in 2017 and 2016, including changes in reserves, refer to the consolidated statements of changes in equity as well as note 12 of the consolidated financial statements included in this annual report.

Shares, participation and equity sharing certificates

Addex has one class of shares, i.e. registered shares with a nominal value of CHF1 per share. Each share is fully paid up and carries one vote and equal dividend rights, with no privileges. The Company has 1,700 outstanding equity sharing certificates (*bons de jouissance / Genusschein*). Equity sharing certificates are available for granting to employees and/or directors and/or consultants of the Company or any Group company under the Group's equity incentive plan. Equity sharing certificates do not form part of the share capital, have no nominal value, and do not grant any right to vote nor to attend meetings of shareholders. Each equity sharing certificate grants the right to subscribe for 1,000 shares of the Company and a right to liquidation proceeds of the Company calculated in accordance with Article 34 of the Articles. The Company has no participation certificates (*bons de participation / Partizipationsschein*).

The Company's shares and equity sharing certificates are not certificated. Shareholders and equity sharing certificate holders are not entitled to request printing and delivery of certificates, however, any shareholder or equity sharing certificate holder may at any time request the Company to issue a confirmation of their holdings.

Limitations on transferability of shares and nominee registration

A transfer of uncertificated shares is affected by a corresponding entry in the books of a bank or depository institution following an assignment in writing by the selling shareholder and notification of such assignment to Addex by the bank or the depository institution. A transfer of shares further requires that a shareholder files a share registration form in order to be registered in Addex' share register with voting rights. Failing such registration, a shareholder may not vote at or participate in a shareholders' meeting.

A purchaser of shares will be recorded in Addex' share register as a shareholder with voting rights if the purchaser discloses its name, citizenship or registered office and address and gives a declaration that it has acquired the shares in its own name and for its own account.

Article 5 of the Articles provide that a person or entity that does not explicitly state in its registration request that it will hold the shares for its own account (Nominee) may be entered as a shareholder in the share register with voting rights for shares up to a maximum of 5% of the share capital as set forth in the commercial register. Shares held by a Nominee that exceed this limit are only registered in the share register with voting rights if such Nominee declares in writing to disclose the name, address and shareholding of any person or legal entity for whose account it is holding 1% or more of the share capital as set forth in the commercial register. The limit of 1% shall apply correspondingly to Nominees who are related to one another through capital ownership or voting rights or have a common management or are otherwise interrelated. A share being indivisible, hence only one representative of each share will be recognized. Furthermore, shares may only be pledged in favor of the bank that administers the bank entries of such shares for the account of the pledging shareholders. If the registration of shareholdings with voting rights was effected based on false information, the Board may cancel such registration with retroactive effect.

Convertible bonds and options

As of December 31, 2017, the Company has no convertible or exchangeable bonds or loans outstanding. For information on equity incentive plans for Non-Executive Directors, Executive Management and employees, refer to note 13 of the consolidated financial statements included in this annual report.

Board of directors

The following table sets forth the name, year joined the Board, position and directorship term, as well as committee memberships, of each member of the Board, followed by a short description of each member's business experience, education and activities:

Name	Year of birth	Nationality	First elected	Elected until	Board
Vincent Lawton	1949	UK	2009	2018	Chairman
Raymond Hill	1945	UK	2015	2018	Member
Tim Dyer	1968	Swiss/UK	2015	2018	Member
Roger Mills	1957	US/UK	2017	2018	Member

Vincent Lawton

Chairman of the Board of Directors

Professor Lawton was Vice President Merck Europe and Managing Director of MSD UK until he stepped down in 2006, after 26 years' service internationally for Merck & Co Inc. He was appointed CBE (Commander of the British Empire) by the Queen of England for services to the Pharmaceutical Industry. During his tenure, MSD UK achieved sustained commercial success, launching many new medicines to the market in a wide range of therapeutic areas, becoming the fastest growing company in the market over a number of years. He worked in commercial, research and senior management roles in France, the US and Canada, Spain and throughout Europe. As President of the UK Industry Association, the ABPI, he negotiated industry pricing, worked with Government bodies to help establish the UK globally as a leading center of clinical research. He served on the board of the UK regulatory authority (MHRA) from 2008 to 2015. He is a Senior Strategy Advisor for Imperial College Department of Medicine, University of London and serves as a consultant to a number of leading healthcare organizations. He studied Psychology at the University of London and holds an undergraduate degree and PhD.

Raymond Hill

Member of the Board of Directors

Professor Hill was previously a member of the Board of Directors from the Annual General Meetings of 2008 until 2012. He is currently Visiting Professor of Pharmacology at Imperial College in London, and Non-Executive Director of Avilex (DMK), Asceneuron (CH) and Orexo AB (SE). Prior to his retirement, he was Executive Director, Licensing and External Research, Europe (2002 - 2008) at Merck/MSD, Executive Director, Pharmacology (1990-2002) at the Merck Neuroscience Research Centre and had oversight responsibility for Neuroscience research at the Banyu Research Labs in Tsukuba, Japan (1997-2002). At Merck, he chaired a number of discovery project teams including those responsible for the marketed products Maxalt® and Emend®. Dr. Hill received his academic training (BPharm PhD) at the University of London. He was a lecturer in Pharmacology at the University of Bristol School of Medicine from 1974 to 1983 and supervisor in Pharmacology at Downing College, University of Cambridge from 1983 to 1988. He joined the pharmaceutical industry in 1983 as Head of Biology and founder member of the Park Davis Research Unit at Cambridge. In 1988, he joined SK&F (UK) as Group Director, Pharmacology and in 1990 moved to Merck. He is a past Council Member of the UK Academy of Medical Sciences and President Emeritus, British Pharmacological Society. He is Visiting Professor at the University of Bristol and a member of the UK Government Advisory Council on Misuse of Drugs.

Tim Dyer

Member of the Board of Directors and Chief Executive Officer

Since co-founding Addex in 2002, Mr Dyer has played a pivotal role in building the Addex Group, raising CHF280 million of capital, including Addex IPO and negotiating licensing agreements with pharmaceutical industry partners that generated more than CHF50 million in cash inflows. Prior to founding Addex, he spent 10 years with Price Waterhouse (PW) & PricewaterhouseCoopers (PwC) in the UK and Switzerland as part of the audit and business advisory group. At PwC in Switzerland, Mr Dyer's responsibilities included managing the service delivery to a diverse portfolio of clients including high growth start-up companies, international financial institutions and venture capital and investment companies. At PW in the UK, Mr Dyer gained extensive experience in audit and transaction support, spending two years performing inward investment due diligence on local financial institutions in the Ex-Soviet Union. Mr Dyer has extensive experience in finance, corporate development, business operations and the building of start-up companies and served as a member of the Swiss government innovation promotion agency coaching team from 2011 to 2016. Mr Dyer also serves on the advisory board of the École polytechnique fédérale de Lausanne Management of Technology MBA program. He is a UK Chartered Accountant and holds a BSc (Hons) in Biochemistry and Pharmacology from the University of Southampton, UK.

Roger Mills

Member of the Board of Directors and Chief Medical Officer

Dr. Mills, who joined Addex in 2016, brings more than 25 years of biopharmaceutical industry experience at both large global pharmaceutical companies and smaller biotechnology companies, including Acadia Pharmaceuticals, Pfizer, Gilead Sciences, Abbott Laboratories and Wellcome, across a spectrum of disease areas. His extensive track record includes managing drug development programs from Investigational New Drug Application preparation through to post-marketing and OTC products, including NUPLAZID™ for the treatment of Parkinson's Disease Psychosis, as well as regulatory affairs and business development activities. Most recently, Dr. Mills was with Acadia Pharmaceuticals for nine years, serving as Executive Vice President, Development and Chief Medical Officer. In this role, he oversaw the largest ever international Phase III program in Parkinson's Disease Psychosis, and led the Company's New Drug Application submission to the US Food and Drug Administration (FDA) for NUPLAZID, which was subsequently approved and remains the first and only medication approved by the FDA in this indication. Dr. Mills currently serves as a Visiting Professor at the Centre for Age Related Diseases, Institute of Psychiatry, Psychology and Neuroscience, King's College London. He

received his medical degree from Imperial College, Charing Cross Hospital Medical School, London, United Kingdom. Dr. Mills is co-author of more than 50 research publications and patents.

Other activities and vested interests

The Articles provide certain restrictions to the number of mandates that members of the Board of Directors may have in the supreme governing bodies of legal entities registered in the Swiss commercial register or similar foreign register as follows: 1) No member of the Board of Directors may hold more than fifteen board of director mandates with no more than four mandates in listed entities; 2) Mandates in companies controlled by Addex or which control Addex are not subject to restrictions; 3) Mandates that are held by order and on behalf of Addex or companies under Addex control are restricted to ten; and 4) mandates in associations, charitable organizations, family trusts and foundations relating to post-retirement benefits and other not-for-profit organizations are restricted to twenty-five. Multiple mandates in different legal entities which are under common control or same beneficial ownership are deemed to be one mandate.

Apart from the information given above, none of the members of the Board of Directors has had other activities or holds any positions 1) in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law; 2) of permanent management and consultancy functions for important Swiss and foreign interest groups; or 3) of official government functions and political posts.

Elections and terms of office

The Articles provide for a Board consisting of between one and eleven members. The Company currently has four members of the Board. In accordance with the Swiss Ordinance Against Excessive Compensation in Listed Stock Companies of November 20, 2013 (the "Compensation Ordinance"), members of the Board including the Chairman are appointed and removed exclusively by shareholders' resolution for a term of one year until completion of the next annual general meeting of shareholders.

Changes in the board of directors

Roger Mills has been elected as a member of the board.

Internal organization and areas of responsibility

The Articles and Organizational Rules define the Company's internal organization and areas of responsibility of the Board, Chairman, Chief Executive Officer ("CEO") and the Executive Management.

Responsibilities of the board of directors

The Board is entrusted with the ultimate direction of the Company and the supervision of management. The Board's non-transferable and irrevocable duties include managing the Company and issuing the necessary directives, determining the organization including adoption and revision of the Organizational Rules, organizing the accounting system, the financial controls, the financial and strategic planning, as well as appointing, recalling, setting remuneration and ultimately supervising the persons entrusted with the management and representation of the Company, including the CEO. Furthermore, these duties include the responsibility for the preparation of the annual report and the shareholders' meetings, the carrying out of shareholders' resolutions, the notification of the judge in case of over indebtedness of the Company, and, passing resolutions regarding supplementary contributions for shares not fully paid-in, increases in capital to the extent that such power is vested in the Board, and of resolutions concerning the confirmation of capital increases and corresponding amendments to the Articles as well as making the required report on capital increases.

In addition to these duties the Board specifically retains responsibility for the non-delegable and inalienable duties and powers pursuant to the Swiss Merger Act and any other law; the examination of the necessary qualifications of the auditors; the adoption of, and any amendments or modifications to any equity incentive plans; and the decisions regarding entering into any financing arrangement in excess of CHF2 million including loan agreements, credit lines, letters of credit or capitalized leases; the issuance of convertible debentures or other financial market instruments; and the approval of any recommendation made by any of the Committees.

According to the current Organizational Rules enacted by the Board, resolutions of the Board are passed by way of simple majority vote. To validly pass a resolution, more than half of the members of the Board have to attend the meeting. No quorum is required for confirmation resolutions and adaptations of the Articles in connection with capital increases pursuant to articles 634a, 651a, 652g and 653g of the Swiss Federal Code of Obligations.

Chairman of the board of directors

The Chairman of the Board calls, prepares, and chairs the meetings of the Board. The Chairman also chairs the shareholders' meetings. He supervises the implementation of the resolutions of the Board and generally supervises the CEO, who regularly reports to the Chairman on the meetings of the Executive Management and all important matters of the Group.

Committees of the board of directors

The Board has no standing committees.

Working methods of the board of directors

In 2017, the Board held five meetings with average duration of one day. The majority of meetings were held at the Company's offices with full attendance at all meetings. In addition to formal Board meetings, the Board holds additional ad hoc meetings or

telephone conferences to discuss specific matters. The CEO and Chief Medical Officer (“CMO”) are entitled to attend every Board meeting and to participate in its debates and deliberations with the exception of non-executive sessions.

During Board meetings, each member of the Board may request information from the other members of the Board, as well as from the members of the Executive Management present on all affairs of the Company. The CEO reports at each meeting of the Board on the course of business of the Company in a manner agreed upon from time to time between the Board and the CEO.

In addition to reporting at Board meetings, the CEO reports immediately any extraordinary event and any significant change within the Company to the Chairman. Outside of Board meetings, each member of the Board may request from the CEO information concerning the course of business of the Company.

Definition of areas of responsibility

The Board has delegated all areas of management of the Group’s business to the CEO and the Executive Management, and has granted the CEO the power to appoint the members of the Executive Management. The Board carries out the responsibilities and duties reserved to it by law, the Articles and the Organizational Rules as detailed in section “Responsibilities of the board of directors” on page 10.

Information and control instruments of the board of directors

The Board ensures that it receives sufficient information from the CEO and Executive Management to perform its supervisory duty and to make the decisions that are reserved to the Board. At each Board meeting the Board receives reports from the CEO and selected members of the Executive Management on the status of finance, business, research and development. These reports focus on the main risks and opportunities related to the Group. In addition, the Board is provided with a status report prior to each board meeting, a monthly finance report and other ad hoc reports on significant matters related to the Group’s operations.

Furthermore, the Board receives unaudited annual and interim financial statements for all Group companies including consolidated financial statements for the Company. The Board receives a written report from the auditors on the results of the audit which includes any findings with respect to internal control risks arising as a result of their audit procedures. The auditor held two meetings with the chairman during 2017. Addex does not have an independent internal audit function.

For further information on the risk management and the financial risks factors inherent to the Group’s activities, refer to note 3 of the consolidated financial statements.

Executive management

In accordance with the Articles and the Organizational Rules, the Board has delegated the operational management to the CEO. The CEO together with the Executive Management and under the control of the Board conducts the operational management of the Company pursuant to the Organizational Rules and reports to the Board on a regular basis.

The following table sets forth the name, year of birth and principal position of those individuals who currently are part of the Executive Management followed by a short description of each member’s business experience, education and activities:

Name	Year of Birth	Position	Nationality
Tim Dyer	1968	Chief Executive Officer	Swiss / British
Roger Mills	1957	Chief Medical Officer	USA / British
Robert Lütjens	1968	Head of Discovery	Swiss

Tim Dyer

Chief Executive Officer – Refer to page 9

Roger Mills

Chief Medical Officer – Refer to page 9

Robert Lütjens

Head of Discovery

Dr Lütjens rejoined Addex in May 2015 as Head of Discovery to lead the preclinical portfolio and allosteric modulator discovery activities. Dr Lütjens previously worked at Addex from its inception in 2002 until 2013, where he was a member of the executive management responsible for the Biology department. While at Addex, he established the biology capabilities and built the company’s small molecule allosteric modulator biology platform. He played a pivotal role in all of Addex’s small molecule allosteric modulator programs, including research collaborations with Merck & co. and Janssen Pharmaceuticals Inc. The latter partnership has led to the successful progression of the first mGluR2 positive allosteric modulator into man. Prior to joining Addex, Dr Lütjens completed a postdoctoral fellowship in the Department of Neuropharmacology at the Scripps Research Institute, in La Jolla, CA, where he focused on understanding molecular changes involved in addiction disorders. Dr Lütjens obtained his degrees in Biology from the University of Geneva, his master’s at the Swiss Institute for Experimental Cancer Research and his Ph.D. thesis at the Glaxo Institute for Molecular Biology in Geneva and the Institute for Cellular Biology and Morphology in Lausanne. Dr. Lütjens is co-author of over 20 peer-reviewed publications and co-inventor on patents covering screening methods or chemical compounds

Management contracts

There are no management contracts between Addex and third parties, except for the contract with TMD Advisory Ltd, a company owned and managed by Mr. Dyer with registered office in Gland (Canton of Vaud), Switzerland, that has been mandated to provide CEO / CFO services to the Addex Group. The remuneration for the services performed by TMD Advisory Ltd is disclosed in the Compensation Report of the Company.

Other vested activities and vested interests

Apart from the information given above, none of the Executive Management has had other activities or holds any positions of 1) in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law; 2) permanent management and consultancy functions for important Swiss and foreign interest groups; or 3) official government functions and political posts.

Changes in executive management

There is no change in executive management.

Compensation, loans and shareholdings

Information about content and method of determining compensation and shareholder programs of the members of the Board of Directors and Executive Management can be found in the Compensation Report of the Company. Information about shareholdings of the members of the Board of Directors and Executive Management can be found in note 12 of the statutory financial statements of the Company.

Shareholders' participation

Voting rights and representation restrictions

Voting rights may be exercised only after a shareholder has been recorded in the Company's share register as a shareholder or usufructuary with voting rights, subject further the restrictions on transferability set forth in the Articles. No exceptions from these restrictions were granted in 2017. A shareholder may be represented by his legal representative, the independent proxy or by a duly authorized person who does not need to be a shareholder. Subject to the registration of shares in the share register within the deadline set from time to time by the Board before shareholders' meetings, the Articles do not impose any restrictions on the voting rights of shareholders. Specifically, there is no limitation on the number of voting rights per shareholder. For further information on the conditions for registration in the share register (including in relation to Nominees) and for attending and voting at a shareholders' meeting, please refer to the sections "Limitations on transferability of shares and nominee registration" on page 8 above and "Registration in the share register" on this page 13 below.

Resolutions of shareholders' meetings generally require the approval of the absolute majority of the votes represented at the shareholders meeting (more than 50% of the share votes represented at such meeting). Such resolutions include amendments to the Articles, elections of the members of the Board and statutory and group auditors, election of the chairman of the Board and of the members of the Compensation Committee, election of the independent proxy, approval of the annual financial statements, setting the annual dividend, approval of the compensation of the Board and management pursuant to the Articles, decisions to discharge the members of the Board and management for liability for matters disclosed to the shareholders' meeting and the ordering of an independent investigation into specific matters proposed to the shareholders' meeting.

A resolution passed at a shareholders' meeting with a qualified majority of at least two-thirds of the votes represented and the absolute majority of the nominal share capital is required by law for: (i) changes to the business purpose; (ii) the creation of shares with privileged voting rights; (iii) restrictions on the transferability of registered shares; (iv) an increase of the authorized or conditional share capital; (v) an increase in the share capital by way of capitalization of reserves, against contribution in kind, for the acquisition of assets or involving the grant of special privileges; (vi) the restriction or exclusion of pre-emptive rights of shareholders; (vii) a relocation of the registered office, and (viii) the dissolution of the Company. Special quorum rules apply by law to a merger, demerger, or conversion of the Company. The introduction or abolition of any provision in the Articles introducing a majority greater than that required by law must be resolved in accordance with such greater majority.

Independent proxy

The Articles provide the basis for election of the independent proxy. The Shareholders' Meeting of June 22, 2017, elected Robert P. Briner as the independent proxy.

Statutory quorums

There is no provision in the Articles requiring a majority for shareholders' resolutions beyond the majority requirements set out by applicable legal provisions.

Convening of shareholders' meetings and agenda items

The shareholders' meeting is the supreme institution of the Company and under Swiss law, the ordinary shareholders' meeting takes place annually within six months after the close of the business year. Shareholders' meetings may be convened by the Board or, if necessary, by the auditors. Furthermore, the Board is required to convene an extraordinary shareholders' meeting if so requested in writing by holders of shares representing at least 10% of the share capital and who submit a petition specifying the item for the agenda and the proposals. Shareholders representing shares with a nominal value of at least CHF1,000,000 or 10% of the share capital have the right to request in writing that an item be included on the agenda of the next shareholders' meeting,

setting forth the item and the proposal. A request to put an item on the agenda has to be made at least 60 days prior to the meeting. Extraordinary shareholders' meetings may be called as often as necessary, in particular in all cases required by law.

A shareholders' meeting is convened by publishing a notice in the Swiss Official Commercial Gazette (*Feuille Officielle Suisse du Commerce/Schweizerisches Handelsamtsblatt*) at least 20 days prior to such meeting. In addition, holders of shares may be informed by a letter sent to the address indicated in the share register.

Registration in the share register

The Board determines the relevant deadline for registration in the share register giving the right to attend and to vote at the shareholders' meeting. Such deadline is published by Addex on the Company's website, usually in connection with the publication of the invitation to the shareholders' meeting in the Swiss Official Commercial Gazette. The registration deadline for the ordinary shareholders' meeting shall be determined and communicated prior to the end of May 2018. Addex has not enacted any rules on the granting of exceptions in relation to these deadlines. No exceptions were granted in 2017, and the Board does not anticipate granting any exceptions related to the shareholders' meeting to be held in 2018. For further information on registration in the share register, please refer to section "Limitations on transferability of shares and nominee registration" on page 8.

Changes of control and defense measures

Duty to make an offer

Swiss law provides for the possibility to have the Articles contain a provision which would eliminate the obligation of an acquirer of shares, exceeding the threshold of 33 1/3% of the voting rights (whether exercisable or not), to proceed with a public tender offer to acquire 100% of the listed equity securities of the company (opting-out provision pursuant to Article art. 125 para. 3 of the Swiss Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives ("FMIA")) or which would increase such threshold to 49% of the voting rights (opting-up provision pursuant to Article art. 135 para. 1 FMIA). As of December 31, 2017, the Articles do not contain an opting-out or an opting-up provision.

Clauses on change of control

Addex' equity sharing certificate equity incentive plan contains a provision in respect of changes of Addex shareholder base. In the event of a change of control over Addex (defined as a change of control event triggering a mandatory public tender offer according to applicable stock exchange rules) all outstanding unexercised share options and subscription rights attached to equity sharing certificates, vest, and in the case of subscription rights attached to equity sharing certificates, they become exercisable with their remaining term being reduced proportionally.

Auditors

Duration of the mandate and term of office of the lead auditor

Pursuant to the Articles, the auditor shall be elected every year and may be re-elected. The statutory and group auditors of Addex are PricewaterhouseCoopers SA, Geneva, Switzerland. PricewaterhouseCoopers SA has held the function of statutory auditor since inception of the Company in February 2007 and of Addex Pharma SA since its inception in 2002, and acts as group auditor since 2004. The lead auditor of Addex since 2016 is Mr. Yves Cerutti.

Audit fees

In 2017, PricewaterhouseCoopers SA and its affiliates charged the Group audit fees in the amount of CHF90,000.

Additional fees

In 2017, PricewaterhouseCoopers SA and its affiliates charged the Group no additional fees.

Control instruments of the auditors

The Audit Committee was disbanded on June 27, 2014 and since this date the Chairman of the Board of Directors, Vincent Lawton assumes the task of supervising the auditors. The Chairman meets with external auditors at least once a year to discuss the scope and the results of the audit and to assess the quality of their service. The auditors prepare a management letter addressed to the Chairman of the Board of Directors two times per year, informing them of their audit plan for the year under review followed by a report detailing the result of their annual audit.

In 2017, the Chairman of the Board met with the auditors two times to discuss the results of their 2016 year-end audit, the financial situation of the Group and the scope of the 2017 audit. In 2018, the Chairman of the Board met with the auditors to discuss the results of their 2017 year-end audit and the financial situation of the Group.

Information policy

Addex publishes financial results in the form of an Annual Report and a Half-year Report (Interim Report). In addition, Addex informs shareholders and the public regarding the Group's business through press releases, conference calls, as well as roadshows. Where required by law or Addex' Articles, publications are made in the Swiss Official Commercial Gazette. The Annual Report, usually published no later than April of the following year, and the Interim Report, usually published no later than in September, are both announced by press release. Annual Reports, Interim Reports and press releases are available on request in printed form to all registered shareholders, and are also made available on the Group's website at www.addextherapeutics.com. The Group's website, which is the Group's permanent source of information, also provides other information useful to investors and

the public, including information on the Group's research and development programs as well as contact information. It is the Group's policy not to release explicit earnings projections, but it will provide general guidance to enable the investment community and the public to better evaluate the Group and its prospective business and financial performance. The Board has issued a disclosure policy to ensure that investors will be informed in compliance with the requirements of the SIX Swiss Exchange. The Group's investor relations department is available to respond to shareholders' or potential investors' queries under IR@addextherapeutics.com or via post at Addex Therapeutics Ltd., Investor Relations, C/O Addex Pharma SA, Chemin des Mines 9, CH-1202 Geneva, Switzerland. Additional inquiries may also be made by phone at +41 22 884 1555.

Insider policy

The Board has issued an insider policy and implemented procedures to prevent insiders from benefiting from confidential information. The policy defines guidelines on how to deter corporate insiders from making use of confidential information. The Board has established blocking periods to prevent insiders from trading during sensitive periods.

Ethical business conduct

The Group is committed to the highest standards of ethical conduct. As a pharmaceutical business, the Group is operating in a highly regulated business environment. Strict compliance with all legal and health authority requirements, as well as requirements of other regulators, is mandatory. The Group expects its employees, contractors and agents to observe the highest standards of integrity in the conduct of the Group's business. The Code of Conduct sets forth the Group's policy embodying the highest standards of business ethics and integrity required of all directors, executives, employees and agents when conducting business affairs on behalf of the Group. The Group is committed to complying with the spirit and letter of all applicable laws and regulations where the Group engages in business.

Post balance sheet events

Extraordinary general meeting and capital increase

On March 16, 2018 the Company's extraordinary general meeting (the "EGM") approved an ordinary capital increase and certain modifications to the articles of association. On March 28, 2018, the Company increased its share capital by issuing 13,037,577 new shares with a nominal value of CHF1 each at an issue price of CHF3.13 per share. Of these new shares, 12,917,129 were placed with investors raising CHF40.4 million of gross proceeds and the remaining 120,448 new shares were recorded as treasury shares, bringing the total outstanding issued share capital to 28,564,031. Each new share received a 7 year warrant to purchase 0.45 of a share at a price of CHF3.43.

The impact of the EGM and the capital increase on information reported in the corporate governance report at December 31, 2017 is detailed below:

Significant shareholders

As at March 28, 2018, the following shareholders owned 3% or more of the Company's share capital based on published notifications to the SIX:

Shareholder	Number of shares ¹	% of voting rights ²	% of capital ²
Addex Pharma SA ³	2,124,111	7.44%	7.44%
Growth Equity Opportunities Fund IV, LLC ⁴	4,568,690	15.99%	15.99%
New Leaf Biopharma Opportunities I, L.P. ⁵	1,597,444	5.59%	5.59%
CDK Associates, LLC ⁶	1,597,444	5.59%	5.59%
CS (CH) Small Cap Switzerland Equity Fund ⁷	1,627,985	5.70%	5.70%

¹ This table presents the shares held by the shareholders listed therein. The derivative holdings held by such shareholders are not included.

² Based on the share capital registered in the Commercial Register as of March 28, 2018 (i.e. CHF 28,564,031, divided into 28,564,031 registered shares).

³ The beneficial owner is Addex Therapeutics Ltd, Chemin des Aulx 12, CH-1228 Plan-les-Ouates, Switzerland.

⁴ The beneficial owner is New Enterprise Associates 15 L.P., Timonium MD 21093, USA.

⁵ The beneficial owner is New Leaf Venture Management III LLC, 1209 Orange Street, c/o Corporation Trust Company/Center, DE 19801 Wilmington, USA.

⁶ The beneficial owner is Bruce Kovner, c/o CDK Associates, LLC, Princeton, 08540 New Jersey, USA.

⁷ The licensee and person that can exercise the voting rights at their own discretion is Credit Suisse Asset Management (Schweiz) AG, Kalandergasse 4, 8045 Zurich, Switzerland.

Conditional share capital

On March 16, 2018, the EGM resolved to amend, without increasing, the allocation of the conditional share capital and accordingly to amend article 3c of the Articles (i) by reducing the Company's conditional share capital under article 3c A) of the Articles by CHF1,674,404 from CHF3,358,534 (taking account of the 141,466 registered shares of the Company issued out of the Company's conditional share capital which have been registered in the commercial register on March 28, 2018) to CHF1,684,130 and (ii) by increasing the Company's conditional share capital under article 3c B) of the Articles by CHF1,674,404 from CHF4,192,494 to CHF5,866,898. As a result, the conditional share capital for the issuance of registered shares upon exercise of the subscription rights attached to equity sharing certificates (*bons de jouissance / Genussscheine*) has been reduced to CHF1,684,130 and the conditional share capital for the issuance of registered shares upon exercise of any options or other conversion rights granted in connection with an issuance of bonds, similar obligations or other financial instruments has been increased to CHF5,866,898.

Duty to make an offer

On March 16, 2018, the EGM resolved a selective opting-out limited to a 5-year period of the mandatory offer rules of article 135 FMIA based on article 125 para. 3 FMIA by adopting a new article 39 of the Articles (the "Opting-out") in order to facilitate the financing of the Company by two lead investors, i.e. Growth Equity Opportunities Fund IV, LLC and New Leaf Biopharma

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Opportunities I, L.P., and to provide legal certainty in connection with the possible legal consequences under Swiss takeover law of these investors' acquisition of newly issued registered shares of the Company for an amount of around CHF 20 million in March 2018. As a result of the Opting-out, neither Growth Equity Opportunities Fund IV, LLC, New Leaf Biopharma Opportunities I, L.P. nor their respective affiliates would have a duty to make a mandatory offer for a period until March 21, 2023 in case any of them would acquire (either alone or acting in concert pursuant to article 135 FIMA) 33 1/3 % or more of the outstanding voting rights of the Company. The Company's shareholders would be deprived of their right to tender their shares in a mandatory offer triggered by a change of control over the Company caused by Growth Equity Opportunities Fund IV, LLC and/or New Leaf Biopharma Opportunities I, L.P. and/or their respective affiliates until March 21, 2023 pursuant to article 135 FMIA.

Compensation Report

Overview

This Compensation Report provides the information required by the federal Ordinance against excessive compensation in listed companies ("Compensation Ordinance") (effective as of January 1, 2014). It also includes information required by section 5 of the Annex to the Directive on Information relating to Corporate Governance of the SIX Swiss Exchange (effective date October 1, 2014) and the Swiss Code of Best Practice for Corporate Governance (status August 28, 2014).

Addex' Articles organization rules and policies provided the basis for the principles of compensation.

Review and approval process

The Board of Directors reviews compensation of its members and members of the Executive Management annually in accordance with the Company's Compensation Policy. In its review process the Board of Directors considers compensation packages of other companies in the biotech and pharmaceutical industry in Switzerland and Europe that are comparable to Addex with respect to size or business model, the professional experience and areas of responsibility of the respective members. The Board of Directors may also consult relevant compensation surveys and bench marking reports. Based on its review, the Board of Directors submits two proposals for approval at the shareholders meeting: (i) the maximum aggregate amount of fixed and variable compensation for the Board of Directors for the prospective period from one ordinary general meeting of shareholders to the following ordinary general meeting of shareholders; and (ii) the maximum aggregate amount of fixed and variable compensation for the Executive Management for the period from January 1 to December 31 of the next financial year. Approval of these proposals requires an absolute majority (more than 50% of the share votes represented at the shareholders meeting).

Compensation elements for the Board of Directors and Executive Management

Board of Directors

The compensation of the member of the Board of Directors consists of fixed and variable elements. The fixed element comprises a fixed annual monetary compensation per board term from one general meeting of shareholders to the next. The variable element comprises a monetary compensation based on board meeting attendance and equity incentive units (share options and equity sharing certificates). Social security contributions of the Company are accrued on the fixed and variable elements. Board member social security contributions are accrued on the fair value of equity incentive units. Equity incentive units are granted based on the discretion of the Board of Directors. In addition, the Company reimburses members of the Board of Directors for out-of-pocket expenses incurred in relation to their services on an on-going basis upon presentation of the corresponding receipts. The most recent review of compensation for members of the Board of Directors took place on December 12, 2017. For further information on the compensation for members of the Board of Directors, please refer to the section "Compensation of the Board of Directors in 2017" on page 17.

Executive Management

The compensation of members of the Executive Management consists of fixed and variable elements. The fixed element may include a base salary or a cash retainer paid under a consulting contract. The variable element may include performance-related cash or share based bonuses, consulting fees based on chargeable hours and equity incentive units (equity sharing certificates and stock options). Company contributions to pension plans, death and invalidity insurances and social security contributions are accrued on all fixed and variable element compensation that relates to an employment relationship. Both company and employee social security contributions are accrued for all shares or equity incentive unit compensation. The amount of the fixed element depends on the position, responsibilities, experience and skills, and takes into account individual performance. The fixed element is reviewed at the end of each year by the Board of Directors. Any changes in the fixed elements are made effective in January of the following year. The variable elements are based on individual and company performance. The potential variable cash bonus is determined in the employment contract and in general is a percentage of the base salary. Where the Executive Manager has been engaged under a consulting contract, the variable element is based on the time spent at the contractually defined rate of remuneration. At the beginning of each year the Board of Directors decides, on the total amount of variable element including the amount of cash and equity incentive units to be granted for the previous year based on the achievement of Company goals. Equity incentive units are granted based on the discretion of the Board. Variable cash compensation paid to Executive Managers in 2017 relates to consulting fees.

Equity incentive plans

The purpose of the Company's share purchase, share option and equity sharing certificate programs (refer to note 15 of the consolidated financial statements) is to provide members of the Board of Directors, Executive Management, employees and certain consultants with an opportunity to benefit from the potential appreciation in the value of the Company's shares, thus providing an increased incentive for participants to contribute to the future success and prosperity of the Company, enhancing the value of the shares for the benefit of the shareholders of the Company and increasing the ability of the Company to attract and retain individuals of exceptional skill. In addition, these plans provide the company with a mechanism to engage services for non-cash consideration. The grant of any share option or equity sharing certificate is at the discretion of the Board of Directors. Key factors considered by the Board of Directors in making grants of share options or equity sharing certificates are the amount of shareholder approved conditional capital, the benchmarking with other companies as well as individual performance. The strike price is determined by the Board of Directors and is primarily based on the closing price of the Company's shares on the SIX Swiss Exchange on the grant date. The transfer of treasury shares under the share purchase plan to settle consulting services are based on predefined terms of the consulting contract.

Indirect benefits

The Company may contribute to the pension plan and maintains certain insurance for death and invalidity for the members of the Executive Management. New entrants may be eligible for reimbursement of relocation costs, compensation for lost benefits or stock granted by a previous employer, international school for children or language courses for a limited time period. No Indirect benefits have been paid to Executive Management in 2017.

The Company has not granted any loans, credits or guarantees to members of the Board of Directors or of the Executive Management in 2017.

Compensation for the financial year under review (audited)

Measurement basis for compensation

The measurement basis for each component of compensation is described below:

- Cash compensation, cash variable compensation and share purchase plan: accruals basis;
- Equity incentive units: total fair value as determined at the date award calculated in accordance with the valuation methodology of IFRS 2; and
- Employers' social security: accrual basis except for equity incentive units which is based on the notional amount based on fair value at grant date.

Compensation of the Board of Directors in 2017 and 2016

2017	Fixed		Variable compensation		Total
	cash compensation	cash attendance	number of equity incentive units ⁽¹⁾	value of equity incentive units ⁽¹⁾	
CHF					
Vincent Lawton.....	25,858	25,858	163,850	173,081	224,797
Raymond Hill.....	15,341	15,341	100,310	105,961	136,643
Tim Dyer.....	-	-	-	-	-
Roger Mills.....	-	-	-	-	-
Total.....	41,199	41,199	264,160	279,042	361,440

(1) Equity incentive units include share options granted under the Company's share option plan (refer to note 13 of the consolidated financial statements).

2016 ⁽¹⁾	Fixed		Variable compensation		Total
	cash compensation	cash attendance	number of equity incentive units ⁽²⁾	value of equity incentive units ⁽²⁾	
CHF					
Vincent Lawton.....	-	-	39,238	62,189	62,189
Raymond Hill.....	-	-	23,543	37,314	37,314
Tim Dyer.....	-	-	-	-	-
Total.....	-	-	62,781	99,503	99,503

(1) On February 1, 2017, members of the Board of Directors waived their 2016 board fees totaling CHF80,000. On February 28, 2017, members of the Board of Directors were granted a total of 62,781 options at a strike price of CHF1 per share. The compensation report reflects this post balance sheet event which has not been adjusted in the consolidated financial statements.

(2) Equity incentive units include share options granted under the Company's share option plan (refer to note 13 of the consolidated financial statements).

Compensation to the Executive Management in 2017 and 2016

2017	Fixed		Variable compensation		Total
	cash compensation	Cash ⁽³⁾	number of shares ⁽²⁾	value of shares ⁽²⁾	
CHF					
Total Executive Management⁽¹⁾.....	49,554	704,496	1,440,287	1,661,158	2,415,208

(1) The highest paid member of Executive Management in 2017 was the CEO, Tim Dyer, who received CHF384,000 of variable cash compensation and 1,099,956 equity incentive units. The value of equity incentive units including accrued social charges amounted to CHF1,220,733.

(2) Equity incentive units include shares awarded for consulting services under the share purchase plan and options, Equity Sharing Certificates granted under the Company's share option plan.

(3) Executive managers have been engaged under consulting contracts which include hourly and daily rates with a monthly cap.

2016 ⁽¹⁾	Fixed		Variable compensation		Total
	cash compensation	Cash ⁽⁴⁾	number of shares ⁽³⁾	value of shares ⁽³⁾	
CHF					
Total Executive Management⁽²⁾.....	-	444,234	280,132	485,507	929,741

(1) On February 1, 2017, Tim Dyer waived CHF192,000 of consulting fees and on February 28, 2017 was granted 229,480 options at a strike price of CHF1 per share. The compensation report reflects this post balance sheet event which has not been adjusted in the consolidated financial statements.

(2) The highest paid member of Executive Management in 2016 was the CEO, Tim Dyer, who received CHF192,000 of variable cash compensation, 272,744 equity incentive units. The value of equity incentive units including accrued social charges amounted to CHF473,273.

(3) Equity incentive units include shares awarded for consulting services under the share purchase plan and options granted under the Company's share option plan.

(4) Executive managers have been engaged under consulting contracts which include hourly and daily rates with a monthly cap.

Report of the statutory auditor to the General Meeting of Addex Therapeutics Ltd

We have audited the accompanying compensation report of Addex Therapeutics Ltd for the year ended December 31, 2017.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report of Addex Therapeutics Ltd for the year ended December 31, 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers SA

Yves Cerutti
Audit expert
Auditor in charge

Adrien Benoit

Geneva, April 27, 2018

Enclosure:
• Compensation report 2017



Consolidated Financial Statements of Addex Therapeutics Ltd as at December 31, 2017

Consolidated Balance Sheets as at December 31, 2017 and December 31, 2016

	<u>Notes</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
ASSETS		Amounts in Swiss francs	
Current assets			
Cash and cash equivalents (excluding bank overdrafts).....	7	2,590,539	1,416,364
Other current assets.....	8	462,805	242,158
Total current assets		<u>3,053,344</u>	<u>1,658,522</u>
Non-current assets			
Property, plant and equipment.....	9	2,751	17,303
Non-current financial assets.....	10	7,087	7,102
Total non-current assets		<u>9,838</u>	<u>24,405</u>
Total assets		<u>3,063,182</u>	<u>1,682,927</u>
LIABILITIES AND EQUITY			
Current liabilities			
Payables and accruals.....	11	1,037,769	1,249,900
Deferred income.....	15	439,022	-
Total current liabilities		<u>1,476,791</u>	<u>1,249,900</u>
Non-current liabilities			
Employment benefits obligations.....	19	243,864	214,435
Total non-current liabilities		<u>243,864</u>	<u>214,435</u>
Equity			
Share capital.....	12	13,420,015	11,563,547
Share premium.....		264,797,104	263,038,639
Other reserves.....		7,547,295	6,757,887
Accumulated deficit.....		(284,421,887)	(281,141,481)
Total equity		<u>1,342,527</u>	<u>218,592</u>
Total liabilities and equity		<u>3,063,182</u>	<u>1,682,927</u>

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Profit or Loss for the years ended December 31, 2017 and 2016

	<u>Notes</u>	<u>2017</u> Amounts in Swiss francs	<u>2016</u>
Income			
Research grants.....		464,916	285,091
Other income.....		34,978	126,653
Total income	15	499,894	411,744
Operating costs			
Research and development.....		(2,628,901)	(2,461,414)
General and administration.....		(1,106,049)	(1,079,927)
Total operating costs	16	(3,734,950)	(3,541,341)
Operating loss		(3,235,056)	(3,129,597)
Finance income.....		-	27
Finance costs.....		(45,350)	(19,816)
Finance costs, net	20	(45,350)	(19,789)
Net loss before tax		(3,280,406)	(3,149,386)
Income tax expense.....	18	-	-
Net loss for the year		(3,280,406)	(3,149,386)
 Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company, expressed in Swiss franc			
	21	(0.25)	(0.28)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2017 and 2016

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
		Amounts in Swiss francs	
Net loss for the year		(3,280,406)	(3,149,386)
Other comprehensive income / (cost)			
Items that will never be reclassified to the statement of income :			
Remeasurements of post-employment benefit obligations.....	19	(9,909)	8,731
Items that may or may not be classified subsequently to the statement of income :			
Exchange difference on translation of foreign operations differences..		(871)	(107)
Other comprehensive income / (cost) for the year, net of tax		(10,780)	8,624
Total comprehensive income for the year		(3,291,186)	(3,140,762)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity for the years ended December 31, 2017 and 2016

Amounts in Swiss francs						
	<u>Notes</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at						
January 1, 2016		11,025,489	262,078,103	6,552,733	(277,992,095)	1,664,230
Net loss for the						
year.....		-	-	-	(3,149,386)	(3,149,386)
Other comprehensive income /						
(cost) for the year.....		-	-	8,624	-	8,624
Total comprehensive						
loss for the year		-	-	8,624	(3,149,386)	(3,140,762)
Issue of						
common shares.....	12	1,754,941	-	-	-	1,754,941
Cost of share capital Issuance						
capital increase.....		-	(25,354)	-	-	(25,354)
Net movement in treasury						
shares.....	12	(1,216,883)	985,890	-	-	(230,993)
Value of share-based						
services.....		-	-	196,530	-	196,530
Balance at						
January 1, 2017		11,563,547	263,038,639	6,757,887	(281,141,481)	218,592
Net loss for the						
year.....		-	-	-	(3,280,406)	(3,280,406)
Other comprehensive						
Income /(cost) for the year...		-	-	(10,780)	-	(10,780)
Total comprehensive						
loss for the year				(10,780)	(3,280,406)	(3,291,186)
Issue of						
common shares.....	12	1,930,435	-	-	-	1,930,435
Cost of share capital Issuance						
capital increase.....		-	(25,573)	-	-	(25,573)
Net movement in treasury						
shares.....	12	(73,967)	1,784,038	-	-	1,710,071
Value of share-based						
services.....		-	-	800,188	-	800,188
Balance at						
December 31, 2017		13,420,015	264,797,104	7,547,295	(284,421,887)	1,342,527

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
		Amounts in Swiss francs	
Net loss for the year.....		(3,280,406)	(3,149,386)
Adjustments for:			
Depreciation and amortization.....	9	15,249	25,761
(Gain) / loss on disposal of fixed assets.....		-	(9,681)
Value of share-based services.....	13	800,188	197,347
Pension costs.....	19	19,520	27,504
Finance costs, net.....	20	45,350	19,789
Net changes in working capital.....		265,147	194,279
Net cash used in operating activities.....		(2,134,952)	(2,694,387)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment.....		-	9,681
Payment for purchase of property, plant and equipment.....	9	(697)	(11,221)
Interest received.....	20	-	27
Net cash (used in)/from investing activities.....		(697)	(1,513)
Cash flows from financing activities			
Proceeds from sales of treasury shares.....	12	3,380,747	1,523,948
Costs paid on issue of shares.....		(25,573)	(25,397)
Interest paid.....	20	(171)	(6,924)
Net cash from financing activities.....		3,355,003	1,491,627
Decrease/(increase) in cash and cash equivalents.....		1,219,354	(1,204,273)
Cash and cash equivalents at beginning of the year.....	7	1,416,364	2,633,601
Exchange loss on cash and cash equivalents.....		(45,179)	(12,964)
Cash and cash equivalents at end of the year.....	7	2,590,539	1,416,364

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements for the years ended December 31, 2017 and 2016 (Amounts in Swiss francs)

1. General information

Addex Therapeutics Ltd (the Company), formerly Addex Pharmaceuticals Ltd, and its subsidiaries (together, the Group) are a drug discovery based pharmaceutical group focused on discovery, development and commercialization of small-molecule pharmaceutical products for the treatment of human health. The Company is a Swiss stockholding corporation domiciled c/o Addex Pharma SA, Chemin des Aulx 12, CH-1228 Plan-les-Ouates, Geneva, Switzerland and the parent company of Addex Pharma SA and Addex Pharmaceuticals France SAS. Its registered shares are traded at the SIX, Swiss Exchange, under the ticker symbol ADXN.

To date, the Group has financed its cash requirements primarily from share issuances and out-licensing certain of its research and development stage products. The Group is a development stage enterprise and is exposed to all the risks inherent in establishing a business. Inherent in the Group's business are various risks and uncertainties, including the substantial uncertainty that current projects will succeed. The Group's success may depend in part upon its ability to (i) establish and maintain a strong patent position and protection, (ii) enter into collaborations with partners in the pharmaceutical industry, (iii) acquire and retain key personnel, and (iv) secure additional capital to support its operations. The Board of Directors (Board) believes the Group will be able to meet all of its obligations for the further 12 months as they fall due and, hence, the consolidated financial statements have been prepared on a going concern basis. Further analysis is disclosed in note 4.1.

These consolidated financial statements have been approved by the Board of Directors on April 27, 2018. They are subject to approval by the shareholders prior to the June 20, 2018.

2. Summary of significant accounting policies

The principal 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.

2.1 Basis of preparation

The consolidated financial statements of Addex Therapeutics Ltd have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention.

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

Changes in accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the consolidated financial statements for the year ended December 31, 2016. The following new standards, amendments to standards and interpretations which are mandatory for the financial periods beginning on January 1, 2017 did not have any material impact on the consolidated financial statements:

- IAS 7, statement of cash flow (effective from January 2017). This standard has been applied for the first time for the annual reporting period commencing 1 January 2017 and has no impact on the consolidated financial statements.

The following new standards, amendments to standards and interpretations which have been published but are not yet effective and have not been early adopted by the Group:

- IFRS 15, Revenue from contracts with customers (effective from January 1, 2018). The Group will apply this standard from January 1, 2018;
- IFRS 16, Leases (effective for annual periods beginning on or after January 1, 2019). The Group will apply this standard from January 1, 2019 and ;
- IFRS 9, Financial instruments (effective from January 1, 2018). The Group will apply this standard from January 1, 2018.

At this stage, the Group does not expect any significant impact from new or revised standards listed above.

2.2 Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. The reporting date of all Group companies is December 31.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

2.4 Foreign currency transactions

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs, which is the Company'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 or valuation where items are re-measured. 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 recognized in the statement of income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of income within 'finance result, net'. All other foreign exchange gains and losses are presented in the statement of income within 'operating expenses'.

Group companies

The results and financial position of the Group's subsidiary that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of income are translated at the average exchange rate; and
- all resulting exchange differences are recognized in other comprehensive income.

2.5 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 item. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Leasehold improvements	(over life of lease)
Computer equipment	3 years
Laboratory equipment	4 years
Furniture and fixtures	5 years
Chemical library	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2.7). Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in the statement of income.

2.6 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (2 to 5 years) on a straight-line basis. Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

2.7 Impairment of non-financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Prior impairment of non-financial assets other than goodwill is reviewed for possible reversal at each reporting date.

2.8 Financial assets

The Group has one category of financial assets which is "loans and receivables".

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the loans or receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in other current assets and non-current assets in the balance sheet (see note 8 and 10).

Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable and subsequently measured at amortized cost. Amortized cost is the amount at which the loan or receivable is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

Loans and receivables are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are derecognized when settled or when the rights to receive cash flows have expired.

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of impairment is the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the statement of income.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.10 Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental cost (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effect, is included in equity attributable to the Company's equity holders.

2.11 Equity instruments

Equity instruments issued by the Group are recorded at the fair value of the proceeds received, net of direct issuance costs.

2.12 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.13 Grants

Grants are recognized at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants relating to costs are deferred and recognized as other income in the statement of income over the period necessary to match them with the costs that they are intended to compensate.

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has defined benefit plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in other comprehensive income and past-service costs are recognized immediately in the statement of income.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Share-based compensation

The Group operates an equity sharing certificates' equity incentive plan, a share option plan and a share purchase plan: The fair value of the services received in exchange for the grant or transfer of equity incentive units is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity incentive unit granted or transferred. The fair value of instruments granted includes any market performance conditions and excludes the impact of any service and non-market performance vesting conditions. Service and non-market performance conditions are included in assumptions about the number of equity incentive units that are expected to vest.

At each balance sheet date, the Group revises its estimates for the number of equity incentive units that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the statement of income, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the equity incentive units are exercised.

2.16 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.17 Income recognition

Income, which currently relates primarily to collaborative arrangements, comprises the fair value for the sale of products and services, net of value-added tax, rebates and discounts. Income from the sale of products is recognized when the product has been delivered and accepted by the customer and collectability of the receivable is reasonably assured. Income from the rendering of services is recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided.

Income from collaborative arrangements may include the receipt of non-refundable license fees, milestone payments, and research and development payments. When the Group has continuing performance obligations under the terms of the arrangements, non-refundable fees and payments are recognized as income by reference to the completion of the performance obligation and the economic substance of the agreement.

2.18 Finance income and expense

Interest received and interest paid are classified in the statement of cash flows as interest received under investing activities and finance expense under financing activities, respectively.

2.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

2.20 Research and development

Research and development costs are expensed as incurred. Costs incurred on development projects are recognized as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

In the opinion of management, due to uncertainties inherent in the development of the Group's products, the criteria for development costs to be recognized as an asset, as prescribed by IAS 38, "Intangible Assets", are not met.

Property, plant and equipment used for research and development purposes are capitalized and depreciated in accordance with the Group's property, plant and equipment policy (see note 2.5).

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and capital risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's finance department (Group Finance) under the policies approved by the Board. Group Finance identifies, evaluates and in some instances economically hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, use of derivative financial instruments and non-derivative financial instruments, credit risk, and investing excess liquidity.

Market risk

The Group operates internationally and is exposed to foreign exchange risk arising from various exposures, primarily with respect to the Euro, US dollar and UK pound. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. To manage foreign exchange risk Group Finance maintains foreign currency cash balances to cover anticipated future requirements. The Group's risk management policy is to economically hedge 50% to 100% of anticipated transactions in each major currency for the subsequent 12 months. The Group has a subsidiary in France, whose net assets are exposed to foreign currency translation risk. In 2017, a 10% increase or decrease in the EUR/CHF exchange rate would have resulted in a CHF11,144 (2016: CHF4'761) increase or decrease in net income and shareholders' equity as at December 31, 2017, a 10% increase or decrease in the GBP/CHF exchange rate would have resulted in a CHF3'791 (2016: CHF5'747) increase or decrease in net income and shareholders' equity as at December 31, 2017 and a 10% increase or decrease in the USD/CHF exchange rate would have resulted in a CHF86,326 (2016: CHF32,894) increase or decrease in net income and shareholders' equity as at December 31, 2017. Movements in other currencies would not have had a material impact. The Group is not exposed to equity price risk or commodity price risk as it does not invest in these classes of investment. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Therefore the Group has no significant interest rate risk exposure.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to collaboration partners. The Group has a limited number of collaboration partners and consequently has a significant concentration of credit risk. The Group has policies in place to ensure that credit exposure is kept to a minimum and significant concentrations of credit risk are only granted for short periods of time to high credit quality partners. The Group's policy is to invest funds in low risk investments including interest bearing deposits. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted (see note 7).

Liquidity risk

The Group's principal source of liquidity is its cash reserves which are obtained through the sale of new shares and to a lesser extent the sale of its research and development stage products. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. 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 licensing of its development stage products and the sale of new shares. Consequently, the Group is exposed to significant liquidity risk (see note 4.1).

3.2 Capital risk management

The Company and its subsidiaries are subject to capital maintenance requirements under Swiss and French law, respectively. To ensure that statutory capital requirements are met, the Group monitors capital periodically, at the entity level, on an interim basis as well as annually. From time to time the Group may take appropriate measures or propose capital increases to ensure the necessary capital remains intact.

3.3 Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of other financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments 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.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or may have had a significant impact on the reported results are disclosed below:

Uncertainties and ability to continue operations

As discussed in note 1 under "general information", the consolidated financial statements have been prepared on a going concern basis after considering the group cash position in the light of current financial plans and financial commitments.

Income taxes

As disclosed in note 18 the Group has significant Swiss tax losses. These tax losses represent potential value to the Group to the extent that the Group is able to create taxable profits within 7 years of the end of the year in which the losses arose. The Group has not recorded any deferred tax assets in relation to these tax losses. The key factors which have influenced management in arriving at this evaluation are the fact that the Group has not yet a history of making profits and product development remains at an early stage. Should management's assessment of the likelihood of future taxable profits change, a deferred tax asset will be recorded.

Commitments and contingencies

In assessing the need for provisions for legal cases, estimates and judgments are made by the Group with support of external legal advisors and other technical experts in order to determine the probability, timing and amounts involved.

Share-based compensation

The Group recognizes an expense for share-based compensation based on the valuation of equity incentive units using binomial and Black-Scholes valuation models. A number of assumptions are made in these models. Should the assumptions and estimates underlying the fair value of these instruments vary significantly from management's estimates, then the share-based compensation expense would be materially different from the amounts recognized. Had these assumptions been modified within their feasible ranges and the Group calculated the share-based compensation based on the higher and lower values of these ranges, share-based compensation expense in 2017 would have been CHF711,856 or CHF911,946, respectively (2016: CHF143,486 or CHF237,882, respectively). This is compared to the amount recognized as an expense in 2017 of CHF800,188 (2016: CHF197,347). Additional information is disclosed in note 13.

Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 19.

4.2 Critical judgments in applying the accounting policies

Development supplies

At December 31, 2017, the Group owns development supplies that have been expensed in the statement of income. These amounts have not been recognized on the balance sheet as an asset since they are to be used in pre-clinical and clinical trials of specific products that have not demonstrated technical feasibility.

5. Segment information

5.1 Reportable segments

The Group operates in one segment, which is the business of developing drugs to improve human health.

5.2 Entity wide information

Information about products, services and major customers

External income of the Group for the years ended December 31, 2017 and 2016 is derived from the business of developing drugs for human health. Income was earned from grants, collaborative arrangements and the sale of license rights to pharmaceutical companies.

Information about geographical areas

External income is recorded in the Swiss operating company as research and development grants and other income.

Analysis of income by nature is detailed as follows:

	<u>2017</u>	<u>2016</u>
Research & development grants.....	464,916	285,091
Research services and other collaborative arrangements.....	-	80,676
Sales of fixed assets and stocks of consumables.....	-	11,781
Other service income.....	34,978	34,196
Total income.....	<u>499,894</u>	<u>411,744</u>

Analysis of income by major customer is detailed as follows:

	<u>2017</u>	<u>2016</u>
The Michael J. Fox Foundation (USA).....	464,916	285,091
Pierre Fabre Pharmaceuticals (France).....	-	80,676
Multiple customers.....	34,978	45,977
Total income.....	<u>499,894</u>	<u>411,744</u>

For more detail, refer to note 14, "License and collaboration agreements" and note 15 "Income".

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The geographical analysis of assets is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Switzerland.....	3,130,264	1,675,171
<i>Current</i>	3,120,847	1,651,152
<i>Non-current</i>	9,417	24,019
Europe.....	6,741	7,756
<i>Current</i>	6,320	7,370
<i>Non-current</i>	421	386
Total assets	<u>3,137,005</u>	<u>1,682,927</u>

The geographical analysis of operating costs is as follows:

	<u>2017</u>	<u>2016</u>
Switzerland.....	3,719,191	3,530,650
Europe.....	15,759	10,691
Total operating costs (note 16)	<u>3,734,950</u>	<u>3,541,341</u>

There was capital expenditure of CHF697 in 2017 and CHF11,221 in 2016.

6. Consolidated entities

The consolidated financial statements include the accounts of Addex Therapeutics Ltd and its 100% owned subsidiaries, Addex Pharma SA and Addex Pharmaceuticals France SAS.

7. Cash and cash equivalents (excluding bank overdrafts)

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash at bank and on hand.....	2,590,539	1,416,364
Total cash and cash equivalents	<u>2,590,539</u>	<u>1,416,364</u>

In 2017, the effective interest rate on cash and cash equivalents was 0.0% (2016: 0.0%).

Credit quality of cash and cash equivalents

The table below shows the cash and cash equivalents by credit rating of the major counterparties:

External credit rating of counterparty	<u>December 31, 2017</u>	<u>December 31, 2016</u>
P-1 / A-1.....	2,590,415	1,416,195
Cash on hand.....	124	169
Total cash and cash equivalents	<u>2,590,539</u>	<u>1,416,364</u>

External credit ratings of counterparties were obtained from Moody's (P-1) or Standard & Poor's (A-1), respectively.

8. Other current assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Receivables.....	303,882	220,723
Prepayments.....	158,923	21,435
Total other current assets	<u>462,805</u>	<u>242,158</u>

9. Property, plant and equipment

	Equipment	Furniture & fixtures	Chemical Library	Total
Year ended December 31, 2016				
Opening net book amount.....	49	437	31,357	31,843
Disposals.....	11,221	-	-	11,221
Depreciation charge.....	(1,927)	(437)	(23,397)	(25,761)
Closing net book amount.....	9,343	-	7,960	17,303
At December 31, 2016				
Cost.....	1,584,654	7,564	1,207,165	2,799,383
Accumulated depreciation.....	(1,575,311)	(7,564)	(1,199,205)	(2,782,080)
Net book value.....	9,343	-	7,960	17,303
Year ended December 31, 2017				
Opening net book amount.....	9,343	-	7,960	17,303
Additions.....	697	-	-	697
Depreciation charge.....	(7,576)	-	(7,673)	(15,249)
Closing net book amount.....	2,464	-	287	2,751
At December 31, 2017				
Cost.....	1,585,351	7,564	1,207,165	2,800,080
Accumulated depreciation.....	(1,582,887)	(7,564)	(1,206,878)	(2,797,329)
Net book value.....	2,464	-	287	2,751

The Group recorded a depreciation charge in 2017 of CHF11,541 (2016: CHF23,381) as part of research and development expenses and CHF3,708 (2016: CHF2,380) as part of general and administration expenses.

10. Non-current financial assets

	December 31, 2017	December 31, 2016
Security rental deposit.....	7,087	7,102
Total non-current financial assets.....	7,087	7,102

11. Payables and accruals

	December 31, 2017	December 31, 2016
Trade payables.....	383,211	669,678
Social security and other taxes.....	10,979	7,240
Accrued expenses.....	643,579	572,982
Total payables and accruals.....	1,037,769	1,249,900

All payables mature within 3 months.

12. Share capital

	Number of shares		
	Common shares	Treasury shares	Total
Balance at January 1, 2016.....	11,699,612	(674,123)	11,025,489
Issue of shares – capital increase.....	1,754,941	(1,754,941)	-
Sale of treasury shares.....	-	538,058	538,058
Balance at December 31, 2016.....	13,454,553	(1,891,006)	11,563,547
Issue of shares – capital increase.....	1,930,435	(1,930,435)	-
Sale of treasury shares.....	-	1,856,468	1,856,468
Balance at December 31, 2017.....	15,384,988	(1,964,973)	13,420,015

At December 31, 2017, the total outstanding share capital is CHF15,384,988 (December 31, 2016: CHF13,454,553), consisting of 15,384,988 shares (December 31, 2016: 13,454,553). All shares have a nominal value of CHF1.

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On May 29, 2017, the Group increased its share capital by CHF1,930,435 (1,930,435 registered shares with nominal value of CHF1 per share) out of authorized share capital. The 1,930,435 new shares were subscribed by the Company's 100% owned subsidiary, Addex Pharma SA at CHF1 and recorded as treasury shares.

For the fiscal year ended December, 31 2017, the group sold 1,856,468 treasury shares (2016 : 538,058) for gross proceeds of CHF3,380,747 (2016: CHF1,523,948) and 132,096 treasury shares (2016: 43,264) to purchase services from consultants including 66,727 shares for Roger Mills, 47,706 shares for Tim Dyer.

On May 27, 2016, the Group increased its share capital by CHF1,754,941 (1,754,941 registered shares with nominal value of CHF1 per share) out of authorized share capital. The 1,754,941 new shares were subscribed by the Company's 100% owned subsidiary, Addex Pharma SA at CHF1 and recorded as treasury shares.

13. Share-based compensation

The total share-based compensation expense recognized in the statement of income for equity incentive units granted to directors, executives, employees, consultants and investors has been recorded under the following headings:

	<u>2017</u>	<u>2016</u>
Research and development.....	511,789	66,055
General and administration.....	288,399	131,292
Total share-based compensation.....	<u>800,188</u>	<u>197,347</u>

Analysis of share-based compensation by equity incentive plan is detailed as follows:

	<u>2017</u>	<u>2016</u>
Equity sharing certificate plan.....	28,588	54,652
Share purchase plan.....	34,821	13,563
Share option plans.....	736,779	129,132
Total share-based compensation.....	<u>800,188</u>	<u>197,347</u>

Equity Sharing Certificate Equity Incentive Plan

On June 1, 2010, the Company established an equity incentive plan based on equity sharing certificates (ESCs) to provide incentives to directors, executives, employees and consultants of the Group. Each ESC provides the holder (i) a right to subscribe for 1,000 shares in the Company, and (ii) a right to liquidation proceeds equivalent to that of shareholders. All rights of the ESCs expire after a 5 year period from date of grant with the ownership of the ESCs reverting to the Group. ESCs granted are subject to certain vesting conditions which are defined in each grant agreement. The holder of vested ESCs has the right to subscribe to shares at the subscription price if the underlying share price has reached the floor price. The floor and subscription price are defined by the Board of Directors. In the event of a change in control, all ESCs automatically vest. The Group has no legal or constructive obligation to repurchase or settle ESCs in cash.

Movements in the number of subscription rights attached to the ESCs outstanding are as follows:

	<u>2017</u>	<u>2016</u>
At January 1.....	354,433	586,587
Granted.....	108,000	-
Forfeited.....	-	-
Expired.....	(78,500)	(221,758)
Exercised.....	(108,000)	(10,396)
At December 31.....	<u>275,933</u>	<u>354,433</u>

At December 31, 2017, of the outstanding 275,933 subscription rights (2016: 354,433) attached to the ESCs, 128,533 were exercisable (2016: 309,837).

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The outstanding subscription rights as at December 31, 2017 and 2016 have the following expiry dates, subscription prices and floor prices:

At December 31, 2017		Subscription prices / floor prices (CHF)			
Expiry date	1.00 / 2.30	2.00 / 2.30	5.00 / 10.00	7.00 / 14.00	Total
2018.....	-	-	8,000	2,333	10,333
2019.....	151,600	-	-	-	151,600
2020.....	6,000	-	-	-	6,000
2027.....	-	108,000	-	-	108,000
Total subscription rights.....	157,600	108,000	8,000	2,333	275,933

At December 31, 2016		Subscription prices / floor prices (CHF)			
Expiry date	1.00 / 2.30	5.00 / 10.00	6.50 / 13.00	7.00 / 14.00	Total
2017.....	108,000	-	78,500	-	186,500
2018.....	-	8,000	-	2,333	10,333
2019.....	151,600	-	-	-	151,600
2020.....	6,000	-	-	-	6,000
Total subscription rights.....	265,600	8,000	78,500	2,333	354,433

Share option plans

The Company established a share option plan to provide incentives to directors, executives, employees and consultants of the Group.

On December 23, 2017 the Group granted 1,609,022 options at an exercise price of CHF2. Options vest over 4 year and expired in 2027. On December 31, 2016 the Group granted 175,000 options at an exercise price of CHF 2. Options vest over 4 years and expired in 2021.

Movements in the number of options outstanding are as follows:	2017	2016
At January 1.....	779,813	630,107
Granted.....	1,901,283	175,000
Exercised.....	-	(4,981)
Forfeited.....	(20,000)	(20,313)
At December 31.....	2,661,096	779,813

At December 31, 2017, of the outstanding 2,661,096 share options (2016: 779,813), 773,489 were exercisable (2016: 344,543).

The outstanding share options as at December 31, 2017 have the following expiry dates:

At December 31, 2017		Exercises prices (CHF)		
Expiry date	1.00	2.00	2.08	Total
2019.....	-	475,126	-	475,126
2020.....	-	49,687	-	49,687
2021.....	-	105,000	50,000	155,000
2027.....	292,261	1,689,022	-	1,981,283
Total.....	292,261	2,318,835	50,000	2,661,096

At December 31, 2016

Expiry date	Exercises prices (CHF)			
	2.00	2.08	5.00	Total
2019.....	475,126	-	80,000	555,126
2020.....	49,687	-	-	49,687
2021.....	125,000	50,000	-	175,000
Total.....	649,813	50,000	80,000	779,813

The weighted average fair value of share options granted during 2017 determined using a Black-Scholes model was CHF1.08 (2016: CHF0.78). The significant inputs to the model were:

	<u>2017</u>	<u>2016</u>
Weighted average share price per share at the grant date.....	CHF 2.27	CHF 2.08
Weighted average strike price per share.....	CHF 1.85	CHF 2.08
Weighted average volatility / volatility.....	43%	43%
Dividend yield.....	-	-
Weighted average annual risk free rate / annual risk-free rate.....	0.13%	0.0%

Share purchase plan

The Group established a share purchase plan under which services are settled for shares. Under the plan directors, executives, employees and consultants may receive fully paid ordinary shares from the Group's treasury share reserve for services rendered. During 2017, 132,096 shares (2016: 43,264 shares) were transferred to settle CHF 261,332 (2016: CHF 109,563) of consulting fees (2016: CHF 109,563).

14. License and collaboration agreements

Janssen Pharmaceuticals Inc. (formerly Ortho-McNeil-Janssen Pharmaceuticals Inc).

On December 31, 2004, the Group entered into a research collaboration and license agreement with Janssen Pharmaceuticals Inc. (JPI). In accordance with this agreement, JPI has acquired an exclusive worldwide license to develop mGluR2PAM compounds for the treatment of human health. The Group is eligible for future payments contingent on the products from the research achieving certain development milestones. The Group is also eligible for low double digit royalties on net sales. No amounts have been recognised under this agreement in 2017 and 2016.

15. Income

For the fiscal year ended December, 31 2017, the Group received CHF 903,938 of grants from The Michael J. Fox Foundation for Parkinson's Research (MJFF). Of this amount, CHF 464,916 has been recognized as income and CHF439,022 has been recorded in deferred income. The grants were received in instalments and recognized as income over the period necessary to match it against the specific research costs it was intended to cover.

16. Operating costs

	<u>2017</u>	<u>2016</u>
Staff costs (note 17).....	751,277	587,198
Depreciation and amortization.....	15,249	25,761
External research and development costs.....	841,308	819,330
Laboratory consumables.....	29,764	17,329
Patent costs.....	180,125	480,843
Professional fees.....	1,347,913	855,509
Operating leases.....	96,889	79,639
Other operating costs.....	472,425	675,732
Total operating costs.....	3,734,950	3,541,341

Operating lease contracts are renewable on normal business terms and provide for annual rent increases based on the Swiss consumer price index.

17. Staff costs

	<u>2017</u>	<u>2016</u>
Wages and salaries.....	541,523	437,891
Social charges and insurances.....	59,749	49,616
Value of share-based services (note 13).....	83,459	39,297
Pension costs – defined benefit plans (note 19).....	63,157	63,020
Other employee costs.....	3,389	(2,626)
Total staff cost (note 16).....	<u>751,277</u>	<u>587,198</u>

18. Taxes

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Loss before tax.....	3,280,406	3,149,386
Tax calculated at a tax rate of 7.8% (2015: 7.8%).....	255,872	245,652
Effect of different tax rates in other countries.....	(1,229)	(616)
Expenses charged against equity.....	(1,995)	(1,348)
Expenses not deductible for tax purposes.....	(62,415)	(17,538)
Total tax losses not recognized as deferred tax asset	(190,233)	(226,150)
Income tax expense.....	<u>-</u>	<u>-</u>

The Group is subject to Swiss income taxes and has a tax loss carry forward of CHF 157,631,912 as of December 31, 2017 (2016: CHF187,037,322), of which CHF77,895,747 (2016: CHF106,995,092) expire within the next five years and CHF79,736,135 (2016: 80,042,030) will expire between five and seven years. Tax losses of CHF 32,639,886 expired in 2017 (2016: CHF 41,506,471).

19. Retirement benefit obligations

Apart from the social security plans fixed by the law, the Group sponsors independent pension plans. All employees are covered by these plans, which are defined benefit plans. Retirement benefits are based on contributions, computed as a percentage of salary, adjusted for the age of the employee and shared approximately 46%/54% by employee and employer. In addition to retirement benefits, the plans provide death and long-term disability benefits to its employees. Liabilities and assets are revised every year by an independent actuary. Assets are held in the insurance company. In accordance with IAS 19 (revised), plan assets have been estimated at fair market values and liabilities have been calculated according to the "projected unit credit" method.

The Group recorded a pension benefit charge in 2017 of CHF 63,117 (2016: CHF63,020) as part of staff costs.

Employment benefit obligations

The amounts recognized in the balance sheet are determined as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit obligation.....	(3,607,276)	(2,152,878)
Fair value of plan assets.....	3,363,412	1,938,443
Funded status.....	<u>(243,864)</u>	<u>(214,435)</u>

The amounts recognized in the statements of income are as follows:

	<u>2017</u>	<u>2016</u>
Current service cost.....	(61,375)	(61,356)
Interest cost.....	(22,865)	(17,740)
Interest income.....	21,083	16,076
Company pension income / (cost) (note 17).....	<u>(63,157)</u>	<u>(63,020)</u>

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The movement in the defined benefit obligations at the beginning of the year is as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit obligation at beginning of year.....	(2,152,878)	(2,234,012)
Service cost.....	(61,375)	(61,356)
Interest cost.....	(22,825)	(17,740)
Employee contribution.....	(38,920)	(32,501)
Actuarial gain / (loss) arising from changes in financial assumptions.....	(65,563)	2,564
Actuarial gain / (loss) arising from changes in demographic assumptions.....	-	60,261
Actuarial gain / (loss) on experience adjustment.....	45,513	4,173
Benefits paid / (deposited).....	(1,311,188)	125,733
Defined benefit obligations at end of year.....	<u>(3,607,276)</u>	<u>(2,152,878)</u>

The movements in the fair value of plan assets during the year are as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets at beginning of year.....	1,938,443	2,038,350
Interest income.....	21,083	16,076
Employees' contributions.....	38,920	32,501
Company contribution.....	43,637	35,516
Plan assets (losses) / gains.....	10,141	(58,267)
Benefits (paid) / deposited.....	1,311,188	(125,733)
Fair value of plan assets at end of year.....	<u>3,363,412</u>	<u>1,938,443</u>

The principal actuarial assumptions used were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate.....	0.80%	0.80%
Mortality tables.....	BVG2015 GT	BVG2015 GT

The discount rate and the life expectancy were identified as significant actuarial assumptions for the Swiss pension plan. The following impacts on the defined benefit obligation are to be expected:

- 0.25% increase or decrease in the discount rate would lead to an increase of 5.30% (2016 : 4.30%) or a decrease of 4.90% (2016: 4.20%) in the defined benefit obligation of the Swiss pension plan ;
- +/- 1 year in the life expectancy would lead to an increase of 1.78% (2016 : 1.82%) or a decrease of 1.82% (2016 : 1.86%) in the defined benefit obligation of the Swiss pension plan.

The estimated Group contributions to pension plans for the financial year 2018 amounts to CHF43,271. The following table shows the funding of the defined benefit pensions and actuarial adjustments on plan liabilities:

	<u>2017</u>	<u>2016</u>
Present value of defined benefit obligation.....	(3,607,276)	(2,152,878)
Fair value of plan assets.....	3,363,412	1,938,443
Deficit in the plan.....	<u>(243,864)</u>	<u>(214,435)</u>
Experience adjustment.....	(20,050)	66,998
Actuarial (losses) / gains on plan assets.....	10,141	(58,267)

The following table shows the estimated benefit payments for the next ten years where the number of employees remains constant :

2018.....	89'988
2019.....	90'371
2020.....	90'763
2021.....	91'711
2022.....	91'625
2023-2027.....	466,507

20. Finance costs, net

	<u>2017</u>	<u>2016</u>
Finance costs.....	(171)	(6,924)
Finance income.....	-	27
Foreign exchange (losses) / gains.....	<u>(45,179)</u>	<u>(12,892)</u>
Finance costs, net.....	<u>(45,350)</u>	<u>(19,789)</u>

21. Loss per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares in issue during the year excluding common shares purchased by the Group and held as treasury shares.

	<u>2017</u>	<u>2016</u>
Loss attributable to equity holders of the Company...	(3,280,406)	(3,149,386)
Weighted average number of shares in issue.....	<u>12,941,439</u>	<u>11,412,301</u>
Basic and diluted loss per share.....	<u>(0.25)</u>	<u>(0.28)</u>

The Company has one category of dilutive potential shares as at December 31, 2017 and December 31, 2016: equity sharing certificates (ESCs) and share options. As of December 31, 2017 and December 31, 2016, equity sharing certificates and share options have been ignored in the calculation of the loss per share, as they would be antidilutive.

22. Commitments and contingencies

Operating lease commitments

	<u>2017</u>	<u>2016</u>
Within 1 year.....	<u>11,135</u>	<u>9,861</u>
Total operating lease commitments.....	<u>11,135</u>	<u>9,861</u>

Operating lease commitments consist mainly of rental contracts for laboratories, offices and related spaces used by Addex Pharma SA. There are no commitments over 5 years.

Capital commitments

As at December 31, 2017 and 2016, the Group has no contracted capital expenditure.

Contingencies

As part of the ordinary course of business, the Group is subject to contingent liabilities in respect of certain litigation. In the opinion of management, none of the outstanding litigation will have a significant adverse effect on the Group's financial position (see note 4.1).

23. Related party transactions

Related parties include members of the Board of Directors and the Executive Management of the Group. The following transactions were carried out with related parties:

	<u>2017</u>	<u>2016</u>
<i>Key management compensation</i>		
Salaries and other short-term employee benefits.....	133,180	83,627
Consulting fees.....	737,685	636,234
Share-based compensation.....	<u>595,835</u>	<u>157,049</u>
	<u>1,466,700</u>	<u>876,910</u>

Consulting fees relate to amounts paid to Roger Mills, Sonia Poli and Tim Dyer who have delivered their services to the Group under consulting contracts. Tim Dyer services are delivered through TMD Advisory Ltd, a company owned and managed by Mr. Dyer, which has been mandated to provide CEO / CFO services to the Addex Group. The Group invoiced CHF34,978 of consulting services to TMD Advisory Ltd during the year which have been recorded in other income.

24. Events after the balance sheet date

On March 28, 2018, the Company increased its share capital by issuing 13,037,577 new shares with a nominal value of CHF1 each at an issue price of CHF3.13 per share. Of these new shares, 12,917,129 were placed with investors raising CHF40.4 million of gross proceeds and the remaining 120,448 new shares were recorded as treasury shares, bringing the total outstanding issued share capital to 28,564,031. Each new share received a 7 year warrant to purchase 0.45 of a share at a price of CHF3.43.

On January 2, 2018, the group entered into a licensing and collaboration agreement with Indivior PLC for the global development and commercialization of ADX71441 with an initial focus on the treatment of addiction. Under the terms of the agreement, Addex will receive USD5.0 million upfront, USD4.0 million of committed research funding over two years, \$330 million of potential development, regulatory and commercialization milestones and tiered royalties up to double-digit. Addex retains the right to select compounds from the research collaboration for certain indications outside addiction, including Charcot-Marie-Tooth type 1a neuropathy (CMT1A). The upfront payment of USD5.0 million has been received in January 2018.

25. Risk assessment disclosure required by Swiss law

The Chief Executive Officer coordinates and aligns the risk management processes, and reports to the Board on a regular basis on risk assessment and risk management. The organization and the corporate processes have been designed and implemented to identify and mitigate risks at an early stage. Organizationally, the responsibility for risk assessment and management is allocated to the Chief Executive Officer and members of the Executive Management and specialized corporate functions such as Group Finance. Group Finance provides support and controls the effectiveness of the risk management processes. Financial risk management is described in more detail in note 3 to the Group's consolidated financial statements.

Report of the statutory auditor to the General Meeting of Addex Therapeutics Ltd

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Addex Therapeutics Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statement of profit and loss, 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 consolidated financial statements (pages 19 to 40) give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and 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 provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 35'000

We concluded full scope audit work at two reporting units in Switzerland. Our audit scope addressed 100% of the Group’s total expenses.

As key audit matters the following areas of focus have been identified:

Risk of fraud in related party transactions

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The audit procedures addressed 100% of the expenses incurred by the company and all of the work was performed by ourselves without recourse to either other PwC offices or other professional service firms.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<i>Overall Group materiality</i>	CHF 37'000
<i>How we determined it</i>	1% of total expenses (rounded)
<i>Rationale for the materiality benchmark applied</i>	We chose total expenses as the benchmark because, in our view, it is the benchmark against which the financial performance of the Group is most commonly measured in its current research and development phase, and is a generally accepted benchmark.

We agreed with the Board of Directors that we would report to them misstatements above CHF 3'700 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Risk of fraud in related party transactions

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
Although a risk of fraud exists in any business environment, the company's lean management structure heightens the risk of fraud. In addition related party transactions, which comprise consulting fees and other arrangements with key management, are significant and material to the financial statements. The combination of these factors resulted in our conclusion that fraud risk in related party transactions should be considered a key audit matter. The principal source of risk is asset misappropriation, particularly involving related parties which may overcharge for services rendered to the Group or undercharge for services received from the Group.	We obtained evidence regarding related party relationships and transactions disclosed in note 23. In particular, we inspected significant contracts with related parties. We understood the purpose, specific terms and conditions or amounts of the transactions with related parties. We reviewed approval by the Board of Directors and we evaluated if the transactions are properly accounted for and disclosed. Based on the work performed, we concluded that transactions are properly authorized, accounted for and disclosed.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Addex Therapeutics Ltd and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report 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 in the annual report 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 the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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 Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Yves Cerutti

Adrien Benoit

Audit expert
Auditor in charge



Geneva, April 27, 2018

Statutory Financial Statements of Addex Therapeutics Ltd as at December 31, 2017

Balance Sheets

as at December 31, 2017 and December 31, 2016

	<u>Notes</u>	<u>31.12 2017</u>	<u>31.12. 2016</u>
Amounts in Swiss francs			
ASSETS			
Current assets			
Cash and cash equivalents (excluding bank overdrafts)		247,639	424,280
Other receivables			
Third parties.....		109,203	8
Related parties.....		108,000	
Accrued income and prepayments.....		8,497	-
Total current assets.....		<u>473,339</u>	<u>424,288</u>
Non-current assets			
Investments in Group companies.....	6	2	2
Other non-current assets			
Loans to Group companies.....	7	3,376,827	2,449,845
Total non-current assets.....		<u>3,376,829</u>	<u>2,449,847</u>
Total assets.....		<u>3,850,168</u>	<u>2,874,135</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables.....		66,576	110,927
Other payables:			
Third parties.....		-	6,024
Accruals.....		178,410	248,128
Total current liabilities.....		<u>244,986</u>	<u>365,079</u>
Equity			
Share capital.....		15,384,988	13,454,553
Share premium.....		261,172	327,982
Treasury shares reserve.....	9	2,019,877	1,953,067
Non-voting equity securities (*)......	11	p.m	p.m.
Accumulated deficit.....		(14,060,855)	(13,226,546)
Total equity.....	8	<u>3,605,182</u>	<u>2,509,056</u>
Total liabilities and equity.....		<u>3,850,168</u>	<u>2,874,135</u>

(*) p.m. = pro memoria. Non-voting equity securities have no nominal value.

The accompanying notes form an integral part of these financial statements.

Statements of Income for the years ended December 31, 2017 and 2016

2017 2016
Amounts in Swiss francs

Operating costs

Professional fees.....	(242,965)	(216,835)
Other operating costs.....	(151,582)	(218,531)
Provision for loans to Group companies.....	(413,363)	(1,289,864)
Reversal of prior year provision.....	-	-
Taxes.....	50,477	(132,617)
Total operating costs.....	(757,433)	(1,857,847)
Interest income.....	-	27
Interest expenses.....	(88)	(6,924)
Extraordinary non-recurring expenses.....	(76,788)	-
Net loss before taxes.....	(834,309)	(1,864,744)
Income tax expense.....	-	-
Net loss for the year.....	(834,309)	(1,864,744)

The accompanying notes form an integral part of these financial statements.

**Notes to the Financial Statements for the years
ended December 31, 2017 and 2016
(amounts in Swiss francs)**

1. General

Addex Therapeutics Ltd, formerly Addex Pharmaceuticals Ltd, was founded on February 19, 2007.

2. Guarantees, other indemnities and assets pledged in favor of third parties

As of December 31, 2017 and December 31, 2016, there were no guarantees, other indemnities or assets pledged in favor of third parties.

3. Pledges on assets to secure own liabilities

As of December 31, 2017 and December 31, 2016, there were no assets pledged to secure own liabilities.

4. Lease commitments not recorded in the balance sheet

As of December 31, 2017 and December 31, 2016, there were no lease commitments not recorded in the balance sheet.

5. Amounts due to pension funds

As of December 31, 2017 and December 31, 2016, there were no amounts due to pension funds.

6. Significant investments

Addex Therapeutics Ltd as a holding company for the Addex Therapeutics Group owns:

Company	Business	Capital	Interest in capital in %
Addex Pharma SA, Plan-les-Ouates, Switzerland	Research & development	CHF3,987,492	100%
Addex Pharmaceuticals France SAS, Archamps, France	Research & development	€37,000	100%

As at December 31, 2017 and 2016, the Company has provided for its investments in Group companies as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Investment in Addex Pharma SA.....	3,987,492	3,987,492
Provision for investment in Addex Pharma SA.....	(3,987,491)	(3,987,491)
Investment in Addex Pharmaceuticals France SAS.....	<u>1</u>	<u>1</u>
	<u><u>2</u></u>	<u><u>2</u></u>

7. Other non-current assets – Loans to Group companies

As at December 31, 2017 and 2016, the Company has provided for its loan to Addex Pharma SA as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Loan to Addex Pharma SA.....	163,488,649	162,148,305
Provision for loan to Addex Pharma SA.....	<u>(160,111,822)</u>	<u>(159,698,460)</u>
	<u><u>3,376,827</u></u>	<u><u>2,449,845</u></u>

The loan to Addex Pharma SA is subordinated to the claims of other creditors of the subsidiary up to CHF162,131,699.

8. Equity

	Share capital	General reserve, from... ...capital contribution	...retained earnings	Treasury shares reserve	Accumulated deficit	Total
January 01, 2016	11,699,612	165,252,964	(163,708,099)	736,184	(11,361,802)	2,618,859
Issue of shares, capital increase.....	1,754,941	-	-	-	-	1,754,941
Transfer to treasury shares reserve.....	-	(1,216,883)	-	1,216,883	-	-
Net loss of the year.....	-	-	-	-	(1,864,744)	(1,864,744)
December 31, 2016	13,454,553	164,036,081	(163,708,099)	1,953,067	(13,226,546)	2,509,056
Issue of shares, capital increase.....	1,930,435	-	-	-	-	1,930,435
Transfer to treasury shares reserve.....	-	(66,810)	-	66,810	-	-
Net loss of the year.....	-	-	-	-	(834,309)	(834,309)
December 31, 2017	15,384,988	163,969,271	(163,708,099)	2,019,877	(14,060,855)	3,605,182

On May 29, 2017, the Group increased its share capital by CHF1,930,435 (1,930,435 registered shares with nominal value of CHF1 per share) out of authorized share capital. The 1,930,435 new shares were subscribed by the Company's 100% owned subsidiary, Addex Pharma SA at CHF1 and recorded as treasury shares.

On May 27, 2016, the Group increased its share capital by CHF1,754,941 (1,754,941 registered shares with nominal value of CHF1 per share) out of authorized share capital. The 1,754,941 new shares were subscribed by the Company's 100% owned subsidiary, Addex Pharma SA at CHF1 and recorded as treasury shares.

At December 31, 2017, the total outstanding share capital is CHF15,384,988 (December 31, 2016: CHF13,454,553), consisting of 15,384,988 shares (December 31, 2016: 13,454,553). All shares have a nominal value of CHF1. The authorized capital and conditional capital as at December 31, 2017 and 2016 are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Authorized capital.....	7,692,494	6,727,276
Conditional capital.....	7,692,494	6,727,276

9. Treasury share reserve

This reserve relates to the purchase price of shares in Addex Therapeutics Ltd held by Group companies. The table shows movements in the number of shares and the treasury share reserve:

	Number of registered shares	% of share capital	Treasury shares reserves
Balance at January 1, 2016	674,123	5.76%	736,184
Net purchases.....	1,216,883		1,216,883
Balance at December 31, 2016	1,891,006	14.05%	1,953,067
Net purchases.....	73,967		66,810
Balance at December 31, 2017	1,964,973	12.77%	2,019,877

10. Significant shareholders

According to the information available, based on published notifications to the SIX, the following shareholders own 3% or more of the company's share capital :

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Number of shares</u>	<u>Interest in capital in %</u>	<u>Number of shares</u>	<u>Interest in capital in %</u>
Addex Pharma SA ¹	1,964,973	12.77%	1,891,006	14.05%
IFM Independent Fund Management AG ²	582,695	3.79%	582,695	4.98%

¹ Addex Pharma SA, Chemin des Aulx, CH-1228 Plan-Les-Ouates

² Addex Therapeutics Ltd shares were held by several related entities

11. Non-voting equity securities

Refer to note 13 of the consolidated financial statements.

12. Board of Directors and Executive Management shareholdings and equity incentive unites

As of December 31, 2017 and 2016, members of the Board of Directors and Executive Management held the following shares in the Company:

	<u>2017</u> <u>Number of</u> <u>Shares</u>	<u>2016</u> <u>Number of</u> <u>Shares</u>
Vincent Lawton, Chairman.....	500	500
Roger Mills, Chief Medical Officer.....	66,727	7,388
Tim Dyer, Chief Executive Officer.....	370,882	215,176

As of December 31, 2017, members of the Board of Directors and Executive Management held the following equity incentive units in the Company:

	Number of vested equity incentive units	Number of unvested equity incentive units	Total number of equity incentive units
Vincent Lawton, Chairman.....	107,698	195,390	303,088
Raymond Hill.....	34,119	115,734	149,853
Tim Dyer, Chief Executive Office.....	541,233	1,140,497	1,681,730
Roger Mills, Chief Medical Officer.....	12,500	152,122	164,622

As of December 31, 2016, members of the Board of Directors and Executive Management held the following equity incentive units in the Company:

	Number of vested equity incentive units	Number of unvested equity incentive units	Total number of equity incentive units
Vincent Lawton, Chairman.....	50,000	50,000	100,000
Raymond Hill.....	8,625	22,375	31,000
Tim Dyer, Chief Executive Office.....	358,000	150,000	508,000
Roger Mills, Chief Medical Officer.....	1,042	48,958	50,000

13. Events after the balance sheet date

On March 28, 2018, the Company increased its share capital by issuing 13,037,577 new shares with a nominal value of CHF1 each at an issue price of CHF3.13 per share. Of these new shares, 12,917,129 were placed with investors raising CHF40.4 million of gross proceeds and the remaining 120,448 new shares were recorded as treasury shares, bringing the total outstanding issued share capital to 28,564,031. Each new share received a 7 year warrant to purchase 0.45 of a share at a price of CHF3.43.

Proposal of the Board of Directors for appropriation of loss carried forward

The Board of Directors proposes to transfer the net loss of CHF693,910 into accumulated deficits.

Report of the statutory auditor to the General Meeting of Addex Therapeutics Ltd

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Addex Therapeutics Ltd, which comprise the balance sheet as at December 31, 2017, statement of income and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 45 to 50) as at December 31, 2017 comply with Swiss law and the company’s articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 28'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:
Risk of fraud in related party transactions

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<i>Overall materiality</i>	CHF 28'000
<i>How we determined it</i>	1% of total assets
<i>Rationale for the materiality benchmark applied</i>	We chose total assets as the benchmark because, in our view, it is the benchmark against which the financial performance of the entity is most commonly measured in its holding activity, and is a generally accepted benchmark.

We agreed with the Board of Directors that we would report to them misstatements above CHF 2'800 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk of fraud in related party transactions

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
Although a risk of fraud exists in any business environment, the company's lean management structure heightens the risk of fraud. In addition related party transactions, which comprise consulting fees and other arrangements with key management, are significant and material to the financial statements. The combination of these factors resulted in our conclusion that fraud risk in related party transactions should be considered as a key audit matter. The principal source of risk is asset misappropriation, particularly involving related parties which may overcharge for services rendered to the entity or undercharge for services received from the entity.	We obtained evidence regarding related party relationships and transactions disclosed in note 12. In particular, we inspected significant contracts with related parties. We understood the purpose, specific terms and conditions or amounts of the transactions with related parties. We reviewed approval by the Board of Directors and we evaluated if the transactions are properly accounted for and disclosed. Based on the work performed, we concluded that transactions are properly authorized, accounted for and disclosed.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 Swiss law and Swiss Auditing Standards 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 financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

Further, we draw attention to the fact that half of the share capital and the legal reserves is no longer covered (article 725 para. 1 CO).

We recommend that the financial statements submitted to you be approved.

Yves Cerutti

Adrien Benoit

Audit expert
Auditor in charge

Geneva, April 27, 2018

PricewaterhouseCoopers SA

Forward Looking Statements

These materials contain forward-looking statements that can be identified by terminology such as “not approvable”, “continue”, “believes”, “believe”, “will”, “remained open to exploring”, “would”, “could”, or similar expressions, or by express or implied discussions regarding Addex Therapeutics, formerly known as, Addex Pharmaceuticals, its business, the potential approval of its products by regulatory authorities, or regarding potential future revenues from such products. Such forward-looking statements reflect the current views of Addex Therapeutics regarding future events, future economic performance or prospects, and, by their very nature, involve inherent risks and uncertainties, both general and specific, whether known or unknown, and/or any other factor that may materially differ from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements. Such may in particular cause actual results with allosteric modulators of mGlu2, mGlu4, mGlu5, mGlu7, GABA-BR or other therapeutic targets to be materially different from any future results, performance or achievements expressed or implied by such statements. There can be no guarantee that allosteric modulators of mGlu2, mGlu4, mGlu5, mGlu7, GABA-BR or other therapeutics targets will be approved for sale in any market or by any regulatory authority. Nor can there be any guarantee that allosteric modulators of mGlu2, mGlu4, mGlu5, mGlu7, GABA-BR or other therapeutic targets will achieve any particular levels of revenue (if any) in the future. In particular, management’s expectations regarding allosteric modulators of mGlu2, mGlu4, mGlu5, mGlu7, GABA-BR or other therapeutic targets could be affected by, among other things, unexpected actions by our partners, unexpected regulatory actions or delays or government regulation generally; unexpected clinical trial results, including unexpected new clinical data and unexpected additional analysis of existing clinical data; competition in general; government, industry and general public pricing pressures; the company’s ability to obtain or maintain patent or other proprietary intellectual property protection. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. Addex Therapeutics is providing the information in these materials as of this date and does not undertake any obligation to update any forward-looking statements contained in these materials as a result of new information, future events or otherwise, except as may be required by applicable laws.

For more information about the Addex Therapeutics Ltd Group please contact:

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