



2017 Annual Report

***“Our ambition is to become a leader
in bone repair and regeneration.”***



Kuros Biosciences

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Highlights of the last 16 months

March 12	European patent covering osteoinductive materials obtained: Kuros announced that its Dutch subsidiary, Kuros Biosciences BV, has been granted the European patent, EP3021878, entitled “Method for producing an osteoinductive calcium phosphate and products thus obtained” by the European Patent Office.
January 8, 2018	License agreement with Checkmate expanded: Kuros amended its exclusive license agreement, which was originally signed in 2015, that grants Checkmate Pharmaceuticals Inc., Cambridge, MA, USA access to Kuros’ clinically validated product candidate CYT003 as well as its VLP platform and to technology related to oligonucleotide synthesis.
December 14,	Announcement of management succession: Kuros announced the appointment of Michael Grau as Chief Financial Officer effective February 1, 2018. Michael Grau succeeds Harry Welten, who stepped down as CFO on February 1, 2018 to focus on his board roles and part-time CFO functions in privately held companies.
November 28	Chief Medical Officer to retire: Dr. Virginia Jamieson, Chief Medical Officer, has reached retirement age and will retire from full-time employment with effect as of May 31, 2018.
November 22	Option to secure equity financing of up to CHF 30 million: Kuros entered into a Standby Equity Distribution Agreement with a fund managed by Yorkville Advisors Global, LLC. Under the terms of the agreement, Yorkville has committed to provide up to CHF 30 million in equity financing over a 36-month period in individual tranches of up to CHF 1,000,000 each. In exchange for the funds to be provided, Yorkville will receive Kuros shares at a price, which will be determined anew each time a SEDA tranche is called. The shares will be placed at a 5% discount to the market price – which is in line with Swiss market practice for private placements.
November 16	Announcement of management changes: Kuros announced the promotion of Dr. Joost de Bruijn to Chief Executive Officer, effective December 4, 2017. Dr. de Bruijn is co-founder and current managing director of Kuros Biosciences BV (formerly known as Xpand Biotechnology BV), a wholly owned subsidiary of Kuros. Dr. Ivan Cohen-Tanugi has decided to step down as CEO and member of the Board of Directors. Further, Kuros’ founding CEO and current President, Didier Cowling, will retire from the Executive Management team to serve as a senior advisor to the CEO and continue to serve as a Director on the company’s Board.
September 26	Financial results for first half-year of 2017: For the first six months of 2017, Kuros reported significantly lower net operating costs of CHF 7.5 million and a substantial reduction of net loss of CHF 7.0 million (first half-year 2016: CHF 13.3 million) mainly due to the absence of non-recurring, non-cash charges. Cash reserves by mid-year 2017 amounted to CHF 21.4 million. Summary of progress since the beginning of the year: <ul style="list-style-type: none"> • All-share strategic acquisition of Xpand accelerates Kuros’ transition to commercial stage and provides an EU hub for future distribution, pre-clinical and manufacturing operations. • Newly appointed CEO Dr. Ivan Cohen-Tanugi prepares Kuros for late-stage clinical development of Fibrin-PTH candidates and for product launches and commercialization in the United States of America and the European Economic Area. • MagnetOs™ received clearance for commercialization in the United States as well as in Europe, while Neuroseal received clearance in Europe. • Portfolio extension into new formulations and indications is well underway with MagnetOs™ Putty receiving market clearance in the United States and filing the product for CE marking in Europe. • Successful placement of new shares strengthens Kuros’ equity base to fund future commercial activities and Fibrin-PTH development programs.

August 24	Regulatory clearance for MagnetOs™ Putty commercialization in the United States and filing for CE marking in Europe: Kuros has received 510(k) clearance from the US Food and Drug Administration for MagnetOs™ Putty indicated for use as an autograft extender in posterolateral spine. This market clearance allows commercialization of MagnetOs™ Putty in the United States and complements the existing clearance for MagnetOs™ Granules, which was granted by the FDA in February 2017. In addition, Kuros has filed MagnetOs™ Putty for CE mark certification in Europe. MagnetOs™ is a novel synthetic bone graft substitute designed to regenerate bone in the implanted site in the body. Numerous studies have shown that MagnetOs™ leads to progressive bone formation and implant resorption comparable to current gold standard autograft.
July 31	Kuros announces full exercise of over-allotment option: Kuros announced that the over-allotment option granted to Zürcher Kantonalbank in connection with the capital increase has been exercised in full on July 28, 2017. Including the 200,000 shares placed in connection with the over-allotment option, Kuros has sold a total of 1,351,606 registered shares in the rights and share offering.
June 29	Strengthening of equity base with placement of new shares: Kuros sold 1,151,606 new shares (excluding an over-allotment option of up to 200,000 shares) to existing and new investors at a price of CHF 12.50 per share. In total, Kuros raised gross proceeds of CHF 14.4 million (or CHF 16.9 million if the over-allotment option will be exercised in full). The new funds will fund Kuros' commercial activities, in particular the market launch of novel products MagnetOs™ and Neuroseal as well as certain important activities for the ongoing Fibrin-PTH development programs.
June 21	Kuros receives CE certification for Neuroseal, a novel dural sealant: Kuros has received CE certification for its novel dural sealant, Neuroseal. The CE certification allows for the commercialization of the product anywhere in the European Economic Area. As part of the supporting evidence, Neuroseal has been tested clinically and demonstrated effective sealing. Furthermore, Neuroseal is specifically designed for ease of preparation, use and handling thereby reducing the risk of adverse effects which may result in longer hospitalizations and an increase in healthcare costs. With this approval and together with MagnetOs™, Kuros has now two products ready to be commercialized in Europe.
June 19	Kuros launches rights and share offering: Kuros announced that the Board of Directors determined the final structure and terms of its share placement. The Board decided to offer up to 1,612,330 shares within a price range of CHF 12.50 to CHF 15.50 per share. The gross proceeds, net of certain costs and expenses associated with the placement, will be used to prepare the commercialization of Kuros' lead products MagnetOs™ and Neuroseal.
June 6	Submission of MagnetOs™ Putty for US FDA clearance: Kuros announced it has filed the submission package for MagnetOs™ Putty seeking 510(k) clearance from the US Food and Drug Administration for use as an autograft extender in posterolateral spine. MagnetOs™ is a novel synthetic bone graft substitute designed to support bone healing in the implanted site in the body. MagnetOs™ Putty is a moldable putty formulation of MagnetOs™ Granules, which is already cleared for commercialization in the United States of America and the European Union.
May 23	General Meeting of Kuros approves all resolutions: Kuros announced that yesterday's General Meeting approved all resolutions proposed by the Board of Directors with a vast majority. In particular, shareholders resolved on an increase of the conditional and authorized capital. Prof. Dr. Clemens van Blitterswijk, Frank-Jan van der Velden, Giacomo Di Nepi and Dr. Ivan Cohen-Tanugi were elected as new members of the Board of Directors. A total of 36.1 % of shares were represented at the General Meeting.

May 16	Kuros prepares for commercialization of its lead products and considers share placement: Kuros announced that it is preparing the commercialization of its first two products: MagnetOs™, an innovative synthetic bone graft substitute recently approved in the US and Europe, and Neuroseal, a novel Dural sealant expected to be approved in Europe in 2017. In order to maximize the commercial opportunity of these products, Kuros is evaluating options to raise additional funds including a potential placement of new shares.
April 28	Kuros proposes election of four new Board members: Kuros announced that the Board of Directors proposes to the upcoming General Meeting the election of Professor Clemens van Blitterswijk, Frank-Jan van der Velden, Giacomo Di Nepi and Dr. Ivan Cohen-Tanugi as new members of the Board. The General Meeting will take place in Schlieren on May 22, 2017.
April 26	Kuros reports financial results for 2016: <ul style="list-style-type: none"> • Merger successfully completed: Cytos Biotechnology and Kuros Biosurgery Holding combined their businesses to create Kuros Biosciences, a future leader in tissue repair and regeneration • Transition to commercial-stage accelerated: Acquisition of Xpand in January 2017 results in orthobiologics company with commercial-ready products in the European Union (EU) and in the United States of America (US) • Shift towards commercialization realized: Kuros names commercialization veteran Dr. Ivan Cohen-Tanugi new CEO; MagnetOs™ Granules is approved in the EU and the US and Neuroseal (KUR-023) is awaiting CE mark certification. • Financials influenced by IFRS3 accounting: For accounting purposes, the financial figures for 2016 of the combined company are not comparable to the published figures of former Cytos for 2015. Kuros announced today the full-year financial results after the merger of Cytos Biotechnology and Kuros Biosurgery. Two one-time non-cash-relevant expense items totaling CHF 12.4 million and the significant expansion of development activities with an associated higher staff number resulted in a net loss of CHF 19.7 Mio. Cash reserves at year-end amounted to CHF 12.4 million and the gross cash burn for operating activities was a monthly average of CHF 0.7 million in 2016. Further, headcount increased to 17 people as per year-end 2016. For accounting purposes in accordance to IFRS 3, the legal acquiree was identified as the acquiring entity. As a consequence, the financial figures for 2016 of the merged company are a continuation of those of Kuros Biosurgery Holding and not comparable to the published figures of former Cytos for 2015.
April 13	Change of CEO reflects focus on commercialization: Kuros named Dr. Ivan Cohen-Tanugi new CEO succeeding Didier Cowling, who continues as President and remains on the Executive Committee and Board.
February 27	MagnetOs™ approved for US commercialization: The FDA clears the novel orthobiologic for use as an autograft extender in posterolateral spine.
February 8	ISO certification received for surgical sealant: Kuros is compliant for the design, development, manufacturing and distribution of implantable polymeric sealants for surgical application.
January 25	Xpand transaction closed: Takeover accelerates Kuros' transition to commercial stage and provides a EU operation with certified and GMP-controlled manufacturing capabilities.

Dates correspond to the official announcements.

Dear Shareholders

2017 has been a transformational year for Kuros Biosciences with focusing of the company on the spinal orthobiologic market. In January 2017, we completed the merger with Dutch-based Xpand Biotechnology adding MagnetOs™, a new generation, commercial stage bone graft substitute to our pipeline. In 2017, MagnetOs™ has achieved market approvals in the US and EU, Neuroseal has reached EU approval and good progress was made in establishing the commercial manufacturing base for Fibrin-PTH. Finally, the leadership team has undergone significant change and we believe is well set up to drive the next stage of the company.

With the integration of Xpand, the company has offices in both Schlieren (Switzerland) and Bilthoven (The Netherlands). Our Schlieren facility is the financial headquarter and home to development activities related to our pharmaceutical Fibrin-PTH orthobiology products (KUR-111 and KUR-113). The Bilthoven facility focuses on medical device product development (MagnetOs™ and Neuroseal) and has state-of-the-art GMP manufacturing facilities for the production of our MagnetOs product line. Regulatory affairs, quality management and logistics is also coordinated from our Bilthoven facility. In addition, we have incorporated a US subsidiary early 2018 to support commercialization of our product portfolio in the US market.

The merger with Xpand has significantly accelerated Kuros' transition to commercial stage with two products ready for commercial launch in 2018. MagnetOs™ first in patient use was performed in the UK in the second half of 2017 and the financing round completed in June of 2017 has allowed us to accelerate our commercial plans for MagnetOs™ in the US. As a result of the merger, Kuros has leading products in key segments of the orthobiologics field and the opportunity to build an integrated business with promising products on the market and in development.

Kuros' combined product pipeline now provides commercial opportunities in attractive markets. We are positioned as a technology leader in both synthetic and drug-based bone graft substitutes. Orthobiology bone graft procedures in spine indications constitute about 50% of all bone graft procedures, by far the largest market segment. Focusing the company on spine indications allows very focused and targeted investment.

Our promising lead synthetic product candidates include MagnetOs™, a novel surface structured orthobiologic, and Neuroseal, a novel Dural sealant. MagnetOs™ is our most advanced product in this class. MagnetOs™ Granules received US FDA clearance in February 2017 and a Putty formulation of MagnetOs™ obtained US FDA market clearance in August 2017. In Europe, CE mark of MagnetOs™ Granules was already obtained in 2016 and we expect CE marking of MagnetOs™ Putty in 2018. Neuroseal has received a CE mark in June 2017 for dural indications and we are investigating the possibility of broadening its indication to also include spine.

Our advanced, biological drug-based orthobiologic product candidates are KUR-111, KUR-112 and KUR-113. From these, KUR-111 and KUR-113 have already been successfully tested for trauma indications in large, controlled Phase 2b clinical trials and with the refocused Kuros, we will now continue with the preparation of KUR-113 for spinal indications in a large, controlled Phase 2b clinical trial.

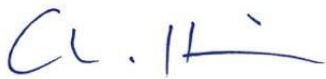
We believe Kuros is well positioned to benefit from the evolving healthcare landscape, leveraging innovative, cost-effective orthobiology products with demonstrated safety and clinical effectiveness. We believe providing evidence for clinical efficacy of our products is critical to support product claims and substantiate clinical utility and cost-effectiveness for physicians, patients and payers alike.

The major transformations of the company in 2017 also included changes in the executive management team. We would like to thank our former colleagues Jason Schense, CSO, Harry Welten, CFO, and Didier Cowling, President, for their contributions and longstanding service to the company. In December 2017 Joost de Bruijn, formerly CEO of Xpand was appointed Chief Executive Officer of Kuros Biosciences taking over from Ivan Cohen-Tanugi. On February 1, 2018 Michael Grau was appointed CFO, taking over from Harry Welten. We would also thank our former directors Arndt Kaltofen and Joerg Neermann for their services and welcome Clemens van Blitterswijk, Frank-Jan van der Velden and Giacomo Di Nepi as new directors elected to the board at the last General Meeting.

2018 promises to be an exciting year for Kuros. We are planning to launch MagnetOs™ in the US, prepare Fibrin-PTH (KUR-113) for a Phase 2 clinical study in spinal fusion and conduct use studies for Neuroseal in Europe.

We would like to thank all our patients, employees and shareholders for your trust, contributions and support in 2017.

Welcome to the new Kuros, with our sincerest thanks and best wishes to you all,



Dr. Christian Itin
Chairman



Prof. Dr. Joost de Bruijn
Chief Executive Officer

Our ambition is to become a leader in the field of bone repair and regeneration

Kuros Biosciences: Where device meets therapeutics

Kuros is a company with an initial focus on bone repair and regeneration (orthobiology). The Company has developed commercial-stage products and a pipeline of clinical and pre-clinical product candidates at various stages of development. The most advanced orthobiology programs are targeting commercially attractive opportunities in the spinal field. Our initial focus on the spinal field is due to the fact that it represents approximately 50% of the bone graft substitute market. In addition to many years of substantial work in the preclinical setting, Kuros has enrolled over 600 patients in multi-national clinical trials and generated promising data supporting the safety and efficacy of its product candidates in a number of indications.

Orthobiologics: Our products and candidates

There is a requirement for bone regeneration in many different clinical situations, including during fracture repair, joint replacement and treatments where bones need to be fused together such as in spinal fusion. Bone generation is usually promoted by applying a bone graft or a bone graft substitute into the space where the new bone is required. Bone graft can either be the patient's own bone (autograft) or suitably processed bone from another individual (allograft). Autograft is bone that is surgically transplanted from a healthy site of a patient's body. This surgical transplantation has the potential for significant morbidity for the patient and increases surgery time and costs. While allograft does not share these disadvantages, it is processed cadaveric tissue, which is much less efficacious than autograft. Bone graft substitutes represent efficient and cost-effective alternatives to autograft or allograft. Two major categories of bone graft substitutes are synthetics and growth factor-based products. Kuros has advanced products in each of these categories. Kuros leading orthobiology platforms replace current suboptimal synthetic and growth factor-based solutions by new, innovative products that address the shortcomings of each of these currently used product groups. The MagnetOs™ surface science technology is based on devices with unique topographic features that stimulate the body to form bone. Fibrin-PTH is a pharma-based technology that allows controlled and targeted release of PTH, a bone stimulating biologic. Both orthobiologic solutions are unique in that they instruct the body to form bone in the most efficient and effective way.

MagnetOs™ Product Family – surface topography instructed bone formation

MagnetOs™ (CE Mark/510k)	Therapeutic area	Preclinical	Registration	Market Clearance
Granules EU	Orthopaedics, spinal, dental			
Granules US	Spinal (PLF)			
Putty EU	Orthopaedics, spinal, dental			
Putty US	Spinal (PLF)			

MagnetOs™ is Kuros' family of surface structured bone graft substitutes and is available in various forms in order to meet the different needs of surgeons and clinical situations. Kuros has market clearance for MagnetOs™ Granules in both the EU (CE-mark) and US (FDA 510k). The Company has also developed a Putty formulation of MagnetOs™ which has been submitted for CE market approval in the EU and which obtained US FDA 510k market clearance in 2017.

MagnetOs™ has demonstrated equivalent efficacy to the gold standard autograft in key preclinical models. This high efficacy level is primarily due to a proprietary surface science technology resulting in a complex surface structure that instructs the body to generate bone.

Fibrin-PTH Product Family

Fibrin/PTH (NDA/MAA)	Therapeutic area	Preclinical	Phase I	Phase II	Phase III
KUR-113	Spinal interbody fusion*				
KUR-111	Tibial plateau fractures				
KUR-113	Tibial shaft fractures				

* Phase II & III clinical study utilizing safety data from tibial shaft fracture trial

Kuros' Fibrin-PTH-based product candidates are designed to promote controlled and targeted bone formation. Such products are applicable in a number of clinical situations, including fracture repair, cyst resolution and bone fusion. All members of this product family contain fibrin sealant and a variant of parathyroid hormone (PTH). Both components are medicinal products with a significant history of safe use. Fibrin sealants and drugs based on parathyroid hormones have been marketed for many years. Kuros is combining these known and safe products in a novel patent protected way to produce new products. Currently, Kuros' Fibrin-PTH product family consists of KUR-111, KUR-112 and KUR-113.

KUR-111 has been specifically designed as a bone graft substitute that safely and effectively regenerates bone without having to resort to an autograft. KUR-111 incorporates three key components: a natural healing matrix (fibrin sealant), with a potent targeted drug (PTH, a variant of parathyroid hormone), and a structural ceramic. The combination of the three components provides the key efficacy and safety profile to address the medical need of e.g. tibial plateau fractures. In addition, KUR-111 is designed as an easy-to-use device, forming a paste that can be easily administered into the fracture voids as required. The material has also been designed to then polymerize in situ to adopt the shape of the defect and form a perfect space filling graft substitute that resists compression. In a large, randomized, multinational, Phase 2b study in patients with tibial plateau fractures requiring grafting, KUR-111 met the primary efficacy endpoint (statistical non-inferiority to gold standard autograft) demonstrating its potential as a safe and effective treatment for severe bone trauma, such as tibial plateau fractures. Kuros is currently investigating options for capitalizing on the KUR-111 technology, which includes co-development with a partner in the trauma field.

KUR-112 consists of a natural healing matrix (fibrin sealant) combined with a targeted bone growth factor (PTH, a variant of parathyroid hormone). It is intended to be applied as a single percutaneous injection into solitary bone cysts and could therefore become a simpler, minimally invasive treatment for this rare condition. The incidence of bone cysts is estimated at less than 1 case per 10,000 of the general population per year in Europe and the US. The vast majority of patients are children. KUR-112 has received Orphan Drug Designation in the US and Europe, which entitles Kuros to receive assistance in the development process, exemption from application fees and several years of marketing exclusivity following approval. The KUR-112 program has completed non-clinical testing and Kuros is currently evaluating the development options for KUR-112.

KUR-113 consists of a natural healing matrix (fibrin sealant) combined with a targeted bone growth factor (PTH, a variant of parathyroid hormone), similar to KUR-112. KUR-113 addresses trauma procedures in which no bone graft substitute is applied during surgery or in which bone needs to be generated in or around local tissue or implants, such as in spinal fusion. For trauma procedures, the product candidate is applied directly into the fracture's gaps and gels in situ to form a gel-like material that infiltrates fracture sites without disturbing the surrounding tissue. KUR-113 has completed a large, randomized, well-controlled, multinational Phase 2b study for open tibial shaft fractures in which it met its primary endpoint demonstrating improvement over standard of care. KUR-113 is also being investigated for spinal fusion. Next to applications in fracture healing, KUR-113 has great potential in spinal surgery. Many patients suffer from chronic back pain due to degeneration, trauma or instability of the spine. When the pain is not addressed by conservative treatment, a common solution is to fuse two or more vertebrae, i.e. perform a spinal fusion. This is achieved by removal of the damaged disc, placement of an implant (often referred to as an inter-body cage) and promoting bone growth between the vertebrae using a bone graft substitute. KUR-113 is applied directly into and around an inter-body spinal cage, where the gel polymerizes in situ. Studies show that the PTH bone growth factor that is released in a controlled and targeted fashion after administration of KUR-113, induce a response from the adjacent vertebrae, facilitating fusion through the cage. A Phase 2b study of KUR-113 for interbody spinal fusion is currently being planned.

Surgical sealants: Our product candidate

Neuroseal (CE Mark/PMA)	Initial indications	Nonclinical	Pilot	Pivotal	Registration
EU	Dural sealant (cranial)				
US	Dural sealant (cranial)				

Sealants provide rapid and reliable closure of tissue membranes to ensure functional integrity after surgery or trauma. Surgical sealants are used where leakage of body fluids or gases have to be minimized. Examples are blood vessels, the gastrointestinal tract, lobes of the lung or of the Dura mater surrounding the brain and spinal cord.

Neuroseal is a synthetic tissue sealant for the prevention of cerebrospinal fluid leakage following cranial or spinal surgery. It is based on two synthetic polymers that cross-link in-situ, at the site of administration, to seal the treated tissue. The novel sealant has a number of features, such as ease of administration, reliable and pressure resistant rapid closure of the damaged tissues and low swelling.

In 2017, Kuros received market clearance (CE-mark) for Neuroseal in the EU to seal the dura after cranial surgery. The Dura is a membrane surrounding the brain and spine that separates the central nervous system from the rest of the body. It acts mainly as a protective barrier bathing the brain and spinal cord in the cerebrospinal fluid, which is essential for the healthy functioning of the central nervous system. During most cranial and some spinal surgeries, the Dural membrane is cut or torn and thus the watertight closure is compromised. Complications include increased risk of infection (meningitis), delayed wound healing and pain. These may then result in safety risks to the patient, longer hospitalizations and associated increase in healthcare costs. A multinational clinical trial in the EU demonstrated Neuroseal's safety and utility when it rapidly sealed the leaking Dura in all 40 evaluable cases after a single application. All clinical end-points were met with no safety issues observed. Since Kuros is currently focusing on spinal indications, the company is investigating obtaining a spinal claim in Europe.



Corporate Governance Report 2017

Preface and Important Information

Kuros Biosciences Ltd (henceforth called “Kuros” or “Company” or, together with its subsidiaries, collectively the “Group”) is a Swiss-based biopharmaceutical company focused on the development of innovative products for tissue repair and regeneration. Kuros is listed according to the International Reporting Standard on the SIX Swiss Exchange (“SIX”) under the symbol KURN.

Kuros is incorporated in Switzerland and is the ultimate parent company of the Group since January 18, 2016. The Company owns 100% of Kuros Biosurgery Holding Ltd (Zurich, Switzerland), which holds 100% of Kuros Biosurgery Ltd (Zurich, Switzerland).

With effect as of January 23, 2017, Kuros acquired Xpand Biotechnology B.V. (“Xpand” – renamend Kuros Biosciences B.V.), which holds 100% of RevisOs B.V. (“Revisios”) by way of an exchange of Xpand shares for newly issued shares from Kuros by means of which Xpand and Revisios became wholly-owned subsidiaries of Kuros. The main activities of the Group are conducted by Kuros Biosurgery Ltd, Kuros Biosciences Ltd and Kuros Biosciences B.V.

As of December 31, 2017, the total headcount of the Group amounted to 28 employees. The legal domicile of the Company headquarter is Wagistrasse 25, 8952 Schlieren, Switzerland.

The Board of Directors approved these condensed consolidated financial statements on April 27, 2018.

The information published below conforms to the Corporate Governance Directive (“DCG”) of the SIX Swiss Exchange (“SIX”). The numbering of the subsections was made on the basis of the DCG.

Group Structure and Shareholders (DCG 1)

Group structure (DCG 1.1)

With regard to its activities, the Board of Directors (“Board”) and the Executive Committee review the financial performance on an aggregate basis and manage the operations of Kuros Biosciences Ltd as a single operating entity. Accordingly, the Company operates in one segment, which is the business of development and commercialization of innovative products for tissue repair and regeneration as well as income from out-licensed biopharmaceutical products to prevent and treat chronic diseases.

Kuros Biosciences Ltd, Schlieren, Switzerland, is listed according to the International Reporting Standard on the SIX.

Security number	1 102 521
ISIN	CH0325814116
Ticker symbol in 2017	KURN
Market capitalization on December 31, 2017	CHF 97.2 million

The Company is a corporation established under Swiss law with its registered office in Schlieren, Switzerland. As of December 31, 2017 the Group consists of the parent company Kuros Biosciences Ltd and four non-listed companies:

Name	Share capital (in thousands)	Shareholding
Kuros Biosurgery Holding Ltd, Zurich, Switzerland	CHF 1,446,004.10	100 %
Kuros Biosurgery AG, Zurich, Switzerland	CHF 435,459.00	100 %
Proteome Therapeutics GmbH, Singen, Germany	EUR 25,000.00	100 %
Kuros Biosciences B.V., Bilthoven, The Netherlands	EUR 18,000.00	100 %
RevisiOs B.V., Bilthoven, The Netherlands	EUR 22,000.00	100 %

Significant shareholders (DCG 1.2)

According to disclosure notifications filed with the Company to the SIX, the following Shareholders hold more than 3% of the share capital of the Company as of December 31, 2017.

Name	Shareholding
Incubation B.V., Bilthoven, the Netherlands / Aldabra B.V., Amersfoort, The Netherlands	32.6 %
LSP V Coöperatieve U.A., Amsterdam, The Netherlands	9.5 %
Eckenstein-Geigy-Stiftung, Binningen, Switzerland	9.3 %
Banque Pictet & Cie SA, Geneva, Switzerland	8.9 %
Venture Incubator AG, 6302 Zug, Switzerland	8.9 %
Omega Fund IV LP, Grand Cayman, Cayman Islands	7.8 %
Pegasus Global Opportunity Fund Ltd., Tortola, British Virgin Island	4.2 %

Information on disclosure notifications during the year under review, concerning the significant shareholders and the financial instruments in particular may be found on the SIX website on:

www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html

As of December 31, 2017 the company holds purchase positions of 0.06% and sale positions of 43.8%.

The Company has not entered into any agreement with any Shareholder regarding the voting or holding of shares.

To the knowledge of the Company, no Shareholders are linked by any shareholder agreement.

Cross-shareholdings (DCG 1.3)

There are no cross-shareholdings.

Capital Structure as of December 31, 2017 (DCG 2)

Capital (DCG 2.1)

The share capital of the Company is CHF 8,170,929.00 and fully paid-in. It is divided into 8,170,929 registered shares with a nominal value of CHF 1.00 each. For details, see the article 3a of the Articles of Associations (“Articles”) available on the Company’s website at www.kuros.ch/investors/corporate-governance.html.

Conditional capital (DCG 2.2)

The total conditional capital amounts to CHF 1,208,389.00 and is comprised of the following:

The share capital of the company increases in the nominal value of up to CHF 248,389.00 by issuance of up to 248,389 fully paid-in registered shares with a nominal value of CHF 1.00 each, subject to the exercise of options granted by the Company to employees of the Company or its subsidiaries, persons of a comparable positions and to Board members under the employee participation plan in force until the end of the year 2015.

The share capital of the Company furthermore increases in the nominal value of up to CHF 960,000.00 by issuance of up to 960,000 fully paid-in registered Shares with a nominal value of CHF 1.00 each, subject to the exercise of options granted by the Company to employees of the Company or its subsidiaries, persons of a comparable position and Board members under the employee participation plans, in force starting from the year 2016.

The pre-emptive rights of the Shareholders shall be excluded. The conditions of the grant of the options, as the amount of the issue of the shares, the time of the entitlement for dividends as well as the kind of contribution shall be determined by the Board of Directors in the form of special rules (Stock Option Plans). The further transfer of the registered shares acquired by the exercise of the option rights under this article shall be subject to the restrictions of article 4 of the Articles. For further details, see article 3c of the Articles.

Authorized capital (DCG 2.2)

The authorized capital is CHF 1,503,055.00. The Board is authorized, at any time until May 21, 2019, to increase the share capital by issuance of a maximum of 1,503,055 registered shares with a nominal value of CHF 1.00 each to be fully paid-in. Increases by underwriting as well as partial increases are permissible. The Board will determine the issue price, the time of dividend entitlement, and the type of contribution. The Board is authorized to exclude the pre-emptive right of Shareholders if the newly issued registered shares (a) are at disposal as shares in the context of a pre-emptive rights offering in which more pre-emptive rights are exercised than shares are at disposal; or (b) for the acquisition of companies, business units or participations through exchange of shares; or (c) for financing or refinancing of the acquisition of companies, business units or participations; or (d) for investment projects and/or investment vehicles which are applied in national or international capital markets or for a quick and flexible raising of capital, including private placements. If the Company assumes obligations to serve convertible bonds or loans or option bonds in the context of takeovers or investment projects, the Board is obliged to issue new shares under exclusion of the pre-emptive right of the Shareholders to fulfill delivery obligations. If pre-emptive rights have been granted but not exercised for registered shares, such share must be used in the interest of the Company or must be sold at market conditions on the market. For details, see article 3d of the Articles.

Changes in capital (DCG 2.3)

Description of changes in capital that have taken place within the last three financial years:

in TCHF, IFRS	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings/ accumulated loss	Translation Differences	Total
January 1, 2015	483	6,326	–	6,918	(17,587)	–	(3,860)
Loss for the period					(5,784)		(5,784)
Other comprehensive income					258		258
Capital increase, issuance of capital, net	822	18,459		–			(19,281)
Share-based compensation				546			546
December 31, 2015	1,305	24,785	–	7,464	(23,114)	–	10,440
January 1, 2016	1,305	24,785	–	7,464	(23,114)	–	10,440
Loss for the period					(19,744)		(19,744)
Other comprehensive income					(539)		(539)
Capital increase January 2016	242	5,965					6,207
Reverse acquisition	3,537	30,158	(210)				33,485
Share based payment 2016				8,470			8,470
Treasury shares acquisition			(630)				(630)
Treasury shares sale			574		59		633
December 31, 2016	5,084	60,908	(266)	15,934	(43,338)	–	38,322
January 1, 2017	5,084	60,908	(266)	15,934	(43,338)	–	38,322
Loss for the period					(16,484)		(16,484)
Other comprehensive income					(93)	2,732	2,639
Acquisition January 2017	1,365	29,280					30,645
Capital increases, net	1,722	13,965	244				15,931
Share based payment 2017				2,039			2,039
Treasury shares acquisition			(1,020)				(1,020)
Treasury shares sale			1,042		26		1,068
December 31, 2017	8,171	104,153	–	17,973	(59,889)	2,732	73,140

For further information, see the consolidated statements of change in Shareholders' equity and note 17 of the consolidated financial statements.

Shares and participation certificates (DCG 2.4)

The Company has only one class of shares, i.e. registered shares with a nominal value of CHF 1.00 each. Shareholders approved a reverse stock split at the General Meeting on June 16, 2016. Accordingly, 100 existing registered shares with a nominal value of CHF 0.01 each were exchanged into 1 new (merged) registered share with a nominal value of CHF 1.00. Each share is fully paid-in and carries one vote and equal dividend rights with no privileges. The Company has no outstanding participation certificates.

The Company's shares are not certified. Shareholders are not entitled to request printing and delivery of share certificates; however, any Shareholder may at any time request the Company to issue a confirmation of its shareholding.

Dividend-right certificates (DCG 2.5)

The Company has not issued any dividend-right certificates.

Limitations on transferability and nominee registrations (DCG 2.6)

If buyers of registered shares explicitly declare in the request for registration that they have bought the registered shares in their own name and for their own account, they shall be registered in the share register as Shareholders with voting rights. Article 4 of the Articles provides that shareholders may register their shares in the name of a nominee ("Nominee") and may exercise their voting rights by giving instructions to the Nominee to vote on their behalf. However, a Nominee holding more than 3% of the Company's share capital may be registered only if the identity of the beneficial owners of shares claiming 0.5% or more of the Company's share capital is disclosed.

To remove or amend the above-mentioned limitations on transferability and nominee registrations, the approval of (i) at least two-thirds of the votes represented and (ii) the majority of the represented share capital at the respective General Meeting would be required.

Convertible bonds and options (DCG 2.7)

As of December 31, 2017, the Company had no outstanding convertible loans.

The following table applies to all valid share options outstanding on December 31, 2017:

Exercise price (CHF)	Options* (number)	Remaining life (years unless stated otherwise)	Exercisable options (number)
2.00	272,427	7.9	267,126
18.30	62,247	4.5	–
24.00	110,200	3.4	69,625
25.00	20,400	2.5	20,400
26.00	15,000	3.1	10,313
27.75	20,000	3.6	11,250
33.00	57,000	3.5	33,625
42.00	29,000	3.2	22,750
45.00	44,337	0.1–3.7	44,337
52.00	19,453	1.0– 4.5	19,453
56.00	40,587	2–2.9	40,587
60.00	54,000	2.5	54,000
254.00	9,600	0.8	9,600
257.00	6,454	0.7	6,454
305.00	200	2.0	200
349.00	14,642	1.9	14,642
363.00	5,823	1.2	5,823
384.00	2,000	1.2	2,000
385.00	3,800	1.2	3,800
404.00	600	1.3	600
409.00	2,400	1.3	2,400
Total	790,170		638,985

* Includes all options granted within the Group

The table above reflects the reverse stock split of 100:1 approved by the General Meeting on June 16, 2016. The total 905,802 outstanding options represent CHF 905,802.00 of nominal capital. Each option entitles the option holder to purchase one share. For further details please see note 25 to the consolidated financial statements.

Board of Directors (DCG 3)

Members of the Board of Directors (DCG 3.1)

Name Position, nationality	Year of birth	First elected	Elected until	Compensation Committee	Nomination & Corporate Governance Committee	Audit Committee
Christian Itin¹, PhD Chairman, Switzerland	1964	2012	2018			
Leanna Caron, MBA Vice-Chairman, Canada	1968	2016	2018	⊙	✉	
Ivan Cohen-Tanugi³, MD Former CEO, France and USA	1961	2017	2018			
Didier Cowling², MA Member, UK	1965	2016	2018			
Giacomo Di Nepi, MBA Member, Italy	1953	2017	2018			⊙
Gerhard Ries², PhD Member, Switzerland and Germany	1969	2016	2018	✉		✉
Clemens van Blitterswijk, PhD Member, Netherlands	1957	2017	2018		⊙	
Frank-Jan van der Velden Member, Netherlands	1959	2017	2018			
Harry Welten, MBA Member, Switzerland	1965	2016	2018			

✉ Chairman ⊙ Member

¹ former Board member of Cytos Biotechnology Ltd (renamed Kuros Biosciences Ltd)

² former Board member of Kuros Biosurgery Holding Ltd

³ from May 22, 2017 until December 4, 2017

Messr. Arnd Kaltoven and Jörg Neermann, all former Board members of Kuros Biosciences Ltd, did not stand for re-election at the General Meeting on May 22, 2017.

Christian Itin

Christian Itin serves as Kuros Chairman of the Board ("Chairman") since the completion of the merger of Kuros Biosurgery with Cytos Biotechnology in January 2016. Dr. Itin is CEO and Chairman of Autolus Inc., London, UK, since March 2016 and November 2014, respectively. From November 2012 to January 2016, he served as Chairman and CEO of Cytos Biotechnology. Before joining Cytos, Dr. Itin was President and CEO of Micromet Inc., which was acquired in 2012 by Amgen, Inc. Over a period of 13 years, he served in a number of senior management roles at Micromet, becoming CEO in 2004. Dr. Itin received a diploma in biology and a PhD in cell biology from Basel University, Switzerland. In addition, he performed post-doctoral research at the Biocenter of Basel University, Switzerland, and at Stanford University School of Medicine, Stanford, California, USA. Dr. Itin also serves as non-executive director of Kymab Ltd, Cambridge, UK.

Leanna Caron

Leanna Caron is a seasoned executive in bio-pharmaceutical and medical device industries. Ms. Caron developed an acumen in business development, strategic planning and partnerships, global marketing, and overall business management. Most recently she served as Executive Vice President and Chief Commercial Officer for AgNovos Healthcare, a company focused on bone health, where she oversaw all aspects of commercial development, launch, and corporate communications. Prior to this role, Ms. Caron was Vice President and General Manager at Sanofi, overseeing the global commercial operations for Cell Therapy and Regenerative Medicine. She has also held senior positions at Genzyme and Merck in the United States, Canada, and Europe and has led several international teams to successfully launch niche/orphan and block-buster products globally. Ms. Caron has served on the boards of WomenLead and CartiHeal, and currently serves as a strategic advisor to the board of CartiHeal, and is Chairman of the Board and President of Skate Canada. She received her pharmacy degree from the University of Toronto, Canada, and her MBA from Concordia University, Montreal, Canada, and Cornell University, Ithaca/NY, USA. Mrs. Caron is a citizen of Canada.

Ivan Cohen-Tanugi

Dr. Ivan Cohen-Tanugi has been named as Chief Executive Officer (CEO) of Kuros in April 2017 and served in this role until December 2017. He brings more than 20 years of experience in leadership roles in the life sciences industry. He held various managing positions at Sanofi, Roche, Amgen, Teva, Eyeveensys and Stallergenes-Greer including as Head of Amgen Europe Nephrology, General Manager Teva North America Biologics & Specialty and CEO of Eyeveensys. He received his medical degree at Grenoble School of Medicine, France, and obtained a MBA at H.E.C. Business School, Paris, France.

Didier Cowling

Didier Cowling co-founded Kuros in 2002 and has been its Chief Executive Officer (“CEO”) until 3 April 2017 where he stepped down and became President. He was also Kuros’ chairman from 2002 to 2007. Prior to co-founding Kuros, Mr. Cowling was co-founder, chairman and CEO of Kuros Therapeutics, a position he held from the founding of that company in 2000 to its successful sale to Straumann in 2002. From 1996 to 2000, Mr. Cowling was director business development for Phairson Medical Ltd, a start-up biomedical company developing wound care products and devices. Previously, he was a senior investment analyst at HSBC, specializing in global pharmaceuticals and healthcare, a post he held for four years. Prior to that, Mr. Cowling was an investment analyst at Nomura Research Institute. Mr. Cowling is a graduate of Cambridge University in Natural Sciences, Cambridge, UK, specializing in organic chemistry and biochemistry.

Giacomo Di Nepi

Giacomo Di Nepi brings over 30 years’ experience in the industry. Currently, he is CEO of Polyphor Ltd, Allschwil, Switzerland. Before, he was Executive Vice President and General Manager, Europe for InterMune Inc., where he launched Esbriet, an orphan drug, and built from scratch a USD 140 million and 200 people business – until the acquisition of InterMune by Roche for USD 8.3 billion. Previously, Mr. Di Nepi was in senior leadership responsibilities with Takeda and Novartis, where he was member of the Pharma Executive Committee. Prior, he was a Partner with McKinsey. Mr. Di Nepi currently serves on the boards of Geneuro (GNRO.PA) and member of the shareholders advisory board of NTC, a privately held company. He holds a degree in Economics from Bocconi University, Milan, Italy, and an MBA from INSEAD, Fontainebleau, France.

Gerhard Ries

Gerhard Ries is Managing Partner of LifeCare Partners, a dedicated venture capital and private equity firm in the European healthcare sector. Dr. Ries has more than 20 years of global pharmaceutical industry and venture capital experience as both entrepreneur and investor. He has a strong scientific and operational background and held various corporate positions at McKinsey, Novartis, Ciba Geigy and Boehringer Mannheim. Before founding LifeCare Partners, Dr. Ries was co-founder and managing partner of BioMedPartners where he supervised more than 50 investments and served on the board of more than 20 companies. His current board memberships include DiaMedCare, Devis Pharma, Immunic, Leon Nanodrugs, Leon Nanodrugs, Leukocare, Numares, SkyCell and AOInvest. Dr. Ries holds a MS and a PhD degree in Molecular Biology from the University of Basel, Switzerland, and a MS degree in Biotechnology from the Fachhochschule Weihenstephan, Munich, Germany.

Clemens van Blitterswijk

Professor Clemens van Blitterswijk, PhD, is the Department Chair and Professor at MERLN Institute for Technology-Inspired Regenerative Medicine at Maastricht University, the Netherlands. Prof van Blitterswijk has founded nine companies over the years. He is recipient of numerous national and international awards like recently “the most entrepreneurial professor of the Netherlands”. He brings over two decades of entrepreneurial science to the Kuros team. Prof van Blitterswijk has authored and co-authored over 350 scientific papers and is inventor on more than 100 patents. He has published three books as an editor, and contributed to many more as a contributing author. Prof van Blitterswijk is a biologist by training and has a PhD in Medicine from Leiden University, the Netherlands.

Frank-Jan van der Velden

Frank-Jan van der Velden, MBA, co-founded Xpand Biotechnology (“Xpand”) in 2005, which became a wholly owned subsidiary of Kuros Biosciences in January 2017, and has been a member of Kuros’ Executive Committee since the acquisition. He was co-founder of several other companies in the field of regenerative medicine amongst others CellCoTec, Progentix Orthobiology and Materiomics. Prior to co-founding Xpand, Mr. van der Velden was partner at Krüger & Partners management consultants for ten years after 10 years as director of Quote Media Holding. Currently, he is chairman of the supervisory board of TIIN Techfund III (venture capital fund for technology start-ups), board member of RiverDiagnostics International (a manufacturer of Raman spectroscopy equipment for life science application) and member of the executive committee of Materiomics (high-throughput screening for cell-surface topography interaction). Mr. van der Velden is a graduate of Erasmus University Rotterdam School of Management, The Netherlands.

Harry Welten

Harry Welten was Chief Financial Officer (“CFO”) of Kuros (formerly known as Cytos Biotechnology Ltd) from June 2010 until January 2018. He has more than 20 years of international senior executive experience, seventeen of which as chief financial officer in biotech. Prior to joining Cytos, he was the CFO at Nitec Pharma, which was merged with Horizon Pharma and is now listed on Nasdaq. From 2001 to 2009, he was the CFO at Arpida, which he took public in 2005 at the SIX main segment. Prior to joining Arpida, he was a director at UBS Warburg in New York/NY, USA for five years, following various senior positions within the UBS Group. Before joining UBS, Mr. Welten was with ABB and DaimlerChrysler. He is a member of the Board of Novaremed, BiognoSYS, ProteoMediX, Kanyos, Virometix and Horizon Pharma. Furthermore, he is a member of the foundation council of HBM Foundation. He holds a degree in banking and finance, a degree in economics and business administration and an MBA (Hons.) from Columbia University, New York/NY, USA.

With the exception of Christian Itin, former CEO of Cytos, Didier Cowling, former President of Kuros, and Harry Welten, former CFO of Kuros, no other Board member is or has been member of the executive management or has a material business relationship with the Company.

Other activities and vested interests (DCG 3.2/3.3)

Other than as described above, none of the members of the Board has any position in governing or supervisory bodies of any major organization, institution or foundation under private or public law, permanent management or consultancy function for major interest groups, official function or political mandate.

Each member of the Board may cumulatively assume not more than the following number of mandates in the board of directors, the superior management or an administrative body of a legal entity, which is obliged to be registered in the Swiss commercial register or an equivalent foreign register: a) 7 mandates for publicly traded companies pursuant to Art. 727 Para. 1 number 1 Code of Obligation ("CO"); b) 8 mandates for companies pursuant to Art. 727 Para. 1 number 2 CO; and c) 5 mandates for companies which do not fulfill the criteria under a) and b). Mandates held in several legal entities each operating under the same management or same beneficial owner (group) are deemed to be a single mandate. If a legal entity fulfills several of the above-mentioned criteria, it can be freely counted towards any category. Mandates in legal entities which are controlled by the Company or which control the Company and honorary mandates in charitable legal entities are excluded from these restrictions. See Article 37 of the Articles.

Elections and terms of office (DCG 3.4)

The Articles provide that the Board must consist of three to nine board members. On December 31, 2017, it consisted of eight members.

As of January 1, 2014, each member of the Board is elected individually for a maximum term of one year and maybe re-elected for successive terms at the following General Meeting. The term of office of a Board member is one year as determined by Swiss law.

The Chairman of the Board as well as the chairman and the members of the Compensation Committee and the independent proxy are elected individually by the General Meeting for a one-year term of office.

Internal organizational structure (DCG 3.5)

The functions of the Chairman of the Board include the following:

- Preparing, calling, and chairing the meeting of the Board and the General Meeting
- Supervision of the implementation of resolutions passed by the Board or the General Meeting
- Representation of the Board to the public, public authorities and the Shareholders.

The Board constitutes itself and appoints its chairman, vice-chairman and the secretary, who needs not to be a member of the Board.

The Board has established three permanent committees to carry out specific duties: the Compensation Committee, the Nomination and Corporate Governance Committee as well as the Audit Committee, each in general consisting of two or more members of the Board. The Board appoints the members of its committees. Members of the committees were all non-executive directors in 2017.

The Board convened in person or by phone 14 times in 2017. In addition, contacts between meetings are as required. Members of senior management regularly attend meetings of the Board to report on areas of the business within their responsibility and to respond to questions. One part of the meetings always takes place with the Executive Committee. No consultants, with the exception of the Company's lawyer, participated in Board meetings in 2017.

Attendance at the Board and committee meetings in 2017:

Name	Board ¹	Compensation Committee	Nomination & Corporate Governance Committee	Audit Committee
Christian Itin	14			
Leanna Caron	13	6	8	
Didier Cowling	12			
Giacomo Di Nepi ³	6	8	8	1
Arnd Kaltofen ²	6			1
Jörg Neermann ²	5			1
Vincent Ossipow ²	1			
Gerhard Ries	12	8	8	1
Clemens van Blitterswijk ³	7			
Frank-Jan van der Velden ³	7			
Harry Welten	14			2 ⁴

¹ Comprising 8 meetings and 6 telephone conferences

² Until May 22, 2017

³ As of May 22, 2017

⁴ Attendance in the function of the CFO

Compensation Committee

The Compensation Committee meets as often as business requires. In 2017, the Compensation Committee held 8 meetings. The chairperson of the Committee shall report to the Chairman of the Board after each meeting and shall inform the Board at its next meeting on the activities as well as decisions taken by the Committee and the considerations that led to such decisions. Urgent matters shall be communicated to the Chairman without delay.

The Compensation Committee has the following duties (excerpt from the Compensation Committee Charter of Kuros Biosciences as approved by the Board on January 18, 2016, and available on the Company's website at www.kuros.ch/investors/corporate-governance.html):

4.1 Board and Executive Board Compensation Policies

The Committee shall:

4.1.1 prepare and recommend to the Board for approval a compensation policy for the Board (the "Director Compensation Policy"), and thereafter annually review such policy and recommend changes, if any, for approval by the Board;

4.1.2 prepare and recommend to the Board for approval a compensation policy for the executive board, and thereafter annually review such policy and recommend changes, if any, for approval by the Board.

Such compensation policies shall provide for near- and long-term compensation, including variable compensation for the executive board, that (1) is designed to attract, motivate and retain persons with the necessary skills and character, (2) is consistent with market conditions, and in the case of variable compensation, consistent with the Company's and the individual's performance, and (3) aligns the interests of the members of the Board and the executive board with the interests of the Company.

4.2 General Compensation Policies

The Committee shall periodically review the Company's compensation policies for its employees who are not members of the executive board.

4.3 Board Compensation

The Committee shall review and recommend to the Board for approval any compensation and other payments to present and former non-employee directors of the Company to the extent not already provided for in the Director Compensation Policy.

4.4 Executive Board Compensation and Contracts

The Committee shall:

- 4.4.1 evaluate annually the performance the CEO, and submit such evaluation for review and discussion by the Board, in each case in executive session without the presence of the CEO;*
- 4.4.2 review and discuss the annual performance evaluation of the members of the executive board presented by the CEO to the Committee;*
- 4.4.3 review and recommend for approval by the Board the annual base salary, incentive compensation and equity compensation of the CEO, and in consultation with the CEO, of the other members of the executive board, and the overall compensation of the CEO and executive board;*
- 4.4.4 review and approve any employment contracts, severance contracts, or other agreements that the Company proposes to enter into with any pre- sent, future or former members of the executive board; provided that the key terms of such contracts shall be submitted for approval by the Board.*

4.5 Incentive, Equity Compensation and Perquisite Benefits Plans

The Committee shall:

- 4.5.1 establish an incentive compensation plan providing for variable compensation of the members of the executive board based on the achievement of the Company's corporate goals and the individuals' performance, and approve any changes to such plan as may be proposed by the CEO from time to time;*
- 4.5.2 approve any incentive compensation plans providing for variable compensation of employees of the Company (other than the members of the executive board) and any changes thereto, as may be proposed by the CEO from time to time;*
- 4.5.3 develop and periodically review equity compensation plans, and submit such plans and any changes to such plans to the Board for approval;*
- 4.5.4 review and approve any perquisite benefits plans proposed by the CEO for the members of the executive board.*

4.6 Corporate Goals

The Committee shall:

- 4.6.1 review the annual corporate goals proposed by the CEO, and recommend such goals as approved by the Committee for approval by the Board;*
- 4.6.2 determine the level of achievement of the corporate goals as approved by the Board upon completion of each calendar year, and apply such achievement level to the determination of the variable compensation of the members of the executive board in accordance with the applicable incentive compensation plan.*

4.7 Compensation Report

The Committee shall review and approve the annual compensation report to be published together with the publication of in the Company's annual report, and any other required public disclosure statements on compensation and benefits.

4.8 Annual Committee Performance Review

The Committee shall evaluate its own performance on an annual basis as part of the Board performance assessment process established by the Nomination and Corporate Governance Committee.

4.9 Committee Charter

The Committee shall review this Charter annually and submit any recommended changes to the Board for approval.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee meets as often as business requires, but at least twice per year. In 2017, the Nomination and Corporate Governance Committee held 8 meetings. The chairperson of the Committee shall report to the Chairman of the Board after each meeting and shall inform the Board at its next meeting on the activities as well as decisions taken by the Committee and the considerations that led to such decisions. Urgent matters shall be communicated to the Chairman without delay.

The Nomination and Corporate Governance Committee has the following duties (excerpt from the Nomination and Corporate Governance Committee Charter of Kuros Biosciences ad approved by the Board on January 18, 2016, and available on the Company's website at www.kuros.ch/investors/corporate-governance.html):

4.1 Director Qualifications and Nomination

The Committee shall:

- 4.1.1 establish and periodically review the qualification criteria for Board candidates, with the goal of achieving a composition of the Board that collectively has the skills and experience needed to determine the strategy of the Company and oversee the management in executing the Company's strategy and achieving its objectives;*
- 4.1.2 conduct the search for Board candidates based on the qualification criteria established by the Committee and any other criteria that the Committee may consider appropriate, and recommend suitable candidates to the Board to be nominated for election by the shareholders.*

4.2 Board and Committee Governance and Composition

The Committee shall:

- 4.2.1 periodically review the policies and principles for corporate governance of the Company, including the Internal Regulations, and recommend changes, if any, to the Board for approval;*
- 4.2.2 make recommendations to the Board on Board and committee compositions, including the Board and committee chairpersons and the size of the Board and the committees, taking into account the independence standards established by applicable laws, regulations, the committee charters and corporate governance principles.*

4.3 CEO and Executive Board Nominations

- 4.3.1 The Committee shall be responsible for conducting the search for candidates for the position of CEO of the Company, and shall recommend suitable candidates for evaluation and appointment by the Board.*
- 4.3.2 The CEO shall be responsible for conducting the search for candidates for executive board positions, and shall recommend candidates for evaluation by the Committee. The Committee shall evaluate such candidates, and shall recommend suitable candidates for evaluation and appointment by the Board.*

4.4 Board Performance Review

The Committee shall:

- 4.4.1 establish a process for, and conduct an annual review of the performance of the Board, its committees, and individual Board members in their role as members of the Board or a committee of the Board;*
- 4.4.2 consider the results of the annual performance review when determining whether or not to recommend the nomination of a director for an additional term on the Board or a committee, and for developing proposals for improving corporate governance policies and effectiveness of the Board and its committees.*

4.5 Succession Plan

The Committee shall prepare and review annually a succession plan for the directors of the Board, the CEO, and the members of the executive board.

4.6 Corporate Governance Disclosures

The Committee shall review and approve the corporate governance report of the Company for inclusion in the annual report as well as any other written public disclosures on corporate governance matters.

4.7 Code of Conduct Review

The Committee shall:

- 4.7.1 periodically review the Company's code of conduct (the "Code") and recommend changes to the Board for approval as may be appropriate from time to time;*
- 4.7.2 periodically review management's monitoring of the Company's compliance with the Code and ensure that management has the proper system in place to enforce the Code;*
- 4.7.3 review potential conflicts of interest of Board members and other matters that may be assigned for review by the Committee in the Code.*

4.8 Annual Committee Performance Review

The Committee shall evaluate its own performance on an annual basis as part of the Board performance assessment process established by the Committee.

4.9 Committee Charter

The Committee shall review this Charter annually and submit any recommended changes to the Board for approval.

Audit Committee

The Audit Committee meets as often as business requires, but at least four times year. In 2017, the Audit Committee held 2 meetings. The chairperson of the Committee shall report to the Chairman of the Board after each meeting and shall inform the Board at its next meeting on the activities as well as decisions taken by the Committee and the considerations that led to such decisions. Urgent matters shall be communicated to the Chairman of the Board without delay.

The Audit Committee has the following duties (excerpt from the Audit Committee Charter of Kuros Biosciences as approved by the Board on January 18, 2016, and available on the Company's website at www.kuros.ch/investors/corporate-governance.html):

4.1 Financial Statements

The Committee shall:

- *review and discuss with management and the Auditor the annual and quarterly financial statements and reports intended for publication as well as any other financial statements intended for publication;*
- *approve the quarterly reports for publication;*
- *inform the Board on its assessment of the financial statements and decide whether to recommend the statutory and consolidated financial statements to the Board for approval and presentation to the general shareholders' meeting;*
- *review in cooperation with the Auditor and the management whether the accounting principles applied by the Company and its subsidiaries are appropriate in view of the size and complexity of the Company.*

4.2 Interaction with the Company's External Auditor (the "Auditor")

The Committee shall:

- *review and assess the qualifications, independence, performance and effectiveness of the Auditor, and recommend to the Board the nomination of the Auditor for the election by the general assembly of shareholders;*
- *review the scope of the prospective audit by the Auditor, the estimated fees, and any other matters pertaining to such audit as the Committee may deem appropriate;*
- *approve any audit and non-audit services proposed to be provided by the Auditor to the Company to ensure Auditor independence; provided that the chairperson of the Committee may pre-approve such services between scheduled Committee meetings subject to the ratification of such approvals by the Committee at a subsequent meeting;*
- *review and assess the Auditor's report, management letters and take notice of all comments of the Auditor on accounting procedures and systems of control;*
- *review with the Auditors and management the Auditor's reports to the Committee/Board on critical accounting policies and practices used (and any changes therein), on alternative treatments of financial information discussed with management and on other material written communication between the Auditor and management;*
- *review with the Auditor any audit problems or difficulties and management's response, including any restrictions on the scope of the Auditor's activities or on access to requested information, and any significant disagreements with management.*

4.3 Internal Control Over Financial Reporting, Risk Management, Compliance and Contingent Liabilities

The Committee shall:

- *at least annually monitor, review and discuss with the Auditor and with management the adequacy and effectiveness of the Company's policies and procedures regarding internal controls over financial reporting and risk assessment, and the Company's compliance therewith;*
- *periodically review the Company's policies and procedures for risk management and assess the effectiveness thereof;*
- *periodically review the Company's policies and procedures designed to ensure compliance with laws, regulations and internal rules and policies;*
- *discuss with management and, if appropriate, the Company's external advisors any legal matters (including the status of pending or threatened litigation) that may have a material impact on the Company's financial statements and any material reports or inquiries from regulatory or governmental agencies which could materially impact the Company's contingent liabilities and risks.*

4.4 Annual Committee Performance Review

The Committee shall evaluate its own performance on an annual basis as part of the Board performance assessment process established by the Nomination and Corporate Governance Committee.

4.5 Committee Charter

The Committee shall review this Charter annually and submit any recommended changes to the Board for approval.

Definitions of areas of responsibility (DCG 3.6)

The Board has the power to make decisions on all matters which are not vested in the General Meeting or delegated to any other corporate body or person by Swiss law, the respective Articles or these Internal Regulations. The Board supervises, monitors and controls the management. The Board enacts guidelines for business policy and is regularly informed about the course of business. The Board is entitled to pass resolutions concerning all matters, which are not reserved or entrusted to the General Meeting or another organ of the corporation by law, the Articles or Internal Regulations.

All executive functions within the Company not reserved for the Board or the Chairman as defined by Swiss law or stated in the Articles or the Internal Regulations are delegated to the CEO and the Executive Committee. The CEO chairs the Executive Committee and is responsible for its organization.

In accordance with article 716a of the CO and Article 23 of the Articles, the Board has the following non-delegable and inalienable duties (excerpt from the Internal Regulations of Kuros Biosciences as approved by the Board on January 18, 2016, and available on the Company's website at www.kuros.ch/investors/corporate-governance.html):

3.5 Non-transferable and Irrevocable Duties

Pursuant to the Swiss Code of Obligations, the Board has the following non-transferable and inalienable duties:

- a) overall governance of the Company including formulating the vision, mission, values, strategy and planning priorities and laying down guidelines for corporate policy and issuing the necessary instructions;*
- b) ensuring the appropriate organizational structure and processes to effectively and efficiently execute the agreed upon strategies and financial goals;*
- c) arrange the accounting, financial control and financial planning systems as required for management of the Company;*
- d) appointing and dismissing the persons responsible for the management and the representation of the Company, and conferring signatory powers;*
- e) supervision of the persons responsible for the management of the Company, in particular with regard to their compliance with the law and any industry regulations, stock exchange requirements including reporting frameworks and standards, Articles of Association, internal regulations and directives;*
- f) approving the annual and interim business reports, preparing the General Meeting and implementing its resolutions;*
- g) approving the strategic plan and the financial medium-term plan as well as annual budget;*
- h) approving capital increases and amending the Articles of Association;*
- i) prepare the compensation report and request approval by the General Meeting regarding compensation of the Board and the Executive Committee; and*
- j) notify the court in the event that the Company is over-indebted.*

3.6 Additional Duties and Competences

The following business transactions (as also specified in Annex 6.1) need the prior approval of the Board:

- a) Any mergers, acquisitions, partnerships, alliances, licensing transaction with a size and/or Project NPV above CHF 2 million;*
- b) adopt a yearly operating budget and investment budget and any material change to any such budget as amended from time to time (material being a decision leading to a projected increase or decrease of 10% or more on total costs or total revenues) and engage in a transaction which would result in such a material deviation from the budget;*
- c) hire or dismiss the CEO and hire, dismiss or promote any other existing or new C-level executive officer and their compensation;*
- d) establish principles of employee benefits, employee pension fund, employee insurance;*

- e) *initiate or pursue legal actions, litigation or other official proceedings of material significance in terms of financial exposure or risk (whereby management may take protective and interim measures regardless of the significance);*
- f) *approve any borrowing guarantee or any other form of security provided by the Company for any third party, grant any surety or any indemnity to a third party, in each case exceeding CHF 250,000;*
- g) *approve the establishment or closure of branches, subsidiaries, agencies, administrative or representation offices, both in Switzerland and abroad;*
- h) *review and approve any arrangement for any joint venture or partnership by the Company or for any acquisition by the Company of any equity interest in another company or undertaking or the acquisition of any business or part thereof from another undertaking exceeding CHF 500,000;*
- i) *acquire, encumber and sell real estate and approve any lease for real property with yearly costs for the Company of more than CHF 200,000 or nine years of duration;*
- j) *approve the creation of any mortgage, charge, lien, encumbrance or other third party right over any of the Company's IP assets;*
- k) *approve and/or ratify all obligations and agreements entered into outside the ordinary course of business;*
- l) *determine the compensation of the members of the Board within the framework set by the General Meeting;*
- m) *adopt and amend a stock option plan; and*
- n) *approve any transactions with a member of the Board, the Executive Committee or a shareholder or a person related thereto.*

Information and control instruments versus the Executive Committee (DCG 3.7)

The members of the Board regularly receive comprehensive management reports designed to provide them with an update about business activities in general and developments in clinical trials, regulatory development, finance and any other matters of importance. These reports are discussed during Board meetings together with the members of the Executive Committee. In addition, strategic discussions are held. A condensed financial statement, drafted on the same financial principles (IFRS) as the annual report, was distributed in 2017 to the members of the Board on a half-year basis.

Insider Trading Policy

The Company has an Insider Trading Policy to prevent insider trading. Kuros is committed to, and expect its employees, officers and directors ("Associates") to comply with the provisions to prevent inappropriate insider trading. Specifically, any insider who has knowledge of price-sensitive information shall not trade in securities to which such information pertains. He/She shall not disclose such information to third parties, or encourage any other person to trade in such securities. A violation of this policy may result in disciplinary action, including termination of employment without notice. In addition, a violation may result in criminal prosecution of the insider based on Art. 40 of the Swiss Stock Exchange Act, which prohibits trading or passing on insider information. All Associates are responsible and accountable for complying with the provisions of this Policy as well as with all applicable laws and regulations. The Insider Trading Policy is available on the Company's website at www.kuros.ch/investors/corporate-governance.html.

Code of Conduct

The Company has a Code of Conduct. Kuros is committed to, and expect all its Associates to observe the highest standards of ethical business conduct and to comply with the letter and spirit of all laws and regulations applicable in the countries or regions where the Company engages in business. All Associates are responsible and accountable for complying with the provisions of this Code as well as with all applicable laws and regulations. The Code of Conduct is available on the Company's website at www.kuros.ch/investors/corporate-governance.html.

Due to the size of the Company, it does not have an internal audit function.

In 2017, none of the members of the Board, except Didier Cowling and Harry Welten, who were also CEO and CFO, respectively, participated in any meeting of the Executive Committee.

In 2017, the CFO was present at all meetings of the Audit Committee. If deemed appropriate by any member of the Audit Committee, parts of the committee meetings take place without the presence of members of management.

Executive Committee (DCG 4)

Members of the Executive Committee (DCG 4.1)

Name	Year of birth	Nationality	Position
Ivan Cohen-Tanugi, MD	1961	USA/F	Former Chief Executive Officer ¹
Didier Cowling, MA	1965	UK	Former President ²
Joost de Bruijn, PhD	1966	NL	Chief Executive Officer ³
Michael Grau, MBA	1962	D	Chief Financial Officer ⁵
Alistair Irvine, PhD	1969	UK	Chief Business Officer
Virginia Jamieson, MB ChB	1953	UK	Chief Medical Officer
Philippe Saudan, PhD	1967	Switzerland, UK	Chief Development Officer
Jason Schense, PhD	1972	USA, Italy	Chief Technology Officer ⁴
Frank-Jan van der Velden	1959	NL	Head of Business Affairs and Finance at Kuros Biosciences BV
Harry Welten, MBA	1965	Switzerland	Former Chief Financial Officer ⁶

¹ CEO from April 13, 2017 until December 4, 2017

² CEO until April 13, 2017, President thereafter

³ CEO Kuros Biosciences BV until December 4, 2017, CEO Kuros Biosciences AG since December 4, 2017

⁴ Until September 26, 2017

⁵ Since February 1, 2018

⁶ Until January 31, 2018

Ivan Cohen-Tanugi

See under Board of Directors (DCG 3).

Didier Cowling

See under Board of Directors (DCG 3).

Joost de Bruijn

Dr. Joost de Bruijn is Chief Executive Officer (CEO) of Kuros since December 2017. Mr. de Bruijn founded Xpand Biotechnology BV in 2005 and was managing director ever since. He holds the positions of Professor of Biomaterials at Queen Mary University of London, UK (since 2004) and Professor of Regenerative Medicine and Entrepreneurship at Twente University, the Netherlands (since 2011). In 2007, he founded Progentix Orthobiology that signed an exclusive development agreement with NuVasive in 2009 for a novel family of calcium phosphate synthetic bone substitutes. Prior to founding Xpand he was Research Director Bone at IsoTis for seven years, during which he specialized in bone tissue engineering technologies that were brought to clinical application. Dr. de Bruijn has more than 20 years of experience in academia and the life science industry. He has published 165 papers in peer-reviewed journals, and is the inventor of 24 patent families. Dr. de Bruijn is scientific editor and reviewer for numerous international biomaterials, tissue engineering and regenerative medicine journals. He received his PhD from Leiden University, the Netherlands, in 1993.

Michael Grau

Michael Grau is Chief Financial Officer (CFO) of Kuros since February 2018. Mr. Grau has a track record of 25 years experience in corporate finance, controlling, accounting and general management in diverse industries and, since 2001, with a focus on medtech, biotech and pharma. Before he joined Kuros, he served as CFO of Proteros Biostructures, a biotech company focusing on enabling lead discovery, Correvio, a Geneva-based hospital specialty pharma company, and Endosense, another Geneva-based private medtech company. Mr. Grau was responsible for multiple capital market transactions, financing rounds and several merger and acquisition agreements for public and private companies. He started his career working for KPMG Pat Marwick. Mr. Grau holds a BA in European Finance and Accounting from Bremen University, Germany, and Leeds University, U.K., and an executive MBA from Henley Business School at the University of Reading, U.K.

Alistair Irvine

Alistair Irvine joined Kuros as director of business development in 2006 after a career as a technical and commercial consultant to the biotechnology industry. Prior to his work, he was deputy director of R&D operations manager at Innovata plc, where he managed research programs in the fields of gene expression, cell culture, polymer science and oncology. In addition, he was involved in business development. Prior, Dr. Irvine was head of biology at ML Laboratories plc, as well as sub-divisional head research and group leader immunotherapy at Cobra Therapeutics Ltd. He also was senior scientist with Therexsys Ltd. Dr. Irvine has been working in the biotechnology/medtech industry for over 20 years. Dr. Irvine holds a PhD in molecular biology from the University of Sheffield, UK, and a BSc in biochemistry from the University of Edinburgh, UK.

Virginia Jamieson, MB ChB

Virginia Jamieson was appointed Chief Medical Officer (CMO) in March 2016 responsible for overseeing the clinical development of the projects. She previously worked for Kuros Biosurgery AG from 2005 until 2012 as medical director and then as CMO leading the clinical and regulatory functions. Dr. Jamieson has over 25 years of experience in the pharmaceutical industry covering all phases of development in a wide variety of therapeutic areas, following a career in anesthesia. She obtained a BSc in Medical Sciences and Medical Degree from Edinburgh University, Scotland, a post-graduate fellowship in anesthesia from the Royal College of Anaesthetists in London, UK, and a Diploma in pharmaceutical medicine from the Royal College of Physicians in London, UK.

Philippe Saudan

Dr. Philippe Saudan was appointed Chief Development Officer (CDO) in August 2016. He has spent more than 17 years in the pharmaceutical industry and held different management roles in R&D. Dr. Saudan has considerable experience in R&D and international project management of multidisciplinary programs. In his last position, he served as Chief Scientific Officer of Cytos Biotechnology, where he worked at the interface between pre-clinical research, manufacturing and development of several clinical projects. Since February 2016, Dr. Saudan was working as Head of Integration of Kuros Biosciences. In this position, he was closely involved in the different development programs in tissue repair and regeneration. Dr. Saudan holds a PhD in biology from the University of Lausanne, Switzerland.

Jason Schense

Dr. Schense has been working as Chief Technology Officer (CTO) responsible for the ongoing operational activities until September 26, 2017. Prior to joining Kuros, Jason was employed as a project leader at Straumann Biologics where he spent a year developing novel synthetic matrices for enhanced osseous healing associated with dental implants. From 2000 to 2002, Dr. Schense was employed as a project scientist at Kuros Therapeutics, where he was responsible for synthetic and fibrin-based materials for both bone and wound repair. He received his PhD in 1999 from the California Institute of Technology, Pasadena/CA, USA, working with Prof. Jeffrey Hubbell for the development of modified fibrin matrices for nerve regeneration. From this combined work, Dr. Schense has earned 19 publications, 10 conference presentations and is named as a co-inventor on all the patents in the field of delivery of growth factors from fibrin and modification of fibrin that the Company has licensed for tissue regeneration from the ETHZ and Caltech. He earned his BSc in Chemical Engineering from the Massachusetts Institute of Technology, Cambridge/MA, USA.

Frank-Jan van der Velden

See under Board of Directors (DCG 3).

Harry Welten

See under Board of Directors (DCG 3).

Other activities and vested interests (DCG 4.2)

Other than as described above, none of the members of the Executive Committee has any position in governing or supervisory bodies of any major organization, institution or foundation under private or public law, permanent management or consultancy function for major interest groups, official function or political mandate.

Each member of the Executive Committee may cumulatively assume not more than the following number of mandates in the board of directors, the superior management or an administrative body of a legal entity, which is obliged to be registered in the Swiss commercial register or an equivalent foreign register: a) 2 mandates for publicly traded companies pursuant to Art. 727 Para. 1 number 1 CO; b) 3 mandates for companies pursuant to Art. 727 Para. 1 number 2 CO; and c) 5 mandates for companies which do not fulfill the criteria under a) and b). Mandates held in several legal entities each operating under the same management or same beneficial owner (group) are deemed to be a single mandate. If a legal entity fulfills several of the above mentioned criteria, it can be freely counted towards any category. Mandates in legal entities which are controlled by the Company or which control the Company and honorary mandates in charitable legal entities are excepted from these restrictions. See Article 38 of the Articles.

Management contracts (DCG 4.4)

There are no management contracts.

Compensation, Shareholdings and Loans (DCG 5)

Content and method of determining compensation and the shareholding programs (DCG 5.1)

The compensation of the Board and the Executive Committee is defined and reviewed by the Board and based on the recommendation of the Compensation Committee with the involvement of external consultants on benchmarking as deemed appropriate. As prescribed by law, the approval of the compensation is subject to Shareholders' approval at the General Meeting.

For more details on the compensation policy and the compensation elements for the Board and Executive Committee, see the 2017 Compensation Report, which is an integral part of the 2017 Annual Report, and the Articles.

No severance payments were paid to members of the Board or the Executive Committee.

Transparency of compensation, shareholdings and loans to issuers domiciled abroad (DCG 5.2)

Not applicable, as the Company is domiciled in Switzerland.

Principles of the compensation of the members of the Board and Executive Committee (DCG 5.2.1)

The compensation payable to the members of the Board is subject to and within the bounds of the approval of the total compensation by the General Meeting. It comprises a fixed basic remuneration, fixed committee fee for work in a committee of the Board and a lump sum compensation for expenses. The compensation is payable in cash and options or shares under the Company's Option Plan. The Board or, to the extent delegated to it, the Compensation Committee determines grant, exercise and forfeiture conditions of the options. Members of the Board receive no performance-related pay. Subject to the approval by the General Meeting, a member of the Board may receive additional remuneration in cash at customary conditions for advisory services rendered outside his/her capacity as member of the Board. The General Meeting may approve an additional bonus in exceptional cases. See articles 32 and 41 of the Articles.

The compensation payable to the members of the Executive Committee is subject to the approval of the total compensation by the General Meeting. It comprises a fixed basic remuneration payable in cash; a performance-related remuneration in cash (variable); and a number of options or shares under the Company's Option Plan. The Board or, to the extent delegated to it, the Compensation Committee determines grant, exercise and forfeiture conditions of the options. The performance-related remuneration depends on the Company's business success and the individual performance-based on the achievement of predetermined targets during a business year. Annually at the beginning of each business year, the Board determines the targets and their weighting upon proposal by the Compensation Committee. The amount of the performance-related remuneration is determined by the Board and may not exceed 100% of the respective individual fixed remuneration for the same year. Within the approved total compensation, the Company may make additional payments into the pension funds for the benefit of members of the Executive Committee. In this context, the Company may conclude life insurance policies on behalf of members of the Executive Committee and pay the insurance premiums, either fully or in part. Expenses not covered by the lump sum compensation pursuant to the Company's expense regulations shall be reimbursed upon presentation of the supporting receipts. This additional remuneration is not subject to a separate vote by the General Meeting. See articles 33, 40 and 41 for details.

Loans, credit facilities and post-employment benefits for members of the Board and Executive Committee (DCG 5.2.2.)

The members of the Board or the Executive Committee may not be granted loans, credits or securities. Exceptions from this rule are advances for attorney's fees, court and other similar costs required to defend third party liabilities and for tax liabilities, if any, arising in connection with the issuance of shares as resolved by the Shareholder's Meeting on January 6, 2016. The Company shall remunerate members of the Board only in respect of the employer's contributions to social insurance. Members of the Executive Committee participate in the Company's pension plans (the Company's pension fund and the management pension plan). The pension plans conform to the legal requirements (BVG). Upon retirement, the Company may also grant a bridging pension to cover the period between early retirement at 62 and the ordinary age of retirement. See articles 39 and 40 of the Articles for details.

Rules on the vote on pay at the General Meeting (DCG 5.2.3.)

The compensation payable to the members of the Board and Executive Committee is subject to the approval by the General Meeting. In separate votes, Shareholders decide upon the proposed total non-performance-related compensation and options for the members of the Board for the period up to the next General Meeting. In addition, Shareholders vote on the proposed total non-performance-related compensation for the members of the Executive Committee for the period up to the next General Meeting as well as the proposed total variable compensation and options for the calendar year.

Shareholders' Participation (DCG 6)

Voting rights restrictions and representation (DCG 6.1)

All shares have the same voting rights and voting rights may be exercised only after the Board has approved a Shareholder to be recorded in the Company's share register (*Aktienregister*) as a Shareholder with voting rights. Without such registration, the transferee may not vote at or participate in the General Meetings, but will still be entitled to dividends and other rights with a financial value.

At the General Meeting, Shareholders can be represented only by way of written proxy. The only voting restriction is the restriction to 3% of the share capital in accordance with Article 4 of the Articles applicable for Nominees as described under "Limitations on transferability and nominee registrations" in this Corporate Governance section.

Instructions to the independent proxy and electronic participation in the General Meeting (DCG 6.1.6)

The Independent Proxy may represent each shareholder. The Board determines the requirements regarding proxies and instructions. See article 16 of the Articles.

For the time being, the Company does not intend to open the General Meeting for electronic participation. Accordingly, the Articles contain no relevant rules.

Quorums required by the Articles (DCG 6.2)

There are no provisions in the Articles requiring qualified majorities that differ from the mandatory provisions of Swiss corporate law.

Convocation of General Meeting (DCG 6.3)

There are no provisions in the Articles regarding the convocation of the General Meeting that deviate from the rules of the CO.

Inclusion of items on the Agenda (DCG 6.4)

According to the Articles, Shareholders representing at least 10% of the share capital may request that an item be included on the agenda of the General Meeting. Such inclusion must be requested in writing at least 45 days prior to the meeting and must specify the agenda items and proposals of the respective Shareholder(s).

Entries in the share register (DCG 6.5)

Shareholders entered into the share register as shareholders on a specific qualifying day designated by the Board (record date), which is usually less than five business days before the shareholders' meeting, are entitled to attend such meeting and to exercise their votes.

Changes of control and defense measures (DCG 7)

Duty to make an offer (DCG 7.1)

The Company has neither an opting-out nor an opting-up provision in its Articles. As a consequence, the mandatory bid obligation of the Stock Exchange Act applies.

Clauses on changes of control (DCG 7.2)

In light of the reverse merger in January 2016, change of control conditions were triggered for members of the Executive Committee. Specifically, the customary notice period of six months has been extended to twelve months with effect until January 18, 2018.

Auditors (DCG 8)

Duration of the mandate and term of office of the auditor in charge (DCG 8.1)

PricewaterhouseCoopers AG ("PwC") was appointed as Group and statutory auditors and as independent auditors ("Auditors") at the 2017 General Meeting, having been the Auditors of former Cytos Biotechnology since 2002. The appointment is made on an annual basis. Thomas Brüderlin is the auditor in charge of the mandate in the 2017 financial year.

Auditing fees (DCG 8.2)

In 2017, PwC invoiced a total TCHF284.4 for auditing the full-year statutory and consolidated financial statements and for reviewing the capital increase report, the Interim Report for the first six months of 2017 and the internal control system.

Additional fees (DCG 8.3)

In 2017, PwC earned additional fees from the Group in the amount of TCHF 90.3 for services relating to M&A activities and VAT consulting.

Information instruments pertaining to the external audit (DCG 8.4)

The Auditors participate in the meetings of the Audit Committee. They present the detailed report to the Audit Committee and the Board and comment on the significant results of the full-year audits. Furthermore, the scope of the audit and the audit itself, as well as the review procedures, the independence of auditors, and audit fees are discussed. The Board assesses the performance of the Auditors by its adherences to deadlines and agreed budgets as well as the quality of the reporting to the Board and Executive Committee.

The Company strives to safeguard and support the independence of the Auditors by avoiding conflicts of interest, and carefully examines conflict of interest considerations before engaging its Auditors for other consulting services in order not to endanger the independence of its Auditors.

Information policy (DCG 9)

The Company's website provides additional information such as an overview of the organization including internal rules and regulations, its science, technology and product pipeline, archived and latest press releases including Financial Reports as well as its corporate events.

Shareholder communications and notices the shareholders shall be made by publication in the Swiss Official Gazette of Commerce or sent by mail or email to the addresses registered in the share register.

The Annual Report including the Compensation Report and the Financial Reports as well as the Interim Report are available on the Kuros' website at www.kuros.ch/investors/reports-presentations.html. Upon request, the Company provides its Shareholders with a printed copy of the Annual or Interim Reports.

Ad-hoc press releases are available on the Company's website at www.kuros.ch/news-events/press-releases.html. Shareholders and other interested parties can sign up to Kuros' news service at www.kuros.ch/investors/stay-informed.html.

The corporate agenda is available on Kuros' website at www.kuros.ch/investors/calendar.html.

The CFO and CEO hold regular meetings with existing and potential investors and other interested parties. Contact details are displayed on the back cover of this Annual Report.



Compensation Report 2017

Overview of the Compensation Report

This Compensation Report provides the information required by the Federal Ordinance against Excessive Compensation in listed companies ("OeEC"), which prevails over article 663c paragraph 3 of the Swiss Code of Obligations. It also includes the information required by section 5 of the Annex to the Directive on Information relating to Corporate Governance of the SIX Swiss Exchange and the Swiss Code of Best Practice for Corporate Governance.

On December 3, 2015, Kuros Biosurgery Holding Ltd and Cytos Biotechnology Ltd (which was renamed Kuros Biosciences Ltd on January 18, 2016; henceforth called "Kuros" or the "Company") announced their intention to combine their businesses by way of an exchange of Kuros Biosurgery Holding Ltd shares for newly issued Cytos Biotechnology Ltd shares. The combination was structured by way of a contribution in kind of all shares and participation certificates of Kuros Biosurgery Holding Ltd against issuance of new Cytos Biotechnology Ltd common registered shares on the basis of a 1 for 26.79 exchange ratio. The acquisition closed on January 18, 2016. In addition, outstanding stock options from Kuros Biosurgery Holding Ltd were exchanged for stock options issued by Kuros Biosciences Ltd. Throughout this report, the number of options as well as their exercise prices are shown with values taking into consideration the reverse stock split at the ratio of 100 to 1 as approved by the General Meeting on June 16, 2016.

The Board of Directors ("Board") will submit the Compensation Report to a consultative vote at the General Meeting 2018 together with proposals for additional changes to the compensation policy in order to comply with the new legal framework in the OeEC.

The first part of this report provides Kuros' compensation principles, and the second part provides details of each of the compensation elements, with compensation details for the Board followed by details for the Executive Committee.

Compensation policy and philosophy

Kuros' compensation policy and philosophy are designed to attract, motivate and retain talent in order to support the achievement of the Company's strategic goals and also to ensure that the total compensation package is fair and competitive. By combining short- and long-term incentive elements, the Board believes that the compensation policy is designed in a way that the interests of the top management are aligned with the interests of the Company and its shareholders. The compensation elements are focused on rewarding outstanding and sustainable results without inappropriate risk-taking. Kuros' compensation system does not set any unintended enticements or contain any components that could be counterproductive to the objectives of the compensation system.

The Compensation Committee reviews and monitors Kuros' compensation policy in light of its business strategy, corporate goals and values, in order to ensure the alignment of employee interests with those of the Company and the shareholders. The Compensation Committee annually reviews the compensation of the members of the Board and of the Executive Committee and, if appropriate, suggests changes to the Board. No members of the Executive Committee are present in the meetings of the Compensation Committee.

Compensation elements for the Board of Directors and Executive Committee

Board of Directors

The compensation payable to the members of the Board is subject to and within the bounds of the approval of the total compensation by the General Meeting. It is comprised of a (i) non-performance related cash compensation (fixed basic fee, fixed fee for work in a committee) and (ii) non-cash compensation in the form of stock options under the Company's stock option plan (henceforth called "Stock Option Plan"). The Board or, to the extent delegated to it, the Compensation Committee determines grant, exercise and forfeiture conditions of the options issued under the Stock Option Plan. Subject to the approval by the General Meeting, a member of the Board may receive additional remuneration in cash at customary conditions for advisory services rendered outside his capacity as member of the Board. The General Meeting may approve an additional bonus in exceptional cases. The Company remunerates members of the Board only in respect of the employer's contributions to social insurance.

Compensation for Board of Directors for the year 2017 (audited)

Name	Cash (TCHF)	Options (TCHF)	Variable bonus ³ (TCHF)	Employer Social Security (TCHF)	Total (TCHF)	Options (number)
Christian Itin Chairman	76.5	11.8	–	5.0	93.3	3,000
Leanna Caron Vice Chairman	52.5	7.9	–	3.4	63.8	2,000
Didier Cowling Member	365.7	137.7	216.8	87.3	807.5	35,000*
Giacomo Di Nepi Member	26.3	7.9	–	1.9	36.1	2,000
Arnd Kaltofen ¹ Member	–	–	–	–	–	–
Jörg Neermann ¹ Member	–	–	–	–	–	–
Vincent Ossipow ¹ Member	–	–	–	–	–	–
Gerhard Ries Member	60.6	7.9	–	–	68.5	2,000
Clemens van Blitterswijk ² Member	23.8	7.9	–	–	31.7	2,000
Frank-Jan van der Velden ² Member	162.3	–	–	9.4	171.7	–
Harry Welten Member	304.4	–	139.6	70.9	514.9	–
Total Board of Directors	1,072.1	181.1	356.4	177.9	1,787.5	46,000

¹ Did not stand for re-election at the General Meeting on May 22, 2017

² Newly elected at the General Meeting on May 22, 2017

³ On a accrual basis the variable bonus amounts to TCHF 110 for Didier Cowling and TCHF 146.6 for Harry Welten.

* Subject to forfeiture of certain options due to termination of employment (remaining options as per termination date of November 30, 2018 will be 10,938).

All amounts are gross amounts.

The Company regularly grants share options to the members of the Board under the Company's Option Plan. The options granted and mentioned above to the board were allocated in 2017, the fair values were calculated using the Black-Scholes method. Each option entitles the holder to buy one share of the Company with an exercise price as mentioned below:

Grant date	July 3, 2017
Exercise price	CHF 18.30
Fair value (Black-Scholes)	CHF 3.9357
Expiry date (100% vesting upon change of control)	July 3, 2022
Christian Itin	3,000
Leanna Caron	2,000
Clemens van Blitterswijk	2,000
Giacomo Di Nepi	2,000
Gerhard Ries	2,000
Didier Cowling	35,000*

* Subject to forfeiture of certain options due to termination of employment (remaining options as per termination date of November 30, 2018 will be 10,938).

Compensation for Board of Directors for the year 2016 (audited)

Name	Cash (TCHF)	Options (TCHF)	Variable bonus (TCHF)	Employer Social Security (TCHF)	Total (TCHF)	Options (number)
Christian Itin Chairman	307.5	32.8	20.0 ⁴	21.9	382.2	3,000
Dominik Ellenrieder ³ Vice Chairman	17.5	18.9	–	–	36.4	2,713
Leanna Caron ² Vice Chairman	22.5	36.2	–	1.6	60.3	2,000
Joseph Anderson ¹ Member	–	–	–	–	–	–
John Berriman ¹ Member	–	–	–	–	–	–
Didier Cowling ³ Member and CEO	380.0	2,855.0 ⁵	133.0	75.5	3,443.5	108,136 ⁵
Arnd Kaltofen ³ Member	–	21.8	–	–	21.8	2,000
Jörg Neermann ³ Member	–	21.8	–	–	21.8	2,000
Vincent Ossipow ³ Member	–	–	–	–	–	–
Gerhard Ries ³ Member	43.6	21.8	–	–	65.5	2'000
Kurt von Emster ¹ Member	–	–	–	–	–	–
Harry Welten ³ Member and CFO	304.4	953.1	139.6	72.9	1,470.0	88,200
Total Board of Directors	1,075.5	3,961.4	292.6	171.9	5,501.5	210,049

¹ Messrs. John Berriman, Joseph Anderson and Kurt von Emster, former Board members of Cytos Biotechnology Ltd, resigned with effect as of the date of the closing of the business combination, i.e. January 18, 2016.

² Elected at the General Meeting on June 16, 2016

³ Messrs. Didier Cowling, Dominik Ellenrieder, Arnd Kaltofen, Jörg Neermann, Vincent Ossipow, Gerhard Ries and Harry Welten were elected by the Extraordinary General Meeting on January 6, 2016. Dominik Ellenrieder and Vincent Ossipow did not stand for re-election at the General Meeting on June 16, 2016.

⁴ Relates to the pro-rated cash bonus for 2016 in the individual's capacity as CEO until January 18, 2016.

⁵ Costs associated with the modification of share-based payments in connection with the reverse merger, i.e. outstanding options of Kuros Biosurgery Holding Ltd were replaced by stock options of Kuros Biosciences Ltd granted under the Stock Option Plan. 5,358 options expired in 2016 and no other options were granted in 2016.

All amounts are gross amounts.

The Company regularly grants share options to the members of the Board under the Company's Option Plan. The options granted and mentioned above to the board were allocated in 2016, the fair values were calculated using the Black-Scholes method. Each option entitles the holder to buy one share of the Company with an exercise price as mentioned below:

Grant date	February 25, 2016	June 16, 2016
Exercise price (adjusted to reverse split)	CHF 42.00	CHF 24.00
Fair value (Black-Scholes, adjusted to reverse split)	CHF 10.92	CHF 18.12
Expiry date 100% vesting upon change of control	February 25, 2021	June 16, 2021
Christian Itin	3,000	
Leanna Caron		2,000
Arnd Kaltofen	2,000	
Jörg Neermann	2,000	
Gerhard Ries	2,000	

Executive Committee

The compensation payable to the members of the Executive Committee is subject to the approval of the total compensation by the General Meeting. It comprises (i) a fix basic remuneration payable in cash, (ii) a performance-related remuneration in cash (variable) and (iii) a number of options or shares under the Stock Option Plan. The compensation of the members of the Executive Committee also includes certain insurance for death and invalidity. The Board or, to the extent delegated to it, the Compensation Committee determines grant, exercise and forfeiture conditions of the options. The performance-related remuneration depends on the Company's business success and the individual performance-based on the achievement of predetermined targets during a business year. Annually at the beginning of each business year, the Board determines the targets and their weighting upon proposal by the Compensation Committee. The amount of the performance-related remuneration is determined by the Board and may not exceed 100% of the respective individual fixed remuneration for the same year. Within the approved total compensation, the Company may make additional payments into the pension funds for the benefit of members of the Executive Committee. In this context, the Company may conclude life insurance policies on behalf of members of the Executive Committee and pay the insurance premiums, either fully or in part. Expenses not covered by the lump sum allowance pursuant to the Company's expense regulations shall be reimbursed upon presentation of the supporting receipts. This additional remuneration is not subject to a separate vote by the General Meeting.

The members of the Executive Committee may not be granted loans, credits or securities. The Company shall remunerate members of the Board only in respect of the employer's contributions to social insurance. Members of the Executive Committee participate in the Company's pension plans (the Company's pension fund and the management pension plan). The pension plans conform to the legal requirements (BVG). Upon retirement, the Company may also grant a bridging pension to cover the period between early retirement at 62 and the ordinary age of retirement.

Members of the Executive Committee are subject to the standard terms and conditions for Kuros employees. Kuros has no contractual termination payment obligations to members of the Board or the Executive Committee.

Compensation for Executive Committee for the year 2017 (audited)

Name	Cash (TCHF)	Options (TCHF)	Variable bonus ¹ (TCHF)	Employer Social Security (TCHF)	Total (TCHF)	Options (number)
Philippe Saudan (highest compensated member of Executive Committee)	259.4	–	67.4	56.5	383.3	–
Total Executive Committee	1,553.6	507.7	210.5	217.2	2,489	128,986*

¹ On a accrual basis the variable bonus amounts to TCHF 74.1 for Philippe Saudan (highest compensated member of Executive Committee) and TCHF 244.1 for the Total Executive Committee.

* Subject to forfeiture of certain options due to termination of employment (remaining options as per termination date will be 40,309).

All amounts are gross amounts.

Explanations:

- Individuals acting simultaneously as member of the Board and of the Executive Committee are reported under Board.
- The bonus year is equal to the calendar year. Therefore, the bonus amount represents the actual bonus paid within a calendar year.
- Kuros regularly grants share options to the members of the Board, the members of the Executive Committee and the employees. One option plan was allocated in 2017; the fair values were calculated using Black-Scholes method. Each option entitles the holder to buy one share of the Company. In 2017 (on July 3) a total of 174,986 options were granted to the Board of Directors (46,000) and to members of the Executive Committee (128,986). The fair value at grant date was CHF 3.9357. The exercise price is CHF 18.30 with expiration on July 3, 2022.

Compensation for Executive Committee for the year 2016 (audited)

Name	Cash (TCHF)	Options (TCHF)	Variable bonus (TCHF)	Employer Social Security (TCHF)	Total (TCHF)	Options (number)
Alistair Irvine (highest compensated member of Executive Committee)	235.0	1,915.6 ¹	63.7	44.4	2,258.7	73,921 ¹
Total Executive Committee	986.3	4,263.0²	221.8	118.5	5,589.6	186,066

¹ Relates to the replacement of stock options originally granted by Kuros Biosurgery Holding Ltd, which were replaced by stock options granted under the Stock Option Plan. No other new options were granted in 2016.

² Is comprised of (i) TCHF 3,828 related to the replacement of stock options originally granted by Kuros Biosurgery Holding Ltd, which were replaced by stock options granted under the Stock Option Plan and (ii) TCHF 435 for new options granted in 2016.

Explanations:

- Individuals acting simultaneously as member of the Board and of the Executive Committee are reported under Board.
- The bonus year is equal to the calendar year. Therefore, the bonus amount is composed of the annual bonus of 2016, which is accrued.
- Kuros regularly grants share options to the members of the Board, the members of the Executive Committee and the employees. One option plan was allocated in 2016; the fair values were calculated using Black-Scholes method. Each option entitles the holder to buy one share of the Company. In 2016, 168,200 options were granted to the Executive Committee between February 25 and July 21, 2016. The fair value at grant date was between CHF 10.81 and CHF 15.83. The exercise price is between CHF 24.00 and 42.00 with expiration between February 25, 2021 and July 21, 2021.

No severance payments were made to former members of Board or the Executive Committee.

Stock option program

The purpose of the Company's Stock Option Plan is to provide the Board of Directors, the Executive Committee, other management members and certain employees with an opportunity to obtain options and to benefit from the appreciation thereof, 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. The grant of any option under the Company's Stock Option Plan is wholly discretionary. Key factors considered by the Board are the amount of approved conditional capital by the General Meeting, the maximum number of options approved by the General Meeting and the dilution of Kuros shares. Any value, income or other benefit derived from any option is not considered part of the participant's salary or compensation for the purposes of calculating any pension or retirement benefits. The strike price is determined by the Board and is based on the closing price of the Kuros shares on the SIX Swiss Exchange on the grant date.

Upon closing of the reverse merger on January 18, 2016, and in accordance with the terms and conditions as agreed in the Combination Agreement, the following applied with effect as of January 18, 2016:

- (a) All 91,000 options issued to the members of the Board and the Executive Committee from former Cytos Biotechnology Ltd remained in place whereas all non-vested options vested on an accelerated basis with effect as of January 18, 2016 ("Legacy Options Cytos Biotechnology AG").
- (b) All outstanding 127,994 options issued by Kuros Biosurgery Holding Ltd to their Board and members of the Executive Committee ("Legacy Options Kuros Biosurgery Holding Ltd") were replaced with 34,293 options (7,801 of which expired on 6 July 2016) issued by Kuros Biosciences as a replacement of the regular options granted by Kuros Biosurgery Holding AG.
- (c) 222,622 options were granted to the members of the Executive Committee as a replacement of Kuros Biosurgery Holding options (which, in turn were granted in lieu cash payments – so called "Phantom Stock") as agreed within the reverse merger.

After January 18, 2016, the following options were granted:

- (d) In 2016, 179,200 new options ("Kuros Options") were granted to members of the Board and management.
- (e) In 2017, a total of 174'986 options were granted on July 3, 2017 with an exercise price of CHF 18.30 and an expiration date of July 3, 2022.

The following table shows the range of conditions as well as the range of assumptions applied to the share-based payment arrangements for 2017. All options granted in 2017 still exist as of December 31, 2017 as no forfeitures and/or cancellations took place except for those in conjunction with Ivan Cohen-Tanugi and Didier Cowling.

The exercise price of the granted options (b) and (c) are those that were applicable in the original grant (adjusted for the reverse merger); the exercise price of the granted options (a) and (d) is equal to the market price of the shares of Kuros Biosciences Ltd on the grant date. The volatility is based on the historical volatility where available. The risk-free interest rate is based on the CHF swap rate for the expected life of the options.

Share options, conditions and assumptions

Options granted in 2017:

	(a) New Kuros options granted in 2017
Effective date	July 3, 2017 (date of grant)
Number of options	174,986
Exercise price	CHF 18.30
Share price at date of grant	CHF 13.00
Contractual life	5 years
Vesting period	11,000 options vest after 12 months 163,986 options vest 25% after 1 year and then quarterly over remaining 3 years
Settlement	Shares
Expected volatility at day of grant	47.52%
Expected option life at grant date	until maturity
Risk-free interest rate p.a.	(0.23%)
Expected dividend	Zero
Expected fair value of option at grant date	CHF 3.94
Expiry date	July 3, 2022
Valuation model	Black Scholes

Options granted in 2016:

	(b) Legacy options Kuros Biosurgery Holding Ltd	(c) Options granted within reverse merger "Phantom Stock"	(d) New Kuros options granted in 2016
Effective date	January 18, 2016 (date of replacement)	January 18, 2016 (date of replacement)	February 25, 2016 to July 21, 2016 (date of grant)
Number of options	34,293*	222,622	179,200
Exercise price	CHF 37.00 to 56.00	CHF 2.00	CHF 24.00 to 42.00
Share price at date of grant	CHF 31.00	CHF 31.00	CHF 25.00 to CHF 31.00
Contractual life	170 to 2,175 days	9.87 years	5 years
Vesting period	fully vested	111,311 options fully vested; 111,311 options vest monthly over 2 years	11,000 options vest after 18 months; 168,200 options vest 25% after 1 year and then quarterly over remaining 3 years
Settlement	Shares	Shares	Shares
Expected volatility at day of grant	51.75%	51.75%	46.89 to 68.20%
Expected option life at grant date	until maturity	until maturity	until maturity
Risk-free interest rate p.a.	(0.45%)	(0.45%)	(0.0068 to 0.7375%)
Expected dividend	Zero	Zero	Zero
Estimated fair value of option at grant date	CHF 2.32 to 10.99	CHF 29.12	CHF 10.81 to 18.11
Expiry date	various, latest January 1, 2022	November 30, 2025	February 25 to July 21, 2021
Valuation model	Black Scholes	Black Scholes	Black Scholes

* 7,311 options expired in 2017 (2016: 10,577), currently 16,405 options outstanding.

Indirect benefits

The Company contributes to the pension plan and maintains certain insurance for death and invalidity for the members of the Executive Committee.

Loans and credits (audited)

The Company has not granted any loans, credits or guarantees to current or past members of the Board, of the Executive Committee, or to related persons in 2017 or 2016. No consulting fee for services rendered by former members of the Executive Committee has been paid (2016: TCHF 0).



Report of the statutory auditor to the General Meeting of Kuros Biosciences AG Schlieren

We have audited the remuneration report of Kuros Biosciences AG for the year ended 31 December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled 'audited' on pages 36 to 44 of the remuneration report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration 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 remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration 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 remuneration 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 remuneration 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 remuneration 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 remuneration report.

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

*PricewaterhouseCoopers AG, St. Jakobs-Strasse 25, Postfach, CH-4002 Basel, Switzerland
Telefon: +41 58 792 51 00, Telefax: +41 58 792 51 10, www.pwc.ch*

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Opinion

In our opinion, the remuneration report of Kuros Biosciences AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

A blue ink signature of Thomas Bruederlin on a light blue grid background. To the right of the signature is a red circular stamp with a white cross, indicating a Swiss official seal.

Thomas Bruederlin
Audit expert
Auditor in charge

A blue ink signature of Thomas Ebinger on a light blue grid background. To the right of the signature is a red circular stamp with a white cross, indicating a Swiss official seal.

Thomas Ebinger
Audit expert

Basel, 27 April 2018



Financial Report 2017

Consolidated Financial Statements 2017

Financial performance and results of operations (IFRS)

General remark

On December 19, 2016, Kuros Biosciences Ltd (“Kuros”) announced its intention to acquire Xpand Biotechnology B.V. (“Xpand”) by way of an exchange of Xpand shares for newly issued shares from Kuros. The transaction closed on January 23, 2017. As a result of the acquisition, Kuros accelerated its transition to become a commercial stage company with two products close or already available for commercialization: Neuroseal (CE certification received in June 2017) and MagnetOs™ (CE certification mark approval obtained for Europe, 510k approval obtained for the U.S. – both for the granules formulation). The acquisition further provides Kuros with an EU operation in the Netherlands as well as with certified and GMP-controlled manufacturing capabilities.

Under the terms of the proposed combination, Kuros agreed to issue a total of up to 2.105 million shares for all outstanding Xpand shares. Upon closing of the transaction on January 23, 2017, 1.365 million of these shares were issued out of authorized share capital to the sellers whereas another 0.74 million shares to be issued upon achievement of two milestones associated with product approvals – namely CE mark approval and 510k approval for MagnetOs™ – both in the form of a putty formulation. Following closing, the existing current shareholders of Kuros owned approximately 79% of the Company's issued share capital. Provided both milestones are achieved, those current Kuros shareholders will own about 71% of the combined company. All shares needed for the transaction will be issued from Kuros' authorized share capital.

Financial position and other assets

Funds available for financing the operations of Kuros amount to CHF 17.0 million as per December 31, 2017, and include cash and cash equivalents, trade and other receivables. This is CHF 4.0 million higher than on December 31, 2016 (CHF 13.0 million). The increase is mainly driven by capital increases which have overcompensated the net operating cash outflow.

Following the acquisition of Xpand, a purchase price allocation was conducted. Intangibles of CHF 26.5 million were recorded, of which CHF 19.2 million related to in Process R&D and CHF 7.3 million to marketed products. The purchase price allocation results in a goodwill of CHF 9.9 million.

As per December 31, 2017 total intangible assets amount to CHF 33.2 million and goodwill amounts to CHF 34.5 million.

Revenues primarily consists of a milestone payment

In 2017, Kuros received a milestone payment of TCHF 534 (TCHF 997 in 2016) from a collaboration partner.

Operating costs decreased by CHF 5.6 million

Operating costs amount to CHF 16.8 million, compared to CHF 22.4 million in the previous year. The decrease is primarily driven by significantly lower non-cash expenses in connection with share-based payments. Research and development expenses decreased from CHF 7.9 million to CHF 4.5 million mainly due to one-off effects in the prior year (impairment charges of intangible assets). General and administrative expenses decreased from CHF 17.1 million to CHF 15.2 million in 2017. Other income increased from CHF 2.6 million to CHF 2.9 million and consists primarily of payments earned from sublet space (payments made to the landlord are captured in general and administrative costs).

Financial income

With CHF 0.04 million, the financial income was significantly lower in 2017 as compared to 2016 (TCHF 1.2 million). This was mainly a result of the amended terms of the convertible loan in context of the reverse merger resulting in a non-recurring gain on conversion of TCHF 1,154, which was included in the financial income for 2016.

Financial expenses amounted to CHF 0.4 million and were slightly higher than in 2016 (CHF 0.1 million).

Cash burn

The gross cash burn for operating activities, as calculated on the cash flow statement, was a monthly average of CHF 0.9 million in 2017 compared to CHF 0.7 million in 2016. The reason for this increased cash burn is the additional cash need for the acquired Xpand.

Consolidated balance sheets

in TCHF, IFRS	Note	December 31, 2017	December 31, 2016
Non-current assets:			
Property and equipment, net	11	630	45
Financial assets		–	15
Intangible assets	12	33,231	6,595
Goodwill	12	34,546	23,717
Total non-current assets		68,407	30,372
Current assets:			
Inventories		220	–
Prepayments and other assets	14	430	362
Trade receivables	13	154	308
Other receivables	13	197	357
Cash and cash equivalents	10	16,673	12,369
Total current assets		17,674	13,396
Total assets		86,081	43,768
Shareholders' equity:			
Share capital	17	8,171	5,084
Share premium		104,153	60,908
Treasury shares	17	–	(266)
Other reserves		17,973	15,934
Accumulated loss		(57,157)	(43,338)
Total shareholders' equity		73,140	38,322
Non-current liabilities:			
Pension liabilities	24	1,688	2,181
Deferred tax liabilities	23	6,597	–
Total non-current liabilities		8,285	2,181
Current liabilities:			
Trade payables		1,320	1,273
Accrued expenses	16	1,652	1,992
Provisions	22	1,684	–
Total current liabilities		4,656	3,265
Total shareholders' equity and liabilities		86,081	43,768

See accompanying notes, which are an integral part of these consolidated financial statements.

Consolidated income statements

in TCHF, IFRS, twelve months ended December 31	Note	2017	2016
Revenue from collaborations		534	1,061
Revenue		534	1,061
Research and development		(4,470)	(7,909)
General and administrative		(15,242)	(17,070)
Other income		2,935	2,572
Net operating costs	18	(16,777)	(22,407)
Operating loss		(16,243)	(21,346)
Financial income		43	1,214
Financial expense		(393)	(145)
Net financial result		(350)	1,069
Loss before tax		(16,593)	(20,277)
Income taxes	23	109	533
Net loss		(16,484)	(19,744)
Basic net loss per share (CHF)	26	(2.32)	(3.95)
Diluted net loss per share (CHF)	26	(2.32)	(3.95)

See accompanying notes, which are an integral part of these consolidated financial statements.

Consolidated statements of comprehensive income

in TCHF, IFRS, twelve months ended December 31	Note	2017	2016
Net loss		(16,484)	(19,744)
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations		(119)	(690)
Tax effects		26	151
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences arising during the year		2,732	–
Other comprehensive income/loss		2,639	(539)
Total comprehensive loss		(13,845)	(20,283)

See accompanying notes, which are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

in TCHF, IFRS, twelve months ended December 31	Note	2017	2016
Cash flow from operating activities:			
Loss before tax		(16,593)	(20,277)
Adjustments to reconcile loss before tax to net cash used in operating activities:			
Depreciation and amortization		1,147	820
Impairment of assets	12	2,197	3,147
Financial result		350	(1,069)
Provisions	22	1,684	–
Share-based compensation	25	2,039	8,470
Changes in retirement benefit obligation		(612)	(75)
Other non-cash items		(1)	97
Changes in assets and liabilities:			
Trade and other receivables		507	394
Current prepayments		476	(174)
Current liabilities excluding convertible loan		(1,380)	(181)
Inventories		(79)	–
Net cash used in operating activities		(10,265)	(8,848)
Interest received		43	2
Interest paid		(393)	(41)
Income tax (paid)/refunded		(64)	(6)
Net cash used in operating activities		(10,678)	(8,893)
Cash flow from investing activities:			
Cash acquired in acquisition	4	653	1,865
Purchase of plant and equipment		(536)	(50)
Reduction/(Investments) in current financial assets		15	–
Capitalization of Intangibles	12	(1,037)	–
Net cash (used in) / from investing activities		(905)	1,815
Cash flow from financing activities:			
Proceeds from issuance of shares		16,092	3,654
Transaction costs on issuance of shares		(405)	(193)
Net proceeds from transactions with treasury shares		292	3
Net cash from financing activities		15,979	3,464
Cash and cash equivalents, beginning of period	10	12,369	15,940
Net change in cash and cash equivalents		4,395	(3,614)
Net effect of currency translation on cash		(91)	43
Cash and cash equivalents, end of period	10	16,673	12,369

See accompanying notes, which are an integral part of these consolidated financial statements.

Consolidated statements of change in shareholders' equity

in TCHF, IFRS	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings/ accumulated loss	Translation Differences	Total
January 1, 2016		1,305	24,785	–	7,464	(23,114)	–	10,440
Loss for the period						(19,744)		(19,744)
Other comprehensive income						(539)		(539)
Capital increase January 2016	17	242	5,965					6,207
Reverse acquisition	4, 17	3,537	30,158	(210)				33,485
Share based payment 2016	17				8,470			8,470
Treasury shares acquisition	17			(630)				(630)
Treasury shares sale	17			574		59		633
December 31, 2016		5,084	60,908	(266)	15,934	(43,338)	–	38,322
January 1, 2017		5,084	60,908	(266)	15,934	(43,338)	–	38,322
Loss for the period						(16,484)		(16,484)
Other comprehensive income						(93)	2,732	2,639
Acquisition January 2017	4, 17	1,365	29,280					30,645
Capital increases, net	17	1,722	13,965	244				15,931
Share based payment 2017	17				2,039			2,039
Treasury shares acquisition	17			(1,020)				(1,020)
Treasury shares sale	17			1,042		26		1,068
December 31, 2017		8,171	104,153	–	17,973	(59,889)	2,732	73,140

Notes

1. General information

Kuros Biosciences Ltd (“Kuros Biosciences” or “Company” or, together with its subsidiaries, collectively “Kuros” or the “Group”) is incorporated in Switzerland and is the ultimate parent company of the Group since January 18, 2016. The Company owns 100% of Kuros Biosurgery Holding Ltd, Zürich, Switzerland (“Kuros Biosurgery Holding”), which holds 100% of Kuros Biosurgery Ltd, Zürich, Switzerland as well as 100% of Proteome Therapeutics Ltd, Konstanz, Germany. Kuros Biosurgery Ltd, Kuros Biosciences Ltd and Kuros Biosciences B.V. conduct the main activities of the Group. Their focus is on the development of innovative products for tissue repair and regeneration. Kuros is listed according to the Main Standard on the SIX Swiss Exchange (the “SIX”) under the symbol KURN.

With effect as of January 23, 2017, Kuros acquired Xpand Biotechnology B.V. (“Xpand” – renamed Kuros Biosciences B.V.), which holds 100% of RevisOs B.V. (“Revisios”) by way of an exchange of Xpand shares for newly issued shares from Kuros by means of which Xpand and Revisios became wholly-owned subsidiaries of Kuros. The main activities of the Group are conducted by Kuros Biosurgery Ltd, Kuros Biosciences Ltd and Kuros Biosciences B.V. See Note 4 “Change in scope of consolidation” for further details of the transaction.

In a reverse merger effective January 18, 2016, Cytos Biotechnology Ltd (“Cytos Biotechnology”) acquired Kuros Biosurgery Holding Ltd by way of an exchange of Kuros Biosurgery Holding shares for newly issued Cytos Biotechnology shares. The combination was structured by way of a contribution in kind of all shares and participation certificates of Kuros Biosurgery Holding against issuance of new Cytos Biotechnology common registered shares on the basis of a 1 for 26.79-exchange ratio. The acquisition closed on January 18, 2016. Subsequently Cytos Biotechnology was renamed Kuros Biosciences. For accounting purposes, the legal acquiree, Kuros Biosurgery Holding, was identified as the acquiring entity. Consequently, these consolidated financial statements represent the continuation of the financial statements of Kuros Biosurgery Holding except the capital structure, which has been adjusted to reflect the capital structure of Kuros Biosciences. See Note 4 “Change in scope of consolidation” for further details of the transaction.

As of December 31, 2017, the total headcount in all group companies amounted to 28 employees. The legal domicile of the Company is Wagistrasse 25, 8952 Schlieren, Switzerland.

The consolidated financial statements for the year ended 2017 have been approved for issuance by the Board of Directors (“Board”) on April 27, 2018.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and effective for 2017. The accounting policies set forth below have been consistently applied to all years presented.

The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying 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 3 "Critical accounting estimates and judgments".

For better readability, the amounts in the Group's consolidated financial statements and notes are presented in thousand Swiss francs (TCHF) unless stated otherwise. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided.

Uncertainties and ability to continue operations

The Group is subject to various risks and uncertainties, including, but not limited to the time of achieving sustainable profitability and the uncertainty of the discovery, development, and commercialization of product candidates, which includes uncertainty of the outcome of clinical trials and significant regulatory approval requirements.

In the past years, the Group has financed its activities primarily by cash originating from (i) revenue from milestone payments, (ii) proceeds from non-dilutive financings, debt and equity financings as well as cash paid within collaborations. None of these cash resources can be considered recurring, in particular as the Group has not yet any sales from its current product pipeline which could provide a more sustained source of cash. Current plans project sufficient cash resources to pursue a limited number of projects and programmes. Although the Group has the ability to adjust spending according to available financial means future capital increases may be needed in order to sustain operations at current levels .

The product pipeline of both synthetic and drug-based bone graft substitutes could provide commercial opportunities in attractive markets. Our lead synthetic product candidate includes MagnetOS, a novel surface structured orthobiologic and Neuroseal, a novel Dural sealant. MagnetOS is the most advanced product in this class. The drug based orthobiologic product candidates are KUR-111, KUR-112, KUR-113. Both KUR-111 and KUR-113 have been successfully tested in Phase 2b clinical trials. The Company now prepares KUR-113 for spinal indications in a large, controlled Phase 2b clinical trial.

Kuros continues its existing partnership, namely the collaboration for CYT003 and the VLP technology with Checkmate Pharmaceuticals, Cambridge, MA, USA for the treatment of cancer. With this collaboration, the CYT003 and VLP technology move forward with investments from the collaboration partner only and, if successful, Kuros will be eligible for significant development milestone payments and royalties on future sales.

The Board and the Executive Committee believe that it is appropriate to prepare these financial statements on a going concern basis, which is also supported by the facts as disclosed in the subsequent event note (note 28).

Group companies

As of December 31, 2017, Kuros Biosciences Ltd, the ultimate parent company of the group, owns the following subsidiaries:

Name of entity	Place of business	Ownership held		Share Capital (in TCHF)	
		2017	2016	2017	2016
Kuros Biosurgery Holding Ltd	Zurich, Switzerland	100%	100%	1,446	1,446
Kuros Biosurgery Ltd	Zurich, Switzerland	100%	100%	435	435
Proteome Therapeutics Ltd*	Konstanz, Germany	100%	100%	25	25
Kuros Biosciences B.V.**	Bilthoven, The Netherlands	100%	-	18	-
RevisOs B.V.**	Bilthoven, The Netherlands	100%	-	22	-

* Non-operative since May 2002

** acquired in 2017

New accounting standards and IFRIC interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended December 31, 2016. A number of new standards are effective for annual periods beginning after January 1, 2017, which were adopted by the Group; however, they have no material impact on the Group's financial statements.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except for the following set out below:

- IFRS 9, "Financial Instruments", replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, accrued income/credit notes and contract assets regarding IFRS 15 as well as new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Based on an impact analysis performed by the Group, IFRS 9 does not have a significant impact on the consolidated financial statements. The Group adopts IFRS 9 on the required effective date as of January 1, 2018.
- IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. Based on an impact assessment performed and based on contracts with customers currently in place, the adoption of IFRS 15 will not have a significant effect on Kuros' consolidated financial statements. If the Company had already applied IFRS 15 for reporting year 2017, this would have had no substantial impact on sales and net income. The Group adopts IFRS 15 on the required effective date as of January 1, 2018. For transition, Kuros will apply the full retrospective approach, i.e. the comparable period will be presented in accordance with IFRS 15.

- IFRS 16, “Leases” sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, specifically the customer (lessee) and supplier (lessor). The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance leases. The Group is currently assessing the impact of IFRS 16. Currently, lease contracts mainly include the leasing of Kuros premises in Switzerland and the Netherlands which are expected to be capitalized under IFRS 16. The standard is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted. Kuros plans to apply IFRS 16 starting with reporting year 2019 by applying the modified retrospective approach (i.e. the comparable period will not be adjusted). When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Consolidation

Subsidiaries are all entities (including structured 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 deconsolidated from the date that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of a subsidiary. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to acquisitions are directly expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the income statement.

All inter-company balances, transactions and unrealized gains on transactions have been eliminated in consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Segment reporting

The Group operates in one segment, focusing on the discovery, development and prospective commercialization of a new class of biopharmaceutical products that are intended for use in the treatment and prevention of chronic diseases. The segment is reported in a manner consistent with the internal reporting provided to the Executive Management Team, which is the chief operating decision-maker.

Foreign currency translation and transactions

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 (“CHF”), which is the Kuros Biosciences Ltd functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

Assets and liabilities of companies whose functional currency is other than CHF are included in the consolidation by translating the assets and liabilities into the presentation currency at the exchange rates applicable at the end of the reporting period. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction). All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and from borrowings are brought into shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Impairment of assets

Non-financial assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. Goodwill and Intangible assets with an indefinite useful life or intangible assets that are not yet available for use, are tested for impairment at least annually and more frequently if there are indications of impairment. If the recoverable amount (higher of fair value less costs of disposal and value in use) is lower than the carrying amount, the carrying amount is reduced to the recoverable amount by recording an impairment charge. To determine the value in use, the future cash flows are adjusted to reflect a pre-tax basis to be discounted. Impairments are recognized in profit or loss depending on their nature and disclosed separately. Reversals of impairments are recognized immediately in profit or loss. An impairment loss for goodwill is not reversed. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Cash and cash equivalents

The Group considers all short-term, highly liquid investments convertible into known amounts of cash with original maturities of three months or less at the date of the purchase to be cash equivalents. The cash flow statement is based on cash and cash equivalents.

Trade and other receivables

Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method (unless considered immaterial). A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the invoice. The amount of the provision is the difference between the carrying amount and the recoverable amount and is recognized in the income statement.

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 receivable. They are included in current assets, except for maturities longer than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are shown separately in the balance sheet. Loans and receivables are measured at amortized cost. Amortized cost is the amount at which the financial asset 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.

Property and equipment

Property and equipment is stated at historical costs less accumulated depreciation and any impairment. Historical costs include expenditures that are directly attributable to the acquisition of the items. Depreciation is calculated on a straight-line basis over the expected useful lives of the individual assets or asset categories.

The applicable estimated useful lives are as follows:

Leasehold improvements	8–10 years
Machinery and equipment	5–10 years
Office equipment, furniture and others	3–10 years

Leasehold improvements are depreciated over the shorter of the estimated useful life or the lease term. 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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.

Cost and accumulated depreciation related to assets retired or otherwise disposed are removed from the accounts at the time of retirement or disposal and any resulting gain or loss is included in the income statement in the period of disposition.

Intangible Assets

Intangible assets include acquired patents, licenses, technologies, purchased or internally developed technologies and other assets without physical substance. These items are measured at cost less accumulated amortization and/or impairment. The cost of an intangible asset acquired in a business combination corresponds to its fair value determined at acquisition date.

Expenditure on internally developed technology and any products resulting thereof is capitalized when the criteria are met and future economic benefits from use or sale of the technology are expected. Technology that is not yet available for use is tested for impairment annually or more frequently if there are indications of impairment. Amortization is charged over the useful life.

The amortization period and the amortization method are reviewed at least at each financial year-end. Any impairment is recorded in profit or loss depending on their nature and disclosed separately as impairment. If intangible assets are sold or derecognized, gains are recognized in other operating income and losses depending on their nature in other operating costs.

The applicable estimated useful lives are as follows:

Subleasing	15 years
Checkmate agreement	9 years
Arbutus agreement	10 years

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost.

Income taxes

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 nor loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at 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. The Group has only recognized a deferred tax asset arising from unused tax losses or tax credits to the extent that the Group has sufficient taxable temporary differences.

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

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Pension plan

The Group provides retirement benefits to its employees. The net defined asset/liability of the performance-oriented pension plans as recognized in the balance sheet comply with the present value of the defined pension obligation less the fair value of plan assets at the date of balance. In respect of defined benefit plans, liabilities and service costs are determined by management based on actuarial valuation techniques, using the projected unit credit method annually and related assumptions as further detailed in note 24 of our consolidated financial statements. The pension obligation is the actuarially computed present value of the estimated future net cash outflow, using interest rate assumptions in line with high quality corporate bonds. Regarding the pension costs, they correspond with the sum of current service costs inclusive net interest expenses on the defined benefit liabilities at the beginning of the period. In case of events leading to a settlement, the related gains and losses are added to the yearly pension costs when the settlement occurs. In case of events leading to a past service cost, the related costs are immediately added to the yearly pension costs. The actuarial gains and remeasurements, the differences between the return on plan assets, and interest income on plan assets are recognized in other comprehensive income. The same applies to the pension obligation side.

Share-based compensation

The share-based compensation plans qualify as equity settled plans. The fair value of the employee services received in exchange for the grant of the options 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 options granted. For equity-settled plans, the fair value is determined at the grant date. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity. In the year, the options are exercised the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid-in capital.

Bonus plans

The Group recognizes an accrual where contractually obliged or where there is past practice that has created a constructive obligation. The expense for bonuses is based on a formula that takes into consideration the Group goals reached.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, where it is more likely than not that an outflow of resources will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. 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. The increase in the provision due to the passage of time is recognized as other operating expense.

Shareholders' equity

All shares of the Group are registered shares and classified as part of shareholders' equity.

Incremental costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds.

Where the Group purchases the Group's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income tax), is deducted from total shareholders' equity as treasury shares 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 tax effect is included in shareholders' equity.

The Group has not paid any dividends since its inception and does not anticipate paying dividends in the foreseeable future.

Revenue recognition

Revenues under collaborative long-term research and development agreements are recognized when earned based upon the performance requirements of the respective agreements. For revenue arrangements with separately identifiable components the revenue recognition criteria are applied separately. The consideration received is allocated among the separate components based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate components. Payments received in excess of amounts earned are recorded as deferred revenue. Revenues under these long-term collaborative agreements typically consist of the following:

- Revenues from royalties and licenses: revenues related to royalties and licenses are recognized when earned on an accrual basis in accordance with the substance of the relevant agreements.
- Revenues from technology transfer fees are recognized on the basis of the progress of the project in accordance with the percentage of completion method.
- Licensing fees of collaboration agreements, success and milestone payments for the sale or granting of license rights to products and technologies are recognized in profit and loss according to the achievement of the targets defined in the agreements. Upfront payments, for which services have yet to be provided, are deferred and included in revenue, spread over the duration of the development collaboration or production.

Revenues for product sales are recognised when the risks and rewards are transferred, which normally happens when the products are shipped.

Research and development expenses

Research and development ("R&D") expenses consist primarily of compensation and other expenses related to R&D personnel; costs associated with pre-clinical testing and clinical trials of the Group's product candidates, including the costs of manufacturing the product candidates; expenses for research and services under collaboration agreements; outsourced R&D at research institutions, and relevant facility expenses. R&D expenses are fully charged to the income statement as incurred. Kuros considers that regulatory and other uncertainties inherent in the development of its key new products preclude it from capitalizing development costs under IFRS. Development costs are capitalized when the following criteria are met: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (b) its intention to complete the intangible asset and use or sell it; (c) its ability to use or sell the intangible asset; (d) the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development. That means that projects which have achieved technical feasibility, usually signified by a market approval from the US Food and Drug Administration or the European Medicines Agency or a comparable regulatory authority, would be capitalized because it is probable that the costs will give rise to future economic benefits.

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

Rent expenses for leases of real estate include the land and building component together when it is clearly a single operating lease and the components cannot reliably be separated.

3. Critical accounting estimates and judgments

The preparation of the Group's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and the disclosure of contingent liabilities as at the reporting date. Although these estimates and assumptions are made on the basis of all available information and in greatest diligence, the actual results may differ. This applies primarily to estimates and assumptions made with regard to the items set out below.

Going concern (note 2)

In accordance with IAS 1, Kuros has performed an assessment of its ability to continue as a going concern. The Group considers liquidity and capital taking into account the Group's current plans, budgets and forecasts.

Kuros is currently not generating substantial revenues. In the future, Kuros is expected to generate substantial revenues either via direct product sales or licensing of its intellectual properties.

Therefore, Kuros has prepared its consolidated financial statements on a going concern basis.

Change in scope of consolidation and Purchase Price Allocation (note 4)

The Group exercised significant judgment in the determination of the acquirer, the acquisition date and the purchase price allocation (PPA). Key judgments in the PPA included the identification of separately identifiable intangible assets and the determination of the fair value of acquired assets and liabilities. The determination of the fair values of the acquired assets and liabilities contains financial projections such as future cash flows and assumptions regarding market data such as interest rates.

Carrying value of Intangible assets for In-Process Research & Development and Goodwill (note 15)

Intangible assets for In-Process Research & Development as well as Goodwill are tested for impairment at least once a year. This involves estimating the value in use of the cash-generating unit (CGU) to which intangible assets for In-Process Research & Development and Goodwill are allocated. It also requires a forecast of expected future cash flows as well as the application of an appropriate discount rate to calculate the present value of these cash flows. Future cash inflows from revenues are subject to a certain degree of uncertainty as they depend on future events beyond control of Kuros such as the achievement of pre-defined milestones which in turn depend, among others, on regulatory approvals.

Useful live of intangible assets subject to amortization (note 12)

To determine the amortization charges the Group has to estimate the useful lives of the intangible assets subject to amortization. Judgment is exercised in determining the period over which an asset is expected to generate future economic benefits.

Deferred taxes (note 23)

Deferred tax assets are recognized only if their future realization is probable. The Group has therefore to exercise judgment in determining if it is probable that future taxable profit will be available against which the temporary difference can be utilized or whether there are sufficient suitable deferred tax liabilities available.

Estimations of Employee Postemployment Benefits Obligations (note 24)

The costs of the employee benefit plans and the related obligations recognized in the balance sheet, representing the present value of the defined benefit obligation, are calculated annually by independent actuaries. These actuarial valuations include assumptions such as discount rates, salary progression rates and mortality rates. These actuarial assumptions applicable to the Group vary according to the prevailing economic and social conditions.

4. Change in scope of consolidation

Acquisition of Kuros Biosciences B.V. (“Xpand”)

On January 23, 2017, Kuros acquired 100% of the shares of Xpand in Bilthoven, the Netherlands, by way of an exchange of Xpand shares for newly issued shares from Kuros. Xpand was subsequently renamed to Kuros Biosciences B.V.

As a result of the acquisition, Kuros accelerated its transition to become a commercial stage company with two products available for commercialization: Neuroseal (CE certification received in June 2017) and MagnetOs (CE certification obtained for Europe, 510(k) clearance obtained for the US, both for the granules formulation). The acquisition further provides Kuros with an EU operation in the Netherlands as well as certified and GMP-controlled manufacturing capabilities.

Under the terms of the proposed combination, Kuros agreed to issue a total of up to 2.105 million shares for all outstanding Xpand shares. Upon closing of the transaction on January 23, 2017, 1.365 million of these shares were issued out of authorized share capital to the sellers whereas another 0.74 million shares are to be issued upon achievement of two milestones associated with product approvals, namely CE mark certification and 510(k) clearance for MagnetOs both in the form of a putty formulation. Following closing, the existing shareholders of Kuros owned approximately 79% of the Company’s issued share capital. Provided both milestones are achieved, those Kuros shareholders will own about 71% of the combined company. All shares further needed for the transaction will be issued from Kuros’ authorized share capital.

The business combination is accounted for as of January 23, 2017 being the effective date of the combination. The fair value of the total consideration upon closing of CHF 30.6 million for the business combination has mainly been determined as follows:

- The fair value of the consideration for the 1,365,000 shares issued for the contribution in kind on January 23, 2017 amounts to CHF 21.3 million. The fair value of the shares issued was measured using the market value of the shares of Kuros at the acquisition date (CHF 15.60).
- The fair value of the contingent consideration for the 740,000 shares to be issued upon achievement of two milestones associated with product approvals amounts to CHF 9.4 million. Milestone payments depend on regulatory approvals in the European and U.S. market. The fair value of the contingent consideration was measured using the market value of the shares of Kuros at the acquisition date (CHF 15.60), applying a probability for the CE approval in the EU of 90%, a probability for the 510K approval in the US of 90% and a probability for the absence of material adverse effects of 90%.

The fair value of the identifiable assets and liabilities of the acquired company at the date of acquisition were determined as follows:

in TCHF	
Net working capital (excluding cash)	170
Tangible fixed assets	40
Intangible assets (currently marketed products)	7,264
Intangible assets (In-Process Research & Development)	19,219
Deferred tax liabilities	(6,243)
Fair value of net assets acquired	20,450
Goodwill arising on acquisition	9,927
Enterprise purchase consideration	30,377
Net Cash	268
Total purchase consideration	30,645

The carrying value of the receivables acquired is equal to the gross contractual amounts and was determined to be the fair value as of the acquisition date. All amounts are expected to be collected.

This purchase price allocation has been determined based on an analysis performed by the Company's management. The main adjustments in the purchase price allocation as illustrated above are:

- **Intangible assets:** At the date of acquisition Xpand had two products, which are determined as currently marketed products, and two products as In-Process Research & Development products, which are identified to represent fair value. The fair value of the mentioned intangible assets was determined using discounted cash-flow models with projected success rates based on managements' best estimates.
- **Goodwill:** The acquisition is accounted for using the acquisition method in accordance with IFRS 3. Goodwill is recognized as an asset from the acquisition date and is measured as the excess of the consideration transferred over the interest in the net fair value of the identifiable net assets acquired and liabilities assumed. The goodwill amount recognized comprises various non-specific values added. Among others, this includes expected cash flows related to third-party manufacturing agreements and the value of the assembled workforce. In addition, this includes access to an EU operation with certified and GMP-controlled manufacturing capabilities, which otherwise would not be accessible by the Company. None of the goodwill is expected to be deductible for tax purposes.

This purchase price allocation is deemed to be final as of December 31, 2017. There have been no changes compared to the provisional purchase price allocation disclosed as of June 30, 2017.

In connection with the acquisition, the Group expensed a total of CHF 0.79 million through the income statement as acquisition-related costs in 2016. In 2017, CHF 0.19 million acquisition-related costs were incurred.

From the date of acquisition Kuros Biosciences B.V. generated zero revenues and contributed CHF 0.6 million to the net loss of the Group. If the acquisition had taken place at the beginning of the year 2017, the net loss for 2017 and the revenue would have remained unchanged.

Reverse merger of Cytos Biotechnology Ltd ("Cytos Biotechnology") and Kuros Biosurgery

The main reasons of Kuros Biosurgery Holding for the business combination with Cytos were a) to gain access to the capital markets through an SIX listing under the international reporting standard; b) intellectual property and related license agreements; and c) the lease of the facilities in Schlieren. Upon completion of the transaction, Cytos was renamed Kuros Biosciences and a new management team was selected with representatives from the merging companies. The existing shares of Cytos and the new shares were and are listed on the SIX (ticker symbol KURN).

IFRS 3 (Business Combinations) requires one of the combining entities to be identified as the acquirer being the entity that obtains control of the acquiree. Since former shareholders of Kuros Biosurgery Holding obtained the majority of shares of the combined company upon completion, shareholders of Kuros Biosurgery Holding gained control over the combined entity. Therefore, according to IFRS 3, Kuros Biosurgery Holding qualified as the accounting acquirer while Cytos is treated as the accounting acquiree. Such combination is determined to be a reverse acquisition according to IFRS 3.

Based on the terms of the Combination Agreement, shareholders of former Kuros Biosurgery Holding held approximately 80% of the total shares of the combined company and acquired 80% of voting interests as of the acquisition date. For the determination of the purchase consideration under the reverse acquisition assumption, the number of shares has to be determined, which Kuros Biosurgery Holding would have had to issue to provide the same percentage of ownership in the combined entity to the owners of Cytos as they obtained as a result of the reverse acquisition. Since Cytos was a listed company, the fair value of its shares were determined to be more reliably measurable than the fair value of the equity interests transferred by Kuros Biosurgery Holding. As such, and in accordance with IFRS 3, the fair value of the consideration transferred was measured using the market value of the shares of Cytos at the end of the trading day of the acquisition date (CHF 0.31) multiplied with the number of outstanding shares at that day (108,015,276 shares) which equals CHF 33,484,736.

The fair value of the identifiable assets and liabilities of the acquired company at the date of acquisition were determined as follows:

Final purchase price allocation

in TCHF	
Cash and cash equivalents	1,871
Trade receivables	890
Prepayments	127
Intangible asset leasing	2,526
Intangible asset licensing	8,025
Trade accounts payables	(532)
Other payables	(270)
Accruals and deferred income	(1,198)
Deferred taxes fair value on intangible assets of net assets acquired	(711)
Pension liabilities (IAS 19)	(960)
Fair value of net assets acquired	9,768
Goodwill arising on acquisition	23,717
Total purchase consideration	33,485

The carrying value of the receivables acquired is equal to the gross contractual amounts and was determined to be the fair value as of the acquisition date. All amounts are expected to be collected.

This purchase price allocation has been determined based on an analysis performed by the Company's management. The main adjustments in the purchase price allocation as illustrated above are:

- Operating leases: At the date of acquisition, Cytos had multiple sublease agreements in which it was the lessor for office space in its leased facilities in Schlieren, Switzerland. These leases run for an indefinite period of time unless terminated at the end of each quarter with a notice period of one year. The fair value of these operating leases was determined using a discounted cash flow model based on the terms of the lease agreements.
- License agreements: At the date of acquisition, Cytos had two out-licensing agreements that were determined to represent fair value. Both agreements allowed for future milestone and royalty payments from the licensees based on the development of the related licensed products. The fair value of the license agreements was determined using discounted cash flow models with the projected success rate based on management's best estimates.
- Goodwill: The reverse acquisition is accounted for using the acquisition method in accordance with IFRS 3. Goodwill is recognized as an asset from the acquisition date and is measured as the excess of the consideration transferred over the interest in the net fair value of the identifiable net assets acquired and liabilities assumed. The goodwill amount recognized comprises various non-specific values added. Among others, this includes access to public capital markets through a listing on the SIX under the International Reporting Standard, thereby gaining the ability to obtain financial means in the form of debt and/or equity from institutional investors, which otherwise would not be accessible by the Company. In addition, certain key employees were retained such as the former Chief Executive Officer and former Chairman of Cytos, now serving as the Chairman of the Board of Kuros, the former Chief Scientific Officer, now serving as Chief Development Officer, and the former Chief Financial Officer, now serving in the same position. In addition, existing corporate structures, internal control procedures and corporate governance procedures yield additional synergies. None of the goodwill is expected to be deductible for tax purposes.

This purchase price allocation is deemed to be final as of December 31, 2016. No adjustments to the preliminary purchase price allocation have been identified or posted. The revenue and net loss included in the consolidated statement of comprehensive income in 2016 of Kuros Biosciences is TCHF 997 and TCHF 14,599, respectively.

5. Financial risk management

Financial risk factors

The Group is subject to risks common to companies in the biotechnology industry, including, but not limited to, uncertainties regarding the effectiveness and safety of new drugs, new and unproven technologies, the development process and outcome of clinical trials, rigorous governmental regulation and uncertainty regarding regulatory approvals, long product development cycles, continuing capital requirements to fund research and development, history of operating losses and uncertainty of future profitability, uncertainty regarding commercial success and acceptance, third party reimbursements, uncertainties regarding patents and legally protected products or technologies, uncertainty regarding third party intellectual property rights, dependence on third parties, dependence on publicly available scientific findings and research data, dependence on third party manufacturers and service providers, competition, concentration of operations, product liability, dependence on important employees, the environment, health, data protection and safety, lack of experience in marketing and sales, litigation, currency fluctuation risks and other financial risks, volatility of market value, as well as limited liquidity and shares eligible for future sale.

Risk management is carried out centrally under policies approved by the Board of Directors. Furthermore, management controls financial risks, specifically the liquidity risk (refer also to “capital risk management” disclosure).

The Group is exposed to market risks such as currency risk and interest rate risk. The currency risk mainly results in foreign exchange risks due to the translation of the newly acquired subsidiaries with Euro as functional currency. The interest rate risks are insignificant as Kuros has no loans, convertible bonds or convertible loan notes outstanding as of December 31, 2017.

The Group is not exposed to market price development, as to this date, no products have been approved for commercialization.

Liquidity risk

The Group manages its liquidity by planning and closely monitoring cash burn and investments in fixed-term time deposits on an ongoing basis to ensure sufficient liquidity and appropriate interest income. The Group’s financial status at December 31, 2017, provides funds to continue operations, not taking into account further revenue streams or material variations to the present financial plan.

The table below shows the maturities of the liquidity relevant financial liabilities and commitments as of December 31, 2017:

in TCHF (undiscounted amounts)	Between			
	Less than 3 months	3 months and 1 year	Between 1 year and 5 years	Over 5 years
Trade accounts payables	1,320	–	–	–
Other liabilities and accrued expenses	910	–	–	–
Rent and leasing	352	722	18	–

The table below shows the maturities of the liquidity relevant financial liabilities and commitments as of December 31, 2016:

In TCHF (undiscounted amounts)	Between			
	Less than 3 months	3 months and 1 year	Between 1 year and 5 years	Over 5 years
Trade accounts payables	1,273	–	–	–
Other liabilities and accrued expenses	1,992	–	–	–
Rent and leasing	276	787	262	–

Foreign exchange risk

The Group has an investment in a foreign entity and is exposed to exchange risks, which are discussed in the accounting policies section "Foreign currency translation and transactions". The Group is currently potentially subject to foreign currency transactions.

As of December 31, 2017, if the Swiss Franc had weakened/strengthened by 5% against the Euro, USD and GBP with all other variables held constant, the net loss for the period would have been TCHF 14 (2016: TCHF 173) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro denominated assets and liabilities. The impact is the same on equity.

Sensitivity analysis:

December 31, 2017 (in TCHF)	Sensitivity	Effect on profit or loss
EUR/CHF	5% / (5%)	(8) / 6
USD/CHF	5% / (5%)	(8) / 8
GBP/CHF	5% / (5%)	(0) / 0

December 31, 2016 (in TCHF)	Sensitivity	Effect on profit or loss
EUR/CHF	5% / (5%)	(98) / 98
USD/CHF	5% / (5%)	(63) / 63
GBP/CHF	5% / (5%)	(12) / 12

Credit risk

In August 12, 2015, Kuros granted Checkmate Pharmaceuticals LLC, Cambridge, MA, USA exclusive access to CYT003 as well as its VLP platform and to technology related to oligonucleotide synthesis. A first milestone payment of TCHF 997 (USD 1 million) was received after Checkmate had dosed a first melanoma patient in a Phase 1b clinical trial with CMP-001, formerly known as CYT003. Kuros may receive additional payments if development milestones are met. The Company is also eligible to receive royalties on net sales after the product's eventual approval. Kuros considers the related credit risk limited to trade receivables. Trade and other receivables are not past due and not impaired and contain only existing customers with no defaults in the past. Cash and cash equivalents and the financial assets are held, with one exception, with financial institutions with at least an "A" rating (Standard & Poor's) equivalent or better. The exception is related to a private bank without any rating, which holds 1% of the cash and cash equivalents and financial assets. The maximum exposure to credit risk at the reporting date is the carrying amount of trade and other receivables mentioned above. The Group does not hold any collateral as security. The credit quality of the Group's debtors is high, since they are primarily composed of tax authorities and leading pharmaceutical companies.

Interest rate risk

As of December 31, 2017, no loans, convertible bonds or convertible bond notes were outstanding. As a result, the Group is no longer exposed to changes in interest rate with the exception of rental adjustments, which can be passed on to the subleases. If interest rates on time deposits had been 50 basis points higher/lower with all other variables held constant, the net loss for the period would have been TCHF 0 (2016: TCHF 0) lower/higher, as a result of higher/lower interest income. Due to the current low interest rate of fixed deposits, Kuros has not made any investments in financial assets in 2016 or 2017.

Capital risk management

The Group is not regulated and not subject to specific capital requirements. It aims to maintain the specific needs of the Swiss Code of Obligations ("CO"). To ensure that statutory capital requirements remain intact, the Group monitors capital periodically on an interim and annual basis. From time to time the Group may take appropriate measures or propose capital increases to the General Meeting or an Extraordinary General Meeting to ensure the necessary capital remains intact. Shareholder's equity is included as capital.

Fair value estimation

The Group does not hold any financial assets except fixed-term time deposits and the carrying amounts of the financial assets including trade and other receivables correspond to the fair value, as they are short-term in nature.

6. Seasonality

Operating costs and revenue are not exposed to substantial seasonal variations. However, revenue from biotech companies may vary significantly throughout the year, since revenue is often linked to up-front payments, milestone and license payments, as well as payments for delivery of drug substances, which occur sporadically.

7. Segment and geographic information

Segment reporting

The Group operates in one segment focusing on the development of innovative products for tissue repair and regeneration, and the prospective commercialization of out-licensed biopharmaceutical products to prevent and treat chronic diseases. The segments are reported in a manner consistent with the internal reporting as provided to the Executive Management Team as the chief operating decision-maker.

Analysis of revenues by country:

in TCHF, twelve months ended December 31	2017	2016
United States of America	534	997
Other	–	58
Saudi Arabia	–	6
Total	534	1,061

Analysis of revenues by category:

in TCHF, twelve months ended December 31	2017	2016
Research and development	–	58
Milestone payments	534	997
Royalties, licenses and patent protection services	–	6
Total	534	1,061

Analysis of revenues by customer:

in TCHF, twelve months ended December 31	2017	2016
DePuy Synthes	534	–
SABIC Ventures	–	58
Checkmate	–	997
Other	–	6
Total	534	1,061

As noted above, revenue is sourced from a limited number of customers, however as business is still in research and development status, this does not represent a significant risk in terms of exposure of revenue fluctuation. Revenue recorded in 2017 relates to a milestone payment from DePuy Synthes which is not expected to be recurring.

Geographical segments

Revenues from collaboration agreements are attributable to individual countries and are based on the location of the collaboration partner, while Switzerland and the Netherlands contributed all material assets and liabilities.

8. Licensing, research and development collaborations

In February 2013, Pfizer Inc. informed Kuros that the first patient has been dosed in a Phase 1 clinical trial with an anti-IgE vaccine. This study has been completed in June 2015. Pfizer's anti-IgE vaccine is based on Kuros' VLP ("virus-like-particle") vaccine platform and is being developed under a license agreement between both parties. Pfizer acquired worldwide exclusive rights to develop, manufacture and commercialize certain specified vaccines based on Kuros' VLP platform in 2009. Under this license agreement Kuros is eligible for pre-commercial milestones and royalty payments, which may reach a double-digit percentage depending upon levels of annual net sales of products.

In May 2013, Singapore's Agency for Science, Technology and Research (A*STAR) and Kuros announced that the first healthy volunteer had been dosed in a Phase I clinical trial with their H1N1 influenza vaccine candidate based on Kuros' proprietary bacteriophage Qbeta virus-like particle (VLP) technology. In this first Phase I clinical trial, the safety and immunogenicity of this novel vaccine candidate and its potential to protect against H1N1 influenza infection was evaluated. A*STAR is developing the vaccine candidate under a collaborative research, development and commercialization agreement entered into with Kuros in 2010, with the goal of providing the government of Singapore an effective means of combatting influenza epidemics and pandemics. Under the agreement, Kuros retains the worldwide right to develop and commercialize the vaccine candidate globally, while A*STAR subsidiaries will have the right to develop and commercialize the vaccine for Singapore and other ASEAN countries and can earn royalties on worldwide net sales. On January 29, 2014, A*STAR and Kuros announced that their influenza vaccine (gH1-Qbeta) met its primary end point for immunogenicity (seroconversion based on haemagglutination inhibition titres according to FDA criteria) in the Phase I clinical trial in healthy Asian volunteers. The induced immune response showed good cross-reactivity to recent drifted H1N1 strains. On September 3, 2014 full results of the clinical trial were published (Vaccine (2014 Sep 3;32(39):5041-8) "Safety and immunogenicity of a virus-like particle pandemic influenza A (H1N1) 2009 vaccine: results from a double-blinded, randomized Phase 1 clinical trial in healthy Asian volunteers". Meanwhile the IP estate covering Kuros' influenza vaccine has been abandoned and no further clinical activities are planned with this product.

On August 12, 2015, Kuros announced that it executed an exclusive license agreement in the field of oncology granting Checkmate Pharmaceuticals LLC, Cambridge, MA, USA (“Checkmate”) exclusive access to Kuros’ clinically validated product candidate CYT003 as well as its VLP platform and to technology related to oligonucleotide synthesis. Kuros may receive up to USD 90 million in development milestones and may receive up to double-digit royalties on net sales from successfully developed products.

On April 20, 2016 Kuros announced that it had been informed by Checkmate, that the first melanoma patient has been dosed in a Phase 1b clinical trial with CMP-001, formerly known as CYT003. The trial is designed as a multi-center, open-label study of CMP-001 in combination with pembrolizumab for patients with advanced melanoma who have either progressed on anti-PD1 therapy or have failed to respond to at least 12 weeks of therapy. As a result of the first dosing of a patient with this licensed product candidate, Kuros received a milestone payment of TCHF 997 (USD 1 million) from Checkmate.

9. Financial instruments by category

December 31, 2017 (in TCHF)	Loans and receivables
Cash and cash equivalents	16,673
Trade and other receivables	351
Financial assets	—
Total	17'024

December 31, 2016 (in TCHF)	Loans and receivables
Cash and cash equivalents	12,369
Trade and other receivables	665
Financial assets	15
Total	13,049

December 31, 2017 (in TCHF)	Liabilities at fair value through profit or loss	Amortised cost
Trade accounts payable	—	1,320
Accrued expenses	—	1,652
Total	—	2,972

December 31, 2016 (in TCHF)	Liabilities at fair value through profit or loss	Amortised cost
Trade accounts payable	—	1,273
Accrued expenses	—	1,992
Total	—	3,265

10. Cash and cash equivalents

in TCHF	2017	2016
Cash at bank and on hand	16,673	12,369
Balance as per December 31	16,673	12,369

In 2017, the Group recorded TCHF 3.2 interest income (2016: TCHF 0.5)

11. Property and equipment

Property and equipment increased from TCHF 45 as of December 31, 2016, by TCHF 585 to TCHF 630 as of December 31, 2017. The increase is mainly due to the purchase of office and laboratory equipment by Kuros BioSciences B.V. in order to equip its premises in the Netherlands.

12. Goodwill and Intangible Assets

in TCHF	Note	Goodwill	Subleasing	Licensing	Currently Marketed Products	In-Process Research & Development	Total
Historical costs January 1, 2017		23,717	2,526	8,025	–	–	34,268
Additions per acquisition	4	9,927	–	–	7,264	19,219	36,410
Additions		–	–	–	1,037	–	1,037
Exchange differences		902	–	–	669	1,748	3,319
December 31, 2017		34,546	2,526	8,025	8,970	20,967	75,034
Accumulated amortization January 1, 2017		–	(160)	(3,796)	–	–	(3,956)
Amortization charge		–	(169)	(525)	(431)	–	(1,125)
Impairment		–	(2,197)	–	–	–	(2,197)
Exchange differences		–	–	–	21	–	21
December 31, 2017		–	(2,526)	(4,321)	(410)	–	(7,257)
Net book value on December 31, 2017		34,546	–	3,704	8,561	20,967	67,777
in TCHF		Goodwill	Subleasing	Licensing			Total
Historical costs January 1, 2016		–	–	–			–
Additions per acquisition		23,717	2,526	8,025			34,268
December 31, 2016		23,717	2,526	8,025			34,268
Accumulated amortization January 1, 2016		–	–	–			–
Amortization charge		–	(160)	(649)			(809)
Impairment		–	–	(3,147)			(3,147)
December 31, 2016		–	(160)	(3,796)			(3,956)
Net book value on December 31, 2016		23,717	2,366	4,229			30,312

Impairment of assets

Kuros subleases part of its premises in Schlieren. In 2017, the main tenant of the sublease has decided to terminate the agreement with an effect of March 30, 2018. As a consequence, Kuros has fully impaired the sublease agreement in 2017.

Under an agreement signed in early 2015, Oncore Biopharma, Inc., a predecessor of Arbutus, was granted access to Kuros Biosciences Ltd, clinically validated virus like particle (VLP) platform for the use in the treatment and prevention of hepatitis B viral infections as well as an option to use the VLP technology for additional viral diseases. The VLP technology is a non-core program and was moved forward with investments from the collaboration partners only. Kuros Biosciences Ltd has invested into the program since 2014. The estimate of future cash flows was revisited as of June 30, 2016, and the Group fully impaired the VLP technology licensed to Arbutus, TCHF 3,147. On August 30, 2016, the impairment was confirmed by Arbutus, formal information to Kuros about their decision to terminate the exclusive license. As a result, all licensed rights reverted back to Kuros.

13. Trade and other receivables

in TCHF	2017	2016
Trade receivables	154	308
Value added taxes (VAT)	195	354
Withholding tax	–	–
Other	2	3
Balance as per December 31	351	665
Thereof non-current	–	–

The fair values of trade and other receivables do not differ from the carrying amounts. Trade and other receivables are denominated in CHF (TCHF 223; 2016: TCHF 512), EUR (TCHF 48; 2016: TCHF 7), and USD (TCHF 80; 2016: TCHF 146) and are not considered impaired as they are fully performing and not past due. The maximum exposure to credit risk at the reporting date is the carrying amount of trade and other receivables mentioned above. The Group does not hold any collateral as security. The credit quality of the Group's debtors is high, since they are composed of tax authorities and leading pharmaceutical companies.

14. Prepayments and other assets

in TCHF	2017	2016
Social insurances	–	35
Prepayments	263	311
Deferred income	38	16
Other	129	–
Balance as per December 31	430	362

15. Impairment Test

Intangible assets for In-Process Research & Development as well as Goodwill are subject to an impairment test once a year or more frequently if there are indications of impairment.

Goodwill is allocated to the CGU or group of CGUs that is the principal economic beneficiary. Kuros' management determined that there is only one CGU unit, which is equal to the sole reportable segment. Management monitors the goodwill at the sole reportable segment level. Intangible assets for In-Process Research & Development as well as Goodwill are tested for impairment on the level of the one CGU identified. The impairment tests are based on the discounted cash flow method.

The recoverable amount of the CGU is determined based on a value-in-use calculation, which requires the use of assumptions. Impairment test is based on a discounted cash flow model, which includes comprehensive data from 2017 through 2031 with no terminal value taken into consideration. This period of forecast was chosen as Kuros currently does not incur substantial revenues from product sales and therefore historical information is not existent. No terminal value was applied as the products being commercialized are IP protected and, after the maturity of such IP protection, a decline in revenues could be possible. The WACC is used to determine the applicable pre-tax discount rate.

Key input parameters into the discounted cash flow model

General key assumptions:

- WACC of 9.8% reflecting the advanced stage of the Company. Further, certain probabilities for revenues and costs are assumed (2016: 10.0%).
- Tax rate of 26%, which is equal to the tax rate that is being used for the deferred tax calculation and is now also being used for consistency reasons (2016: 22%).
- Inflation rate of 1.0% reflecting the very low inflation environment in Switzerland and Europe (2016: 1.0%).

Key input parameters – cash in:

- Cash in from licensing is based on the license agreement with Checkmate Pharmaceuticals. Upon achievement of certain milestones by Checkmate, Kuros is eligible for such payments. Only four further milestone payments were taken into consideration, although Kuros is eligible for more milestones, and a certain likelihood of obtaining such milestones was applied.
- Cash in from products of Kuros Biosurgery Holding which originate from the following products: Neuroseal (KUR-023), KUR-111, KUR-112 and KUR-113.
- Cash in from products of Kuros Biosciences B.V. is based on estimated revenues resulting from the commercialization of MagnetOS.

Any such revenue projection is derived applying (i) a top down assessment of market, market potential and market penetration, (ii) peer comparison of products in a similar space and (iii) assumptions made by external parties. In addition, revenue probabilities between 20% and 60% (2016: between 50% and 80%) have been applied to reflect certain uncertainty on market approvals.

Key input parameters – cash out:

- Cash out from products of Kuros Biosurgery Holding including (i) general and administrative costs, (ii) costs for non-clinical and clinical costs for product candidates, and (iii) costs associated with the preparation and conduct of commercialization activities.
- Cash out from products of Kuros Biosciences B.V. are related to the commercialization activities for MagnetOS.

The sensitivity analysis for the groups of cash-generating units to which a significant amount of goodwill is allocated was based on a reduction in after-tax future cash flows by 10 % or an increase in after-tax discount rates by one percentage. Kuros concluded that no impairment loss would need to be recognized on goodwill.

16. Accrued expenses

in TCHF	2017	2016
Accrued payroll and bonuses	742	1,004
Other	910	988
Balance as per December 31	1,652	1,992

17. Shareholders' equity

	Shares (number)	Share capital (TCHF)	Treasury shares (TCHF)
January 1, 2016	349,310,040	1,305	–
Reverse acquisition	108,015,276	3,537	(210)
Capital increases	42,919,863	160	–
Convertible loan conversion	8,187,121	82	–
Treasury shares purchased	–	–	(630)
Treasury shares sold	–	–	574
December 31, 2016 post stock split	5,084,323	5,084	(266)
January 1, 2017	5,084,323	5,084	(266)
Capital increases	3,086,606	3,087	244
Treasury shares purchased	–	–	(1,020)
Treasury shares sold	–	–	1,042
December 31, 2017	8,170,929	8,171	–
Number of shares at	Issued and fully paid shares	Treasury shares	Total shares
December 31, 2016	5,063,777	20,546	5,084,323
December 31, 2017	8,170,929	–	8,170,929

Authorized and conditional capital

See articles 3c and 3d of the articles of association of Kuros Biosciences Ltd.

in TCHF (except share data)	2017	2016
Authorized capital as per December 31	1,503	2,542
Conditional capital as per December 31	1,208	800
Weighted average number of shares used in computing basic and diluted net loss per share (note 25)	7,091,413	5,004,393

Under CO, new share capital can be created by way of ordinary, authorized or conditional capital increase, which is defined as follows:

Ordinary capital (art. 650 CO):

Shareholders resolve on terms of capital increase and instruct board to increase capital within three months from shareholders' resolution.

Authorized capital (art. 651 CO):

Shareholders amend the articles of association to include authorized capital (up to 50% of existing share capital) to authorize board to issue a maximum amount of shares. Authorized capital is valid for two years from shareholders' resolution.

Conditional capital (art. 653 CO):

Shareholders create unissued share capital for equity-linked debt, bonds with warrants, or employee stock options by amending the articles of association. New share capital will be created by operation of law upon conversion/exercise of options.

Legal reserves

The legal reserves are built in line with Swiss Law and can only be used for compensating losses carried forward. The legal reserves cannot be used for distribution to shareholders.

Additional paid-in capital

The additional paid-in capital resulted from several capital increases.

Treasury shares

Treasury shares held by the Group as per December 31, 2016 at nominal value were created on May 14, 2012. As per December 31, 2017, no shares are held in treasury.

	Number of shares	Weighted average purchase price	in TCHF
Balance as of January 1, 2016	–	–	–
Reverse acquisition	2,104,648	0.10	210
Stock split 100:1	21,046	10	210
Total after stock split	21,046	10	210
Purchase	34,625	18.19	630
Sale*	(35,125)	16.35	(574)
Balance as of December 31, 2016	20,546	12.94	266
Balance as of January 1, 2017	20,546	12.94	266
Purchase	56,643	18.01	1,020
Sale**	(77,189)	16.66	(1,286)
Balance as of December 31, 2017	–	–	–

* Weighted average sales price in 2016 CHF 18.03.

** Weighted average sales price in 2017 was CHF 17.01.

Options

In 2017, no options were exercised. In 2016, 56 options with an exercise price of CHF 0.25 were exercised.

Change in capital structure

As of January 1, 2017 and prior to the acquisition of Xpand Biotechnology B.V. as mentioned below ("Xpand" – renamed Kuros Biosciences B.V.; acquisition closed on January 23, 2017) the nominal share capital of the ultimate parent company of the group, Kuros Biosciences AG ("Kuros"), amounted to CHF 5,084,323 and was divided into 5,084,323 registered common shares with a par value of CHF 1.00.

On December 19, 2016, Kuros announced the signing of a combination agreement with privately held Xpand of Bilthoven, the Netherlands, with the intention to acquire Xpand by way of an exchange of all Xpand shares for up to 2.105 million new Kuros shares. On January 25, 2017, Kuros announced the closing of the all-share strategic acquisition. Under the terms of the acquisition, Kuros issued a first tranche of 1.365 million shares with a nominal value of CHF 1.00 out of authorized share capital upon closing of the transaction. As a result, the share capital of Kuros increased to CHF 6,449,323 which was divided into 6,449,323 registered common shares with a par value of CHF 1.00. The first trading day of these new shares on the SIX was January 25, 2017. A further total of 0.74 million shares with a nominal value of CHF 1.00 issued out of authorized share capital will be issued upon achievement of the following two milestones associated with product approvals: i) 370,000 shares upon approval of the MagnetOs putty formulation by the European authorities (i.e. upon CE mark certification); ii) 370,000 shares upon approval by the US authorities (i.e. upon 510(k) clearance). Either achievement triggers the delivery of additional shares as described independent from each other.

Following a rights offering in May 2017, Kuros, share capital was increased by CHF 1,151,606 divided into 1,151,606 registered common shares with a nominal value of CHF 1.00. This capital increase took effect as of June 30, 2017.

With effect as of August 2, 2017, upon exercise of the over-allotment option that was granted to the banks as part of the rights offering in May, Kuros, share capital increased by an additional CHF 200,000 divided into 200,000 registered common shares with a nominal value of CHF 1.00.

At the end of August 2017, the first milestone associated with a MagnetOs Product approval had been reached, namely MagnetOs putty formulation being approved by the European Authorities (i.e. CE mark certification). As a result of that and in accordance with the combination agreement, Kuros issued 370,000 shares out of authorized share capital on September 28, 2017 and transferred those shares to the sellers of Xpand. Share capital at December 31, 2017, amounts to CHF 8,170,929.

SEDA Financing

In November 2017, Kuros announced entering into a Standby Equity Distribution Agreement (“SEDA”) with a fund managed by Yorkville Advisors Global, LLC (“Yorkville”). Under the terms of the agreement, Yorkville has committed to provide up to CHF 30 million in equity financing over a 36-month period in individual tranches of up to CHF 1,000,000 each. In exchange for the funds to be provided, Yorkville will receive Kuros shares (out of treasury shares and/or out of authorized capital) at a price, which will be determined each time a SEDA tranche is called. The shares will be placed at a 5% discount to the market price – which is in line with Swiss market practice for private placements.

The SEDA has been established as part of the medium-term funding of Kuros, operations. If Kuros were to utilize the SEDA in full, the cash runway would be extended by roughly two years. It remains at the sole discretion of Kuros to determine if and when to draw from the facility. In return for the 3-year investment commitment provided by Yorkville, Kuros paid an initial upfront fee of CHF 300,000 in shares. An additional installment of CHF 300,000 (in shares or cash at the full discretion of the Company) will be due when the amount drawn from the facility crosses CHF 10 million and an additional installment of CHF 200,000 (in shares or cash at the full discretion of the Company) will be due when the amount drawn from the facility crosses CHF 20 million.

The pricing of the shares will be determined as 95% of the lowest daily volume-weighted average share price of the five trading days following the date on which Kuros shall have sent to Yorkville the relevant advance notice. Further, should the daily volume-weighted average share price on any of the five trading days following the date of advance notice fall below a certain minimum price, the number of shares pursuant to the relevant advance notice may be reduced, and such price shall not count in the corresponding determination.

Yorkville can at no point in time hold more than 9.9% of the number of outstanding shares. Yorkville is committed not to short sell or enter into any hedging transactions related to Kuros stock.

18. Costs by nature

in TCHF	2017	2016
Depreciation and amortisation of assets	(1,147)	(819)
Impairment of assets	(2,197)	(3,147)
Employee benefits (note 19)	(7,995)	(12,450)
Materials, consumables, services	(3,305)	(3,952)
Rental expenses	(1,739)	(1,483)
Legal, accounting and consulting fees	(1,822)	(1,782)
Other expenses	(1,507)	(1,346)
Other income	2,935	2,572
Total year ended December 31	(16,777)	(22,407)

In 2017 and 2016, the amounts of “Other income” are primarily related to rental payments and pass through costs recovered from subtenants.

19. Employee benefits

in TCHF	2017	2016
Salaries	(4,599)	(3,410)
Social security costs	(648)	(205)
Pension costs, defined benefit plan (note 24)	327	(117)
Share-based compensation	(2,039)	(8,470)
Other costs related to employees	(1,036)	(248)
Total year ended December 31	(7,995)	(12,450)

20. Operating leases

The Group has several operating leases principally for its offices and development facilities, which will expire on September 30, 2018. As the fair value of land and building components at inception of the lease has not been determined and lease is defined as operating rent, expenses for the components are combined. The leasing renewal terms correlate to current standard market terms. Lease expenses incurred for the year ended December 31, 2017 were CHF 1.1 million (2016: CHF 1.1 million). The future minimum lease payments under non-cancelable operating leases as lessee at December 31, 2017 are as follows:

In TCHF	2017	2016
2017	–	(1,063)
2018	(1,074)	(262)
2019	(18)	–
Total year ended December 31	(1,092)	(1,325)

The future minimum lease payments under non-cancellable operating leases in the capacity as lessor, in total and for each of the following three periods after the balance sheet date:

in TCHF	2017	2016
No later than one year	863	1,828
Later than one year and no later than five years	–	2,089
Later than five years	–	–
Total year ended December 31	863	3,917

21. Related party transactions

Key management (including the Board and the Executive Committee) personnel compensation of the Group is:

in TCHF	2017	2016
Short-term employee benefits	(3'193)	(2,255)
Share-based compensation	(1,624)	(6,343)
Post-employment benefits	(13)	(111)
Total year ended December 31	(4,830)	(8,709)

No further compensation has been paid to the key management in the year 2017 and 2016.

22. Provisions

in TCHF	Onerous contract (sublease)	Personnel	Total
Balance January 1, 2017	–	–	–
Additions	206	1,478	1,684
December 31, 2017	206	1,478	1,684

On November 16 and December 14, 2017, Kuros announced certain changes in management. Following these changes in management, Kuros recorded a provision of TCHF 1,478 which mainly consists of personnel related expenses. Kuros underwent these changes as part of its transition to creating a leading commercial-stage orthobiologics company. The costs for this provision are partially offset by the curtailment of the IAS 19 pension liability, resulting in a gain of TCHF 382.

The onerous contract relates to a sublease contract which has become onerous as a major tenant has terminated the lease.

For the provisions recorded, all outflows of financial resources are expected to occur within the course of 2018.

23. Income taxes

Income tax expense:

in TCHF	2017	2016
Current income tax credit/(charge)	(80)	(27)
Deferred tax credit	189	560
Total income tax income	109	533

Capital tax expenses amounted to TCHF 65 and TCHF 26 for the years ended December 31, 2017 and 2016, respectively, and are included in the net operating costs.

Composition of deferred tax assets and liabilities:

in TCHF	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Intangible assets	–	–	(7,937)	(1,451)	(7,937)	(1,451)
Retirement benefit obligation	371	480	–	–	371	480
Tax losses	969	971	–	–	969	971
Deferred tax assets/(liabilities) prior to offset	1,340	1,451	(7,937)	(1,451)	(6,597)	–
Offset of deferred tax assets and liabilities	(1,340)	(1,451)	1,340	1,451	–	–
Deferred tax assets/(liabilities)	–	–	(6,597)	–	(6,597)	–

Movements in deferred taxes:

in TCHF	Retirement benefit obligation	Tax losses	Intangible Assets	Total
Balance at January 1, 2017	480	971	(1,451)	–
Xpand acquisition (see Note 4)	–	378	(6,621)	(6,243)
Deferred tax credit/(charge) in the income statement	(135)	(420)	744	189
Deferred tax credit/(charge) in other comprehensive income	26	–	–	26
Exchange differences	–	40	(609)	(569)
Balance at December 31, 2017	371	969	(7,937)	(6,597)

in TCHF	Retirement benefit obligation	Tax losses	Intangible Assets	Total
Balance at January 1, 2016	–	–	–	–
Reverse acquisition (see Note 4)	211	1,399	(2,321)	(711)
Deferred tax credit/(charge) in the income statement	118	(428)	870	560
Deferred tax credit/(charge) in other comprehensive income	151	–	–	151
Balance at December 31, 2016	480	971	(1,451)	–

The deferred tax credit of TCHF 26 (2016: a credit of TCHF 151) in the statement of other comprehensive income relates to actuarial gains and losses on defined benefit schemes.

The Group's income tax expense differed from the amount computed by applying the statutory Swiss income tax rate as summarized in the following table:

in TCHF	2017	2016
Loss before tax	(16,593)	(20,277)
Expected income tax rate (%)	22%	22%
Expected income tax credit	3,650	4,461
Expenses not deductible for tax purposes	(449)	(1,863)
Income not subject to tax	–	254
Effect of deferred tax assets not recognized in the current year	(3,067)	(3,455)
Effect of utilization of prior year unrecognized tax losses or deductible temporary differences	–	1,110
Effect of higher tax rates in the Netherlands	(24)	–
Other	(1)	26
Income tax income	109	533

The Group's expected tax rate is 22% for the years 2017 and 2016 which is the statutory tax rate of the holding company.

Expenses not deductible for tax purposes mainly related to share-based payment expense recognized in the respective period. Deferred tax assets not recognized mainly consist of tax losses in Switzerland. The utilization of prior year unrecognized tax losses or deductible temporary differences in 2016 mainly related to the partial recognition of deferred tax assets to the extent there are suitable taxable temporary differences.

Tax loss carry forwards

Tax loss carry forwards, which are not recognized, are summarized by year of expiry as follows:

in CHF million	2017	2016
2017	–	8,050
2018	46,548	46,020
2019	16,299	16,299
2020	57,604	57,604
2021	37,721	37,721
2022	6,154	6,154
2023	14,369	14,369
2024	15,508	–
No expiry	4,100	4,100
Total	198,303	190,317

As of December 31, 2017, the Group had total gross operating loss carry forwards amounting to CHF 198 million (2016: CHF 190 million) of which CHF 194 million (2016: CHF 186 million) relate to Switzerland with an expected income tax rate of 22% for the year 2017 (2016: 22%). CHF 4.1 million (2016: CHF 4.1 million) related to Germany, which has an expected income tax rate of 28% for the year 2017 (2016: 28%).

The unrecognized tax loss carry-forwards and deductible temporary differences would have given rise to deferred tax assets of CHF 44.0 million and CHF 42.2 million in 2017 and 2016, respectively.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The Group did partially recognize deferred tax assets relating to tax loss carry-forwards and deductible temporary differences in 2016 and 2017 to the extent there are suitable taxable temporary differences.

24. Benefit plans

The Group maintains a retirement plan (the "Plan") covering all its employees, including the Executive Committee and the Board. In addition to retirement benefits, the Plans provide death or long-term disability benefit to its employees. Benefits under the Plan are principally based on contributions, computed as a percentage of salary, adjusted for the age of the employee. Under the agreements, both the Group and the employee share the costs, including contributions, 50/50. To minimize the risk associated with a pension obligation, the Group has entered into term agreement with a third-party insurance companies.

During 2017 Kuros was affiliated with one collective foundations to meet its obligations under Switzerland's mandatory company provided pension:

PKG Pensionskasse

This pension scheme provides benefits in the case of disability, death, old age and termination. The risk benefits are defined in relation to the pensionable salary. The retirement pension is calculated based on the projected savings capital with interest and a conversion rate.

Plan amendment/Settlement

The conversion rate will decrease within the next years (until 2022) from 6.00% to 5.40%. This is qualified as plan amendment and considered in the valuation results. The impact is an income of TCHF 385.

Kuros Biosurgery AG was end of 2016 affiliated to the collective pension fund of Swiss Life. When Kuros Biosurgery AG left the collective pension fund of Swiss Life it was unclear whether the disability pensioners would remain or join the new pension fund of PKG. In the meanwhile were different discussions with the result that the disability pensioners would further stay in the collective pension fund of Swiss Life and Kuros Biosurgery AG is no longer liable. The situation was qualified as a settlement. The settlement gain amounts to TCHF 382.

Responsibilities of the Board of Trustees (and/or the employer on the Board of Trustees)

The highest corporate body of the Foundation is the Board of Trustees. It handles the general management of the pension scheme, ensures compliance with the statutory requirements, defines the strategic objectives and policies of the pension scheme and identifies the resources for their implementation.

It determines the objectives and principles of the asset management and the implementation and monitoring of the investment process. All ALM considerations are based on the statutory welfare provisions.

Kuros is responsible for ensuring that a pension fund commission with an equal number of employee and employer representatives is set up. The main task of the commission is to safeguard the interests of the insured persons vis-à-vis the Foundation and the employer. In addition, it issues pension-specific provisions within the context of the pension plan.

Special situations

Pursuant to local law, in the case of excess coverage there are only limited possibilities for the highest corporate body and/or the pension fund commission to grant benefits to the beneficiaries from the "disposable assets". According to the regulations, however, if there is a cover shortage, additional contributions (re-financing contributions) can be requested from the insured and the employers until financial stability is once again restored. The Collective Foundation currently has excess coverage according to the regulations.

Financing agreements for future contributions

The law (Swiss Federal Law on Occupational Retirement, Survivors, and Disability Pension Plans and its associated ordinances) provides for minimum pension benefits and also a minimum amount for the savings contributions. The amount of the contributions to be paid by the employer and the employee is determined by the highest corporate body and/or the pension fund commission. These can exceed the statutory minimum. The employer contribution must be at least as high as the employee contributions. The contributions are age dependent and based on the pensionable salary. They are determined in the pension plan/regulations. In addition, an employer can make one-off deposits or advance payments to the pension scheme and/or pension fund. They are available for the employer to use in the settlement of future employer contributions (employer contribution reserve). These contributions must not be repaid to the employer.

If an insured person changes employer before he/she has reached retirement age, a vested benefit (accrued savings capital that is guaranteed to a certain amount) becomes due. The vested benefit is transferred to the new employer's pension scheme.

In the event of the liquidation of the employer or the pension scheme and/or pension fund, the employer has no entitlement to any excess coverage from the pension scheme and/or pension fund. This is distributed amongst the insured and the pension recipients.

General risks

As well as the risk of having to provide additional financing for past service years, Kuros also bears the risk that its assets will be affected by the bad investment performance of the pension scheme and/or pension fund or the adjustment of valuation assumptions.

The treatment of so-called "fully insured" BVG plans under IAS 19 has been thoroughly analyzed by the Swiss Auditing Chamber, s Auditing Practice Committee. As a result of these consultations, the Swiss Auditing Chamber and its Accounting Practice Subcommittee have concluded that for IAS 19 purposes "fully insured" BVG plans shall be considered as defined benefit plans. The reasons are as follows:

- Benefits can be continued under the same conditions;
- The valuation of employee benefits obligations in accordance with international accounting standards is carried out regardless of the legal configuration of the pension plans and employee benefits institutions. The standards influence solely the financial result of the company and not that of the employee benefits institution. These results are not relevant for an actuarial assessment in accordance with Article 52e, BVG.

Change in benefit obligation:

in TCHF	2017	2016
Benefit obligation at beginning of year	(8,635)	(2,150)
Reverse acquisition (see Note 4)	–	(7,361)
Service cost	(420)	(157)
Employee contributions	(285)	(192)
Interest cost	(62)	(84)
Curtailments/settlements	382	–
Actuarial gain/(loss) on benefit obligation	(172)	(741)
Benefits paid	1,637	1,996
Past service cost	385	54
Benefit obligation as per December 31	(7,170)	(8,635)

in TCHF	2017	2016
Actuarial gains/(losses) arising from plan experience	(172)	(695)
Actuarial gains arising from demographic assumptions	–	173
Actuarial gains/(losses) arising from financial assumptions	–	(219)
Total gains/(losses)	(172)	(741)

Change in plan assets:

in TCHF	2017	2016
Fair value at beginning of year	6,454	1,544
Reverse acquisition	–	6,401
Expected return on plan assets	46	73
Employer contributions	285	192
Employee contributions	285	192
Benefits paid	(1,637)	(1,996)
Admin expense	(4)	(3)
Actuarial gain/(loss) on plan assets	53	51
Pension assets as per December 31	5,482	6,454

in TCHF	2017	2016
Actuarial gains/(losses) arising from financial assumptions	–	–
Actuarial gains/(losses) arising from plan experience	53	51
Total gains/(losses)	53	51

Asset breakdown:

as of December 31, 2017	Quoted market price	Not quoted market price	Total
Cash	–	4%	4%
Bonds	41%	–	41%
Equities	32%	–	32%
Property	18%	–	18%
Other	–	5%	5%
Total value of assets	91%	9%	100%

as of December 31, 2016	Quoted market price	Not quoted market price	Total
Cash	–	3%	3%
Bonds	46%	–	46%
Equities	29%	–	29%
Property	19%	–	19%
Other	–	3%	3%
Total value of assets	94%	6%	100%

Funded status:

in TCHF	2017	2016
(Un) funded status	(1,688)	(2,181)
Net defined benefit liability recognized in the balance sheet	(1,688)	(2,181)

Defined benefit costs:

in TCHF	2017	2016
Service cost	(420)	(157)
Interest cost	(62)	(84)
Admin expense	(4)	(3)
Expected return on plan assets	46	73
Past service cost recognized in year	385	54
Curtailment/settlement, gain/(loss)	382	–
Defined benefit cost for the year recognized in income statement	327	(117)

The pension expense is included in the income statement in general and administrative expenses (see note 18).

Net defined benefit (liability)/asset:

in TCHF	2017	2016
Pension assets December 31	5,482	6,454
Benefit obligation December 31	(7,170)	(8,635)
Net defined benefit liability recognized in balance sheet	(1,688)	(2,181)

The table below provides the weighted average assumptions (as of December 31) used to develop net periodic benefit cost and the actuarial present value of projected benefit obligations:

Assumptions:

	2017	2016
Discount rate	0.70%	0.70%
Interest credit rate	1.25%	1.25%
Average future salary increases	1.00%	1.00%
Future pension increases	0.0%	0.0%
Mortality tables used	BVG 2015 GT	BVG 2015 GT
Average retirement age	65/64	65/64
Turn over	BVG 2015	BVG 2015
Capital option	40%	40%
Expected life experience at regular retirement age 65 / 64	22.50/25.53	22.38/25.42

Sensitivity analysis

The sensitivity analyses were performed by recalculating the defined benefit obligation (DBO) and the Service Cost with the following assumption, which was deemed to be the key assumptions used in the actuarial calculation. Reasonably possible changes at the reporting date to the discount rate, holding all other assumptions constant, would have effected the DBO by the amounts shown below:

as of December 31, 2017 (in TCHF (decrease)/increase)	DBO
Discount rate +0.25%	(331)
Discount rate –0.25%	361

as of December 31, 2016 (in TCHF (decrease)/increase)	DBO
Discount rate +0.25%	(398)
Discount rate –0.25%	418

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Asset liability strategy

Kuros outsources the asset liability management strategy and asset allocation to the pension provider. The risks of disability, death and longevity are reinsured in their entirety.

Future cash flows:

in TCHF	December 31, 2017
Expected annual employee contribution in 2018	263
Expected annual employer's contribution in 2018	263

in TCHF	December 31, 2016
Expected annual employee contribution in 2017	268
Expected annual employer's contribution in 2017	268

25. Share options

The Group regularly grants share options to the members of the Board, the members of the Executive Committee, as well as to employees and consultants of the Company. The fair value of the options is determined at the grant date, based on the market price, by using the Black-Scholes model. Upon closing of the reverse merger, any outstanding stock options from Kuros Biosurgery Holding were exchanged for stock options issued by Kuros Biosciences Ltd.

Upon closing of the reverse merger on January 18, 2016, and in accordance with the terms and conditions as agreed in the Combination Agreement, the following applied with effect as of January 18, 2016:

- (a) All 119,919 options from former Cytos remained in place whereas all non-vested options vested on an accelerated basis with effect pre January 18, 2016 ("legacy options Cytos Biotechnology AG") and have been considered as part of the net assets acquired through the reverse merger.
- (b) All outstanding 629,378 options issued by Kuros Biosurgery Holding were replaced with 168,713 options (post reverse-split; 40,243 of which expired on 6 July 2016 and 24,093 expired on in 2017) issued by Kuros Biosciences as a replacement of the regular options granted by Kuros Biosurgery Holding.
- (c) 272,427 options were granted as a replacement of Kuros Biosurgery Holding options (which, in turn were granted in lieu cash payments – so called "phantom stock") as agreed within the reverse merger.

After January 18, 2016, the following options were granted:

- (d) 231,200 options were granted in the first six months of 2016 to members of the Board and management
- (e) In 2017, a total of 174,986 options were granted on July 3, 2017 with an exercise price of CHF 18.30 and an expiration date of July 3, 2022.

Total expenses for the share-based compensation amounted to TCHF 2,039 which includes TCHF 85 income from reversal of expenses of forfeited options (2016: TCHF 8,470, including expenses for share options granted in 2016 of TCHF 1,829 and the impact of the replacement of options issued by Kuros Biosurgery Holding with options issued by Kuros Biosciences amounting of TCHF 6,641).

The exercise prices in the following table reflect the reverse stock split at the ratio of 100 to 1 as approved by the General Meeting on June 16, 2016. The exercise price of the granted options (b) and (c) are those that were applicable in the original grant (adjusted for the reverse merger); the exercise price of the granted options (a) and (d) is equal to the market price of the shares of Kuros Biosciences Ltd on the grant date. The volatility is based on the historical volatility where available. The risk free interest rate is based on the CHF swap rate for the expected life of the options.

In 2017, a total of 174,986 were granted (2016: 231,200 and 441,140 replaced). Due to various terminations scheduled for 2018, 112,739 options forfeit (2016: no forfeitures). The expense of those options already recognized in the past is reversed in 2017 (TCHF 85).

Share options, conditions and assumptions

Options granted in 2017:

	(a) New Kuros options granted in 2017
Effective date	July 3, 2017 (date of grant)
Number of options	174,986 ¹
Exercise price	CHF 18.30
Share price at date of grant	CHF 13.00
Contractual life	5 years
Vesting period	11,000 options vest after 12 months 163,986 options vest 25% after 1 year and then quarterly over remaining 3 years
Settlement	Shares
Expected volatility at day of grant	47.52%
Expected option life at grant date	until maturity
Risk-free interest rate p.a.	(0.23%)
Expected dividend	Zero
Estimated fair value of option at grant date	CHF 3.94
Expiry date	July 3, 2022
Valuation model	Black Scholes

Options granted in 2016:

	(b) Legacy options Kuros Biosurgery Holding	(c) Options granted within reverse merger	(d) New options granted in 2016
Effective date	January 18, 2016 (date of replacement)	January 18, 2016 (date of replacement)	February 25, 2016 to July 21, 2016 (date of grant)
Number of options	168,713 ²	272,427	231,200
Exercise price	CHF 37.00 to 56.00	CHF 2.00	CHF 24.00 to 42.00
Share price at date of grant	CHF 31.00	CHF 31.00	CHF 25.00 to CHF 31.00
Contractual life	170 to 2,356 days	9.87 years	5 years
Vesting period	fully vested	145,214 options fully vested 127,213 options vest monthly over 2 years	11,000 options vest after 18 months; 168,200 options vest 25% after 1 year, then quar- terly over remaining 3 year
Settlement	Shares	Shares	Shares
Expected volatility at day of grant	51.75%	51.75%	46.89 to 71.82%
Expected option life at grant date	until maturity	until maturity	until maturity
Risk-free interest rate p.a.	(0.45%)	(0.45%)	(0.0056 to 0.7375%)
Expected dividend	Zero	Zero	Zero
Estimated fair value of option at grant date	CHF 2.32 to 10.99	CHF 29.12	CHF 10.81 to 18.11
Expiry date	various, latest July 1, 2022	November 30, 2025	February 25 to July, 21 2021
Valuation model	Black Scholes	Black Scholes	Black Scholes

¹ 112,739 forfeit due to termination agreements

³ 24,093 options expired in 2017 (2016: 40,243); currently 104,377 options outstanding.

The movements in the number of all valid share options are as follows:

	Options (number)	Weighted average exercise price (CHF)
Balance outstanding December 31, 2015¹	441,140	18.70
Balance outstanding January 1, 2016	441,140	18.70
Exchanged against new options on 18 January 2016 ²	441,140	18.70
Of which lapsed in 2016	(40,243)	37.00
Reverse Acquisition ³	119,920	155.00
Granted in 2016 ("regular grant")	231,200	28.93
Exercised	(1) ⁴	0.14
Forfeited	–	–
Balance outstanding December 31, 2016	752,016	42.60
Balance outstanding January 1, 2017	752,016	42.60
Granted in 2017	174,986	18.30
Exercised	–	–
Forfeited	(112,739)	18.30
Lapsed	(24,093)	38.78
Balance outstanding December 31, 2017	790,170	40.80

¹ Kuros Biosurgery Holding Ltd options only

² Replacement of options granted by Kuros Biosurgery Holding Ltd with options of Kuros Biosciences Ltd

³ Existing options from Cytos Biotechnology Ltd, now Kuros Biosciences Ltd

⁴ 56 options pre reverse-split of shares (i.e. 0.56 shares after reverse stock split) was exercised on June 13, 2016 to make the share count be a round number 100.

The following table applies to all valid share options outstanding on December 31, 2017:

Exercise price (CHF)	Options* (number)	Remaining life (years unless stated otherwise)	Exercisable options (number)
2.00	272,427	7.9	267,126
18.30	62,247	4.5	–
24.00	110,200	3.4	69,625
25.00	20,400	2.5	20,400
26.00	15,000	3.1	10,313
27.75	20,000	3.6	11,250
33.00	57,000	3.5	33,625
42.00	29,000	3.2	22,750
45.00	44,337	0.1– 3.7	44,337
52.00	19,453	1.0– 4.5	19,453
56.00	40,587	2–2.9	40,587
60.00	54,000	2.5	54,000
254.00	9,600	0.8	9,600
257.00	6,454	0.7	6,454
305.00	200	2.0	200
349.00	14,642	1.9	14,642
363.00	5,823	1.2	5,823
384.00	2,000	1.2	2,000
385.00	3,800	1.2	3,800
404.00	600	1.3	600
409.00	2,400	1.3	2,400
Total	790,170		638,985

* Includes all options granted within the Group

The following table applies to all valid share options outstanding on December 31, 2016:

Exercise price (CHF)	Options* (number)	Remaining life (years unless stated otherwise)	Exercisable options (number)
2.00	272,427	8.9	203,520
24.00	110,200	4.3	–
25.00	20,400	3.5	20,400
26.00	15,000	4.1	–
27.75	20,000	4.6	–
33.00	57,000	4.5	–
37.00	18,728	0.3	18,728
42.00	29,000	4.2	–
45.00	49,702	0.3– 4.7	49,702
52.00	19,453	2– 5.5	19,453
56.00	40,587	3–3.9	40,587
60.00	54,000	3.5	54,000
254.00	9,600	1.8	9,600
257.00	6,454	1.7	6,454
305.00	200	3.0	200
349.00	14,642	2.9	14,642
363.00	5,823	2.2	5,823
384.00	2,000	2.2	2,000
385.00	3,800	2.2	3,800
404.00	600	2.4	600
409.00	2,400	2.3	2,400
Total	752,016		451,909

* Includes all options granted within the Group

26. Earnings per share

Basic and diluted net losses per share have been computed based upon the weighted average number of registered shares outstanding. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase, and convertible loans. Neither outstanding options to purchase registered shares nor effects from the contingent consideration of the Xpand acquisition (shares to be issued upon achievement of milestones, refer to note 4) were included in the computation of the dilutive net loss per share as the effect would have been anti-dilutive.

a) Basic loss per share:

in CHF	2017	2016
Total basic loss attributable to the ordinary equity holders	(2.32)	(3.95)

b) Diluted loss per share:

in CHF	2017	2016
Total diluted loss attributable to the ordinary equity holders	(2.32)	(3.95)

Basic and diluted loss per share have been computed based upon the weighted average number of common shares outstanding. Basic loss per share excludes any dilutive effects of options, shares subject to repurchase, warrants, and convertible securities.

c) Reconciliation of earnings used in calculating earnings per share:

in TCHF	2017	2016
Basic loss per share:	(2.32)	(3.95)
Loss attributable to the ordinary equity holders from continuing operations	(16,484)	(19,744)
Diluted loss per share:	(2.32)	(3.95)
Loss attributable to the ordinary equity holders	(16,484)	(19,744)

d) Weighted average number of shares used as denominator:

	2017	2016
Weighted average number of ordinary shares	7,091,413	5,004,393
Adjustments: options	–	–
Weighted average number and potential ordinary shares	7,091,413	5,004,393

e) Information concerning the classification of securities

Options granted to employees under the Employee Option Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the exercise price is lower than the average price of the ordinary shares for the period and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share as the effect would have been anti-dilutive. Details relating to the options are set out in note 25. These options could potentially dilute basic earnings per share in the future.

27. Contingencies

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments as well as various other risks. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings are not predictable.

28. Events after balance sheet date

On January 5, 2018, Kuros has amended its exclusive license agreement, originally signed in 2015, with Checkmate Pharmaceuticals. The amendment extends the field from oncology to all indications and broadens the range of product candidates covered. Kuros received an upfront payment and may be eligible for additional milestone payments and royalties.

On April 13, 2018, Kuros has drawn a tranche of its SEDA financing as explained in note 17. Kuros issued 31,979 shares for a total amount of TCHF 300. The subscription price amounts to CHF 9.3810 which is a 5% discount to the market price at that date of CHF 9.8738.



Report of the statutory auditor to the General Meeting of Kuros Biosciences AG Schlieren

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Kuros Biosciences AG and its subsidiaries (the Group), which comprise the consolidated statement balance sheets as at 31 December 2017 and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity 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 49 to 96) give a true and fair view of the consolidated financial position of the Group as at 31 December 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 450'000

We concluded full scope audit work at three reporting units in Switzerland and one reporting unit in the Netherlands. Our audit scope addressed 100% of the Group's revenue and 99% of the Group's profit before taxes.

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

Acquisition accounting for Kuros Biosciences B.V., Netherlands
Carrying value of Goodwill and IPR&D intangible assets

PricewaterhouseCoopers AG, St. Jakobs-Strasse 25, Postfach, CH-4002 Basel, Switzerland
Telefon: +41 58 792 51 00, Telefax: +41 58 792 51 10, www.pwc.ch

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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. 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.

At the end of 2017, the Group's financial statements are a consolidation of 6 reporting entities. We identified 4 reporting entities that, in our view, required an audit of complete financial information. For the remaining 2 components, we performed other procedures to test or assess that there were no significant risks of material misstatement in these components in relation to the Group financial statements.

Out of the 4 reporting entities we identified to require an audit of complete financial information 3 were audited by, us, the Group team. To ensure sufficient and appropriate involvement of the Group team in the audit of the one reporting entity audited by our component team in the Netherlands, we held conference calls with the team responsible for the audit during the different phases of the audit. We discussed the risks identified and challenged the audit approach in response to the risks relevant to that component. Furthermore, we obtained a memorandum of examination from our component team and assessed the results and impact on the Group financial statements and challenged the component team's conclusions.

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 450'000
<i>How we determined it</i>	4.25% of the Group's net cash outflow from operating activities, rounded
<i>Rationale for the materiality benchmark applied</i>	We chose the Group's net cash outflow from operating activities as the benchmark because, in our view, it is the benchmark against which the performance of the Group, in its current commercialisation phase, is most commonly measured.

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.



Acquisition accounting for Kuros Biosciences B.V., Netherlands

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Accounting for the business combination of Kuros Biosciences AG and Kuros Biosciences B.V. (previously Xpand Biotechnology B.V.), with its subsidiary RevisiOs B.V., resulted in fair value of the total purchase consideration of TCHF 30'645, of which a total of TCHF 20'718 has been allocated to separately identifiable net assets acquired and TCHF 9'927 has been allocated to goodwill.</p> <p>We focused on this area as management exercised a significant level of judgement in the determination of the purchase price allocation (PPA). Key judgements in the PPA included the identification of separately identifiable intangible assets and the determination of the fair value of acquired assets and liabilities. Also, the identification and valuation of assets and liabilities acquired, significantly impacts the current balance sheet and income statement.</p> <p>Refer to page 59 (Accounting policies), page 65 (Critical accounting estimates and judgements), and pages 66 (notes).</p>	<p>With the support of PwC's internal valuation and industry experts we performed detailed procedures over the PPA where we:</p> <ul style="list-style-type: none"> • re-performed management's calculation of the fair value of the purchase considerations taking into account the market price of the listed share of Kuros Biosciences AG as at the effective date of the acquisition and management's assumptions on the likelihood of the contingent consideration materialising. • assessed the acquisition business plan used for the purposes of the valuation, including critically assessing the assumptions in the business plan and benchmarking these assumptions with industry expectations. • assessed the appropriateness of the model applied and the accuracy of the relating calculations of the valuation of the identified intangible assets which management completed with the assistance of third party experts. • assessed the method of identifying assets and liabilities. • assessed the capability and competency of management's third party experts, the overall results of their work as well as the consistency of such results with our understanding of the transaction and its drivers. • assessed the reasonableness of the tax rate used in the calculations and for the determination of the deferred tax positions. <p>As a result of our procedures, as discussed with the Audit Committee and the Board of Directors, we determined that the conclusions reached by management with regard to the acquisition accounting and the related disclosures were reasonable and supportable.</p>

Carrying value of Goodwill and IPR&D intangible assets

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>As per 31 December 2017 the carrying value of Goodwill amounted to TCHF 34'566 and the carrying value of intangible assets for In-Process Research & Development (IPR&D) which are not yet</p>	<p>We challenged management's determination of the sole cash-generating unit (CGU), representing the group's single reportable segment by evaluating internal documentation.</p>



amortised amounted to TCHF 21'042. Both balances resulted from past business combination transactions.

The valuation of Goodwill and the intangible assets for IPR&D is a key audit matter based on the magnitude of the balances and the inherent judgement in the respective model and assumptions used as part of management's impairment assessment.

Specifically the assumptions related to timing and magnitude of future cash flows and the determination of the respective discount rate requires a significant level of judgement by management.

Refer to page 60 (Accounting policies), page 65 (Critical accounting estimates and judgements), and page 76 (notes).

With the involvement of PwC's internal valuation experts, we challenged and evaluated management's value in use calculation. This included an assessment of the appropriateness of the model used, as well as challenging of the key assumptions made by management, such as the discount rate applied and the cash flow forecasts.

- We evaluated the reasonableness of the discount rate, as determined by management's third party experts, by assessing the cost of capital for the company and comparable organisations, as well as considering territory specific factors.

- We challenged management's cash flow assumptions and probability-weightings applied to such cash flows by ensuring consistency with other internal forward-looking documentation available and by verifying consistency of the assumptions with the group's current commercialisation plans.

In addition, for the IPR&D intangible assets specifically, we independently evaluated the main value contributing assumptions within the overall model and assessed internal and external impairment indicators for impairment triggering events.

We further performed independent sensitivity analyses around the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired.

Due to the significant estimation uncertainty in the cash flow assumptions we sought additional comfort which was provided by comparing the carrying value of the group's consolidated equity to the market capitalisation of the Group.

As a result of our procedures, as discussed with the Audit Committee and the Board of Directors, we determined that the conclusions reached by management with regard to the carrying value of goodwill and the 'in-process research & development' intangible assets were reasonable and supportable.

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 Kuros Biosciences AG 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

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 AG

Thomas Bruederlin
Audit expert
Auditor in charge

Thomas Ebinger
Audit expert

Basel, 27 April 2018

Statutory financial statements 2017

Balance sheet

in TCHF	Note	December 31, 2017	December 31, 2016
Cash and cash equivalents	12	9,088	1,800
Trade receivables – third parties		106	297
Other current receivables – third parties		57	225
Other current receivables from subsidiaries		1,722	–
Accrued income and prepaid expenses		301	305
Total current assets		11,274	2,627
Investments	4	21,346	19,611
Fixed Assets		59	45
Total non-current assets		21,405	19,656
Total assets		32,679	22,283
Trade accounts payable – third parties		350	403
Accounts payables to subsidiary		1,650	1,560
Other accounts payable – third parties		68	408
Provisions	13	1,684	–
Accrued expenses and deferred income		777	850
Total current liabilities		4,529	3,221
Share capital	14	8,171	5,084
Legal reserves:			
Capital contribution reserve		44,315	29,016
Other legal reserves		51,393	51,393
Treasury shares	3	–	(266)
Retained loss:			
Brought forward		(66,223)	(61,665)
Loss for the year		(9,506)	(4,500)
Total shareholders' equity		28,150	19,062
Total liabilities and shareholders' equity		32,679	22,283

Income statement

in TCHF, twelve months ended December 31	Note	2017	2016
Revenue	6	–	997
Other income	7	2,594	2,599
Research expense		(277)	(335)
Employee expenses		(6,544)	(4,359)
Other operating expenses	8	(4,242)	(3,295)
Depreciation and amortization on fixed assets		(22)	(8)
Total operating expenses		(11,085)	(7,997)
Earnings before interest and taxes		(8,491)	(4,401)
Financial income		167	1
Financial expense	15	(1,127)	(104)
Loss before taxes and extraordinary items		(9,451)	(4,504)
Extraordinary income/expense		–	8
Direct taxes		(55)	(4)
Loss for the year		(9,506)	(4,500)

Notes to the financial statements

1. Accounting principles applied in the preparation of the financial statements

These financial statements of Kuros Biosciences Ltd (the "Company"), Schlieren, have been prepared in accordance with the provisions of commercial accounting as set out in the Swiss Code of Obligations (Art. 957 to 963b "CO", effective since January 1, 2013). As Kuros Biosciences Ltd has prepared its consolidated financial statements in accordance with a recognized accounting standard (IFRS), it has decided to forego presenting additional information on interest bearing liabilities and audit fees in the Notes as well as a cash flow statement in accordance with the law (Art. 961d Para. 1 CO).

For reasons of comparability, the structure of the financial statements has been adjusted for the previous year.

Uncertainties and ability to continue operations

The Company is subject to various risks and uncertainties, including, but not limited to the time of achieving sustainable profitability and the uncertainty of the discovery, development, and commercialization of product candidates, which includes uncertainty of the outcome of clinical trials and significant regulatory approval requirements.

Significant balance sheet and income statement items are accounted for as follows:

Trade receivables

Trade receivables and other short-term receivables are carried at their nominal value. Impairment charges are calculated for these assets on an individual basis.

Investments

Investments are initially recognized at cost. Investments in subsidiaries are assessed annually and adjusted to their recoverable amount.

Treasury shares

Own shares (treasury shares) are recognized at cost. Any gains or losses upon disposal are recognized in equity. Own shares directly held by the Company are deducted from equity.

Revenue recognition

Revenues under collaborative long-term research and development agreements, i.e. royalties/licenses and technology transfer fees are recognized when earned based upon the substance of the relevant agreements or on the basis of the progress of the project in accordance with the percentage of completion method, respectively. For revenue arrangements with separately identifiable components the revenue recognition criteria are applied separately. The consideration received is allocated among the separate components based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate components. Other revenues include small licensing fees, success and milestone payments.

Research expense

Research (R&D) expenses consist primarily of compensation and other expenses related to R&D personnel; costs associated with pre-clinical testing and clinical trials of the Group's product candidates, including the costs of manufacturing the product candidates; expenses for research and services under collaboration agreements; outsourced R&D at research institutions, and relevant facility expenses. R&D expenses are fully charged to the income statement as incurred. Kuros considers that regulatory and other uncertainties inherent in the development of its key new products preclude it from capitalizing development costs. Development costs are capitalized when the following criteria are met: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (b) its intention to complete the intangible asset and use or sell it; (c) its ability to use or sell the intangible asset; (d) the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development. That means that projects which have achieved technical feasibility, usually signified by a market approval from the US Food and Drug Administration or the European Medicines Agency or a comparable regulatory authority, would be capitalized because it is probable that the costs will give rise to future economic benefits.

Foreign currencies

Monetary and non-monetary items in foreign currency are translated into Swiss francs at the following exchange rates:

	2017	Balance sheet as of	2016	Balance sheet as of
	Income statement	December 31, 2017	Income statement	December 31, 2016
EUR	1.1131	1.1702	1.102	1.072
USD	0.9979	0.9745	0.9932	1.016
GBP	1.2755	1.3183	1.3723	1.255
JPY	0.0089	0.0087	0.0091	0.0087

The exchange rates used for balance sheet items are the rates prevailing on December 31. The exchange rates used for transactions conducted during the course of the year and for items in the income statement are average rates for the financial year.

2. Authorized and conditional capital

in TCHF, as of December 31	2017	2016
Authorized capital with a nominal value of	1,503	2,542
Conditional capital with a nominal value of	1,208	800

3. Treasury shares

	Number of shares	Weighted average purchase price	in TCHF
Balance as of January 1, 2016	2,104,648	0.10	210
Stock split 100:1	21,046	10	210
Total after stock split	21,046	10	210
Purchase	34,625	18.19	630
Sale	(35,125)	16.35	(574)
Balance as of December 31, 2016	20,546	12.94	266
Purchase	56,643	18.01	1,020
Sale*	(77,189)	16.66	(1,286)
Balance as of December 31, 2017	–	–	–

* Weighted average sales price in 2017 was CHF 17.01.

4. Investments

as of December 31	2017	2016
Kuros Biosurgery Holding Ltd, Zurich, Switzerland		
Purpose: Intermediate Holding		
Share capital (TCHF)	1,446	1,446
Shareholding (%)	100	100
Kuros Biosurgery AG, Zurich, Switzerland		
Purpose: Provider of research and development services		
Share capital (TCHF)	435	435
Shareholding (%)	100	100
Proteome Therapeutics GmbH, Singen, Germany		
Non-operative since May 2002		
Paid-in capital (TEUR)	25	25
Shareholding (%)	100	100
Kuros Biosciences B.V., Bilthoven, The Netherlands¹		
Purpose: Provider of research and development services		
Paid-in capital (TEUR)	18	–
Shareholding (%)	100	–
RevisiOs B.V., Bilthoven, The Netherlands¹		
Purpose: Provider of research and development services		
Paid-in capital (TEUR)	22	–
Shareholding (%)	100	–

¹ Acquired in 2017.

5. Lease commitments not recorded in the balance sheet

in TCHF, as of December 31	2017	2016
Rent and leasing	1,092	1,312

The minimum lease commitments comprise all amounts due in future periods.

6. Revenue

in TCHF, twelve months ended December 31	2017	2016
Revenue from royalties and licenses	–	997
Total	–	997

7. Other income

in TCHF, twelve months ended December 31	2017	2016
Rent	2,304	2,247
Fees of collaboration agreements	280	352
Other	10	–
Total	2,594	2,599

8. Other operating expenses

in TCHF, twelve months ended December 31	2017	2016
Rental expenses	(1,533)	(1,411)
Insurances, public charges	(74)	(51)
Energy expenses	(189)	(212)
Administration and legal fees	(1,619)	(1,463)
Marketing expenses	(655)	(64)
Other expenses	(172)	(94)
Total	(4,242)	(3,295)

9. Main shareholders

According to disclosure notifications filed with the Company and to the SIX, the following Shareholders hold more than 3% of the share capital of the Company as of December 31, 2017:

Name	Shareholding
Incubation B.V., Bilthoven, the Netherlands / Aldabra B.V., Amersfoort, The Netherlands	32.6 %
LSP V Coöperatieve U.A., Amsterdam, The Netherlands	9.5 %
Eckenstein-Geigy-Stiftung, Binningen, Switzerland	9.3 %
Banque Pictet & Cie SA, Geneva, Switzerland	8.9 %
Venture Incubator AG, 6302 Zug, Switzerland	8.9 %
Omega Fund IV LP, Grand Cayman, Cayman Islands	7.8 %
Pegasus Global Opportunity Fund Ltd., Tortola, British Virgin Island	4.2 %

As of December 31, 2016, following Shareholders owned 3% or more of the Company's share capital:

Name	Shareholding
Banque Pictet & Cie SA, Geneva, Switzerland	11.1 %
LSP V Coöperatieve U.A., 1071 DV Amsterdam, The Netherlands	9.5 %
Eckenstein-Geigy-Stiftung, Binningen, Switzerland	9.3 %
Venture Incubator AG, 6302 Zug, Switzerland	8.9 %
Omega Fund IV LP, Grand Cayman, Cayman Islands	7.8 %
Science and Innovation Capital, Paris, France	5.9 %
Didier Cowling, Thalwil, Switzerland	4.8 %

10. Other disclosures

Employees

As of December 31, 2017, the Company employed 15 fulltime employees (2016: 16).

11. Shares owned by and options granted to Board of Directors and Executive Committee

The following numbers of participations were held by or granted to members of the Board of Directors or the Executive Committee (including parties closely related to these members):

as of December 31, 2017	Shares held	Options granted*	Options expiring		
			2018	2019	2020 or later
Christian Itin Chairman of the Board	–	39,200	9,800	2,400	27,000
Leanna Caron Vice Chairman of the Board	–	4,000	–	–	4,000
Didier Cowling Board member	126,797	137,778 ²	–	–	137,778
Giacomo Di Nepi Board Member	–	2,000	–	–	2,000
Gerhard Ries Board Member	4,575	4,000	–	–	4,000
Clemens van Blitterswijk Board Member	–	2,000	–	–	2,000
Frank-Jan van der Velden Board Member	–	–	–	–	–
Harry Welten Board Member	1	108,300	1,500	2,600	104,200
Phillippe Saudan Chief Development Officer	–	58,600	900	2,400	55,300
Alistair Irvine Chief Business Officer	–	67,224 ¹	–	–	67,224
Virginia Jamieson Chief Medical Officer	–	46,908	46,908	–	–
Joost de Bruijn Chief Executive Officer	–	–	–	–	–
Ivan Cohen-Tanugi Chief Executive Officer	–	128,986	–	–	128,986

* Options that have been granted in 2017 and the previous years and that are not expired as of December 31, 2017

¹ 6,697 options lapsed in 2017

² 24,062 options forfeited in 2017

as of December 31, 2016	Shares held	Options granted*	Options expiring		
			2017	2018	2019 or later
Christian Itin Chairman of the Board	–	3,000	–	–	3,000
Leanna Caron Vice Chairman of the Board	–	2,000	–	–	2,000
Didier Cowling Board member, Chief Executive Officer	136,797	102,779 ¹	–	–	102,779
Alistair Irvine Chief Business Officer	–	73,921	6,697	–	67,224
Virginia Jamieson Chief Medical Officer	–	46,908 ²	–	–	46,908
Arnd Kaltofen Board member	–	2,000	–	–	2,000
Jörg Neermann Board member	–	2,000	–	–	2,000
Gerhard Ries Board member	4,575	2,000	–	–	2,000
Philippe Saudan Chief Development Officer	–	40,000	–	–	40,000
Jason Schense Chief Technology Officer	13,829	69,702 ³	–	–	69,702
Harry Welten Board member, Chief Financial Officer	1	88,200	–	–	88,200

* Options that have been granted in 2016 and that are not expired as of December 31, 2016

¹ 5,358 options expired in 2016

² 2,776 options expired in 2016

³ 2,443 options expired in 2016

12. Pledged assets

in TCHF, as of December 31	2017	2016
Cash and cash equivalents ¹	80	80

¹ includes pledged assets as a security for credit card liabilities

13. Provisions

in TCHF, as of December 31	2017	2016
Employee expenses	1,478	–
Onerous contract	206	–
Total	1,684	–

14. Share capital increase

The increase in the share capital mainly consists of the capital contribution in kind on January 23, 2017 with issuance of 1,365,000 at nominal value, the sales of 1,151,606 new shares to existing and new shareholders at a price of CHF 12.50, the placement of additional 200,000 shares through an over-allotment option that has been exercised on August 2, 2017 as well as 370,000 new shares at nominal value that have been issued out of authorized capital on September 28, 2017.

The Swiss Federal Tax Administration (ESTV) has not yet acknowledged the reported reserves for capital contribution as a capital contribution in accordance with Article 5 VStG.

15. Financial Expense

in TCHF, twelve months ended December 31	2017	2016
Share capital increase expenses	964	42
Other	163	62
Total	1,127	104

16. Events after balance sheet date

On January 5, 2018, Kuros amended its existing license agreement with Checkmate Pharmaceuticals. Under this agreement, Kuros grants Checkmate Pharmaceuticals exclusive access to certain intellectual property. The amendment contains a scope extension to license additional intellectual property. Kuros may receive up to USD 28 million in development milestones and may receive royalties on net sales from successfully developed products.

Appropriation of the accumulated losses

The Board of Directors proposes that the net loss of the year 2017 in the amount of CHF 9,505,762 is applied against the loss brought forward of CHF 66,223,678 resulting in a new balance of the loss brought forward of CHF 75,729,440 to be carried forward to the new accounts.



Report of the statutory auditor to the General Meeting of Kuros Biosciences AG Schlieren

Report on the audit of the financial statements

Opinion

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

In our opinion, the financial statements (pages 102 to 112) as at 31 December 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 280'000

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:
Valuation of Investments in Subsidiaries

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,

PricewaterhouseCoopers AG, St. Jakobs-Strasse 25, Postfach, CH-4002 Basel, Switzerland
Telephone: +41 58 792 51 00, Telefax: +41 58 792 51 10, www.pwc.ch

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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 280'000
<i>How we determined it</i>	1% of net assets, rounded
<i>Rationale for the materiality benchmark applied</i>	We chose net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured, and is a generally accepted benchmark.

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.

Valuation of Investments in Subsidiaries

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>As of 31 December 2017, investments in subsidiaries of Kuros Biosciences AG amounted to TCHF 21'346 (about 65% of total assets).</p> <p>Due to the significance of these assets in the financial statements and because of the judgement involved in the valuation of these investment, we consider the impairment assessment of the investments in subsidiaries as a key audit matter.</p> <p>Please refer to page 105 (Accounting principles) and page 107 (Note 4, Investments).</p>	<p>We performed detailed procedures over the valuation of the investments in subsidiaries, which include the following:</p> <p>With involvement of PwC's internal valuation experts, we challenged and evaluated management's value in use calculation which was the basis to support the carrying value of the investments as per 31 December 2017. This included a review of the appropriateness of the model used, as well as challenging of the key assumptions made by management, such as the discount rate applied and the cash flow forecasts.</p> <ul style="list-style-type: none"> • We evaluated the reasonableness of the discount rate, as determined by management's third party experts, by assessing the cost of capital for the

company and comparable organisations, as well as considering territory specific factors.

- We challenged management's cash flow assumptions and probability-weightings applied to such cash flows by ensuring consistency with other internal forward-looking documentation available.

We further performed independent sensitivity analyses around the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for the investments in subsidiaries to be impaired.

Due to the significant estimation uncertainty in the cash flow assumptions we sought additional comfort which was provided by comparing the carrying value of the investments in subsidiaries to the market capitalisation of the Group.

As a result of our procedures, as discussed with the Audit Committee and the Board of Directors, we determined that the conclusions reached by management with regard to valuation of the investments in subsidiaries are reasonable and supportable.

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.

We further confirm that the proposed appropriation of the accumulated losses (page 113) complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

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).

PricewaterhouseCoopers AG

Thomas Bruederlin
Audit expert
Auditor in charge

Thomas Ebinger
Audit expert

Basel, 27 April 2018

Legal Disclaimer / Forward-looking Statements

This Annual Report contains statements that constitute “forward-looking statements”, including but not limited to, statements relating to research and development plans, planned regulatory approvals, research collaborations and estimates and projections of future trends, as well as the anticipated future development and economic performance of the Group and/or its subsidiaries (together “the Group”). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual future results, performance or achievement of the Group, or industry results, to differ materially from any future results, performance or achievement implied by such forward-looking statements. The forward-looking statements are based on the information available to the Group on the date of this Annual Report and on the Group’s current beliefs, forecasts and assumptions regarding a large number of factors affecting its business. Such beliefs and assumptions are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Group. There can be no assurance that: (i) the Group has correctly measured or identified all the factors affecting its business or the extent of their likely impact, (ii) the publicly available information with respect to these factors on which the Group’s analysis is based is complete or accurate, (iii) the Group’s analysis is correct or (iv) the Group’s strategy, which is based in part on this analysis, will be successful. Factors that affect the Group’s business include, but are not limited to, (i) general market, governmental and regulatory trends, (ii) competitive pressures, (iii) technological developments, (iv) effectiveness and safety of the Group’s technology and therapeutics, (v) uncertainty regarding outcome of clinical trials and regulatory approval processes, (vi) management changes, (vii) changes in the market in which the Group operates and (viii) changes in the financial position or credit-worthiness of the Group’s customers and partners. The Group assumes no liability to update forward-looking statements or to conform them to future events or developments.

Published:

Kuros Biosciences Ltd
Wagistrasse 25
8952 Schlieren/Zürich (Switzerland)

Concept and content:

Thomas Staffelbach Kommunikation, Liestal/Basel (Switzerland)