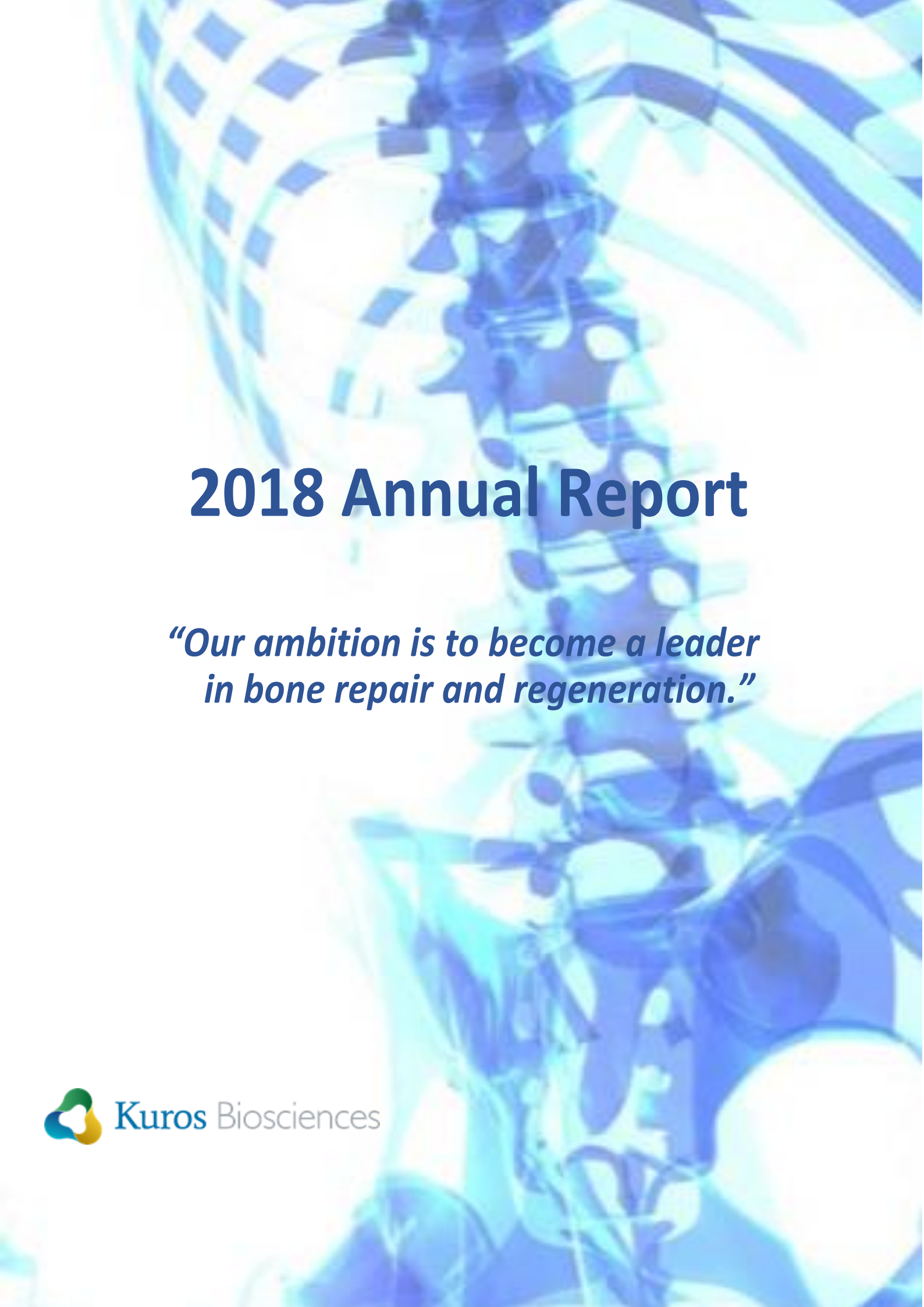


2018 Annual Report

"Our ambition is to become a leader in bone repair and regeneration."

Kuros Biosciences

Table of content

Highlights of the last 16 months

January 8th, 2018

License agreement with Checkmate expanded

Kuros ("the Company") 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.

March 12th

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.

April 30th

Kuros reports Full-Year 2017 Results

Kuros reported its Full-Year 2017 Results, and the publication of its annual report. Key financials highlighted that CHF 17.0 million cash at December 31, 2017, CHF 16.9 million equity raised in June 2017 and standby equity facility established in November 2017 to increase financial flexibility. Operationally, the successful completion of merger with Xpand Biotechnology has created a leader in orthobiologics. The U.S. Food and Drug Administration ("FDA") has granted clearance on MagnetOs Granules & Putty. The Company is gearing up for its U.S. commercial launch of MagnetOs in 2018. Clinical development of Fibrin-PTH for spinal fusion is on track.

May 2nd

Kuros receives European clearance for MagnetOs Putty and prepares for commercial roll-out in the U.S. and Europe

Kuros announced that it has received the CE Mark for MagnetOs Putty indicated for use as an osteoconductive and osteoinductive bone void filler in the skeletal system (i.e. spine, extremities, pelvis, cranium, mandible and maxilla). This market clearance allows commercialization of MagnetOs Putty in Europe, and complements the existing clearance for MagnetOs Granules, and the 510(k) clearance for both formulations from the U.S. FDA as an autograft extender in the posterolateral spine. With its unique submicron surface topography, MagnetOs preferentially directs early wound healing toward the bone-forming pathway. Numerous studies have shown that MagnetOs leads to progressive bone formation and implant resorption comparable to autograft (patient's own bone), the current gold standard.

May 29th

Kuros announces start of investigator-led study of MagnetOs Granules for maxillary sinus floor elevation

Kuros announced the start of an investigator-led study at University Medical Center Utrecht ("UMCU") in the Netherlands, using MagnetOs Granules for maxillary sinus floor elevation with two-stage implant placement. Sinus floor elevation is performed to allow placement of dental implants in the maxilla, or upper jaw. It is most commonly performed when the floor of the sinus is too close to an area where dental implants are to be inserted.

May 31st

Kuros proposes appointment of new Board Members at AGM

Kuros announced that it will propose the appointment of CEO Joost de Bruijn, as well as three new independent non-executive directors at its 2018 Annual General Meeting ("AGM") on June 14.

June 12th

Kuros announces start of randomized controlled trial of MagnetOs in spinal fusion Study should further enhance competitive positioning of MagnetOs

Kuros announced that UMCU in the Netherlands has obtained approval from its ethical committee to start an investigator-led multicenter study comparing MagnetOs with autologous bone in posterolateral spinal fusion.

June 14th	**General Meeting of Kuros approves all resolutions** Kuros announced that the General Meeting approved all resolutions proposed by the Board of Directors with a clear majority. In particular, shareholders resolved on the increases and adjustments of the conditional and authorized capital. Joost de Bruijn, Jason Hannon, Scott P. Bruder and Oliver Walker were elected as new members of the Board. A total of 24.4 % of shares were represented at the General Meeting.
June 19th	**Kuros presents promising clinical case studies with MagnetOs at leading spine surgery conference** Kuros presented results from several investigator-led clinical case studies of MagnetOs Granules at the 15th annual State of Spine Surgery Think Tank, a leading conference uniquely dedicated to innovation in spinal surgery.
July 2nd	**Kuros reports first U.S. & UK sales of MagnetOs commercial roll-out in the U.S. and Europe on track** Kuros announced that it recorded the first commercial use of MagnetOs last week in the U.S., and the company expects to ramp up its commercial activities in Europe and the U.S. in the second half of 2018.
August 23rd	**Kuros appoints Pascal Longlade as Chief Medical Officer** Kuros announced today the appointment of Pascal Longlade as Chief Medical Officer, effective September 1, 2018.
September 5th	**Kuros reports Results for First Half 2018** Key financials highlighted CHF 9.7 million cash as at June 30. Operating expenses decreased to CHF 6.0 million. Operationally, Kuros has recorded first sales of MagnetOs in the U.S. and in Europe, and commercial rollout continues apace in both regions. Preparation for Phase II clinical study of Fibrin-PTH in spine is on track.
September 14th	**Kuros hosts Key Opinion Leader Meeting on establishing the New Gold Standard in bone regeneration** Kuros announced that it will host a Key Opinion Leader luncheon on establishing the new gold standard in bone regeneration on September 20, 2018 at Hotel Richemond in Geneva, Switzerland.
September 25th	**Kuros appoints Strategic Advisory Board** Kuros announced the formation of its Strategic Advisory Board ("SAB"). The newly-formed SAB will work closely with Kuros' leadership team to guide the strategic direction of the company. The SAB is assembled from key-opinion-leading surgeons and academic research experts, specialized in the treatment of disorders of the Spine. The board sat for the first time in Los Angeles, USA on September 27, 2018, to coincide with the North American Spine Society annual meeting, at which Kuros presented new scientific data in support of the Company's bone graft product, MagnetOs, which was recently launched to market.
September 27th	**Kuros reports first patient treated in randomized controlled trial of MagnetOs in spinal fusion** Kuros announced that the first patient has been treated in an investigator-led multicenter randomized controlled study comparing MagnetOs with autologous bone in posterolateral spinal fusion. Kuros commercial activity focused on MagnetOs in spinal fusion and study should further enhance competitive positioning of MagnetOs.
October 18th	**Kuros advances its Fibrin-PTH (KUR-113) spinal fusion product candidate program** Kuros announced that the Company has reached a key milestone in its Fibrin-PTH (KUR-113) spinal fusion product candidate development program with the submission of a 510(k) regulatory package for its enabling lumbar intervertebral body fusion device to the U.S. FDA.

October 22nd

Kuros obtains US patent covering a method for producing osteoinductive materials
Kuros announced that its Dutch subsidiary, Kuros Biosciences BV, was recently granted the U.S. patent, US 10'064'892, entitled "Method for producing an osteoinductive calcium phosphate and products thus obtained" by the United States Patent and Trademark Office.

November 8th

Kuros convenes Extraordinary General Meeting
Kuros announced that it will hold an Extraordinary General Meeting ("EGM") of shareholders to seek approval to increase the Company's ordinary share capital and to establish conditional capital.
The share capital increase aimed at raising approximately CHF 16 - 20 million to advance research, development and marketing of the Company's key products. Specifically, the Company seeks approval from shareholders in the upcoming EGM for an increase of the ordinary share capital of up to CHF 4.3 million for the issuance of up to an additional 4.3 million shares and to establish conditional capital of CHF 1.7 million for the issuance of up to 1.7 million shares.

November 29th

Kuros announces the final terms of the proposed capital increase through discounted rights offering which expected to raise up to CHF 20 million gross proceeds to advance its pipeline
At the EGM, the shareholders approved all resolutions proposed by the Board of Directors to increase the ordinary share capital of up to CHF 4.3 million through the issuance of up to an additional 4.3 million shares and to establish a conditional capital of CHF 1.7 million for the issuance of up to 1.7 million shares.

December 6th

Kuros reports publication of MagnetOs data demonstrating equivalence to autologous bone in spinal fusion
Kuros announced the publication of data from a clinically-relevant preclinical model comparing MagnetOs with autologous bone in instrumented posterolateral spinal fusion in sheep. Utilizing multiple assessments for fusion, the study concluded that MagnetOs is a suitable alternative to autograft when used as a standalone graft. This study further enhances the competitive positioning of MagnetOs.

December 10th

Kuros receives FDA 510(k) clearance for extending commercial indications of MagnetOs Putty in the United States
Kuros announced that it has received 510(k) clearance from the US Food and Drug Administration (FDA) for extending MagnetOs Putty indications to use as a stand-alone bone graft in extremities and pelvis. This is in addition to the existing clearance for use of MagnetOs Granules and MagnetOs Putty as an autograft extender in posterolateral spine. This clearance paves way for the commercial expansion into more clinical indications in orthopedic surgery.

December 12th

Kuros announces results of rights offering – capital increase will be implemented
Kuros announced the results of the November 29, 2018 communicated rights offering in which a total of 8,013,306 new registered shares of Kuros sourced from the ordinary and authorized share capital with a nominal value of CHF 1.00 each were offered to Kuros' existing shareholders at an offer price of CHF 2.50 per share.
At expiration of the rights exercise period on December 12, 2018, 12.00 noon CET, subscription rights for 2,769,608 new registered shares were validly exercised, representing 34.6% of the new registered shares offered. 5,243,698 new registered shares for which subscription rights were not exercised will be offered in the share placement to eligible institutional investors or others.

December 13th

Kuros announces final result of capital increase – total gross proceeds of 16.1 million raised
Kuros announced the final number of offered shares and gross proceeds from the rights offering and share placement.
After completion of the share placement, 3,686,074 new registered shares for which subscription rights were not exercised were placed in the share placement to eligible institutional investors or others. Combined with the 2,769,608 new registered shares, which were validly subscribed for in the rights offering, the total number of new registered shares placed in the offering at the offer price of CHF 2.50 per share amounted to 6,455,682. Total gross proceeds raised from the capital increase amounted to CHF 16.1 million.
As a result of the capital increase, Kuros' share capital increased from CHF 8,602,929 to CHF 15,058,611, divided into 15,058,611 registered shares with a nominal value of CHF 1.00 each.

December 17th	**Kuros ends transformational year with first MagnetOs sales, lead clinical program on track, and successful capital raise** Kuros has completed a transformational year, having realized first sales of its MagnetOs bone graft substitute in the U.S. and Europe and raised capital of CHF 16.1 million to support the roll-out of MagnetOs, and fund the Phase II clinical trial of fibrin-PTH (KUR-113) in spinal fusion.

February 11th, 2019	**Kuros Biosciences signs agreement to supply SeaSpine with bone graft incorporating Kuros' advanced submicron surface technology** Kuros announced that its Dutch subsidiary, Kuros Biosciences BV, has signed a private label Original Equipment Manufacturer agreement with SeaSpine Holdings Corporation (NASDAQ: SPNE), a global medical technology company focused on surgical solutions for the treatment of spinal disorders. Under the agreement Kuros will supply the bone graft in various forms and SeaSpine will market the products under the brand name OsteoCurrent in the U.S. and other selected markets in Europe, South America and the Middle East providing the necessary regulatory approvals are achieved. Initial sales in the U.S. are expected prior to the end of H1 2019. Terms of the agreement were not disclosed. The agreement demonstrated interest of major orthobiologic companies in Kuros' technologies.
March 13th	**Kuros receives U.S. marketing clearance for intervertebral body fusion device** Kuros announced that its Dutch subsidiary, Kuros Biosciences BV, has received clearance for the Kuros TLIF cage from the U.S. FDA. This clearance is an important step towards progression of Fibrin-PTH product candidate KUR-113 into clinical development. Kuro's TLIF cage will be used with its Fibrin-PTH product candidate in the upcoming interbody spinal fusion clinical trial.
April 9th	**Kuros Biosciences enters convertible bond financing agreement for up to CHF 5 million** Kuros Biosciences announced that it has entered into a convertible bond financing agreement with Nice & Green S.A. for up to a maximum of CHF 5 million. The proceeds from this convertible bond facility provide additional funds for roll-out of MagnetOs and further advancing clinical program. The Convertible Bonds are mandatory convertible into equity.

Dates correspond to the official announcements.

Dear Shareholders

In 2018, Kuros Biosciences has successfully continued its transformation to become a clinical and commercial-stage biotech company with a medtech risk profile. We have done this by focusing the company on its two core pillars of value, MagnetOs™ and fibrin-PTH, which initially target the largest orthobiology market segment: spinal fusion.

With the first commercial sales of MagnetOs bone graft in the US and selected geographies in Europe, we transformed ourselves into a commercial stage company with an international presence with offices in Schlieren (Switzerland), Bilthoven (the Netherlands) and Burlington (MA, USA). We rounded off the year with a CHF 16.1 million capital raise, which adds to our solid foundation and enables us to further develop our pipeline, in particular by supporting the commercial roll-out of MagnetOs and funding the pilot Phase II clinical trial of fibrin-PTH (KUR-113) in spinal fusion.

Our pipeline provides commercial opportunities in attractive markets and we are positioned as a technology leader in both synthetic and drug-based bone graft substitutes. Spine indications constitute approximately 50% of all bone graft procedures allowing for targeted investments in a meaningful segment of the market. Kuros has leading products in key segments of the orthobiologics field and the opportunity to build an integrated business with promising products both on the market and in development.

Our lead synthetic product candidate is MagnetOs, a novel surface structured orthobiologic, which is the most advanced product in this class. MagnetOs Putty received a CE-mark (Europe) in May 2018 with a wide range of indications and in December 2018, US FDA 510(k) clearance was obtained for MagnetOs Putty in additional orthopedic indications. In the second half of the year, an investigator-led randomized controlled clinical study was started in the Netherlands to compare MagnetOs to the gold standard autologous bone in 100 patients over five clinical sites. This is expected to generate valuable data confirming the advantages of MagnetOs.

Our lead program with fibrin-PTH (KUR-113), an advanced biological drug-based orthobiologic product candidate, remains on track. Previous successful testing of fibrin-PTH (KUR-111 and KUR-113) in large, controlled Phase 2b trauma clinical trials has largely de-risked KUR-113 for spinal indications. We are continuing with the preparation of KUR-113 for interbody spinal fusion in a large, controlled clinical trial in 2019. First patient-in for the fibrin-PTH trial is expected in the second half of 2019.

Finally, we have made changes to the leadership team to focus the company and drive it towards the next stage of commercial sales of MagnetOs and clinical development of fibrin-PTH. We would like to thank our former colleague Virginia Jamieson, CMO, who retired in May 2018 for her contribution and longstanding service to the company. We welcome Pascal Longlade, who joined as CMO in September 2018, and Michael Grau, who was appointed CFO in February 2018. We would also like to thank our former director Frank-Jan van der Velden for his services to the Board, and welcome Joost de Bruijn as new director elected to the Board at the last General Meeting.

We believe Kuros remains well positioned to benefit from the evolving healthcare landscape, leveraging innovative, cost-effective orthobiology products with demonstrated safety and clinical effectiveness. 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 coming year, 2019, promises to be another exciting one for Kuros. We will continue to focus on the commercial roll-out of MagnetOs and move ahead with the very promising fibrin-PTH program, which represent significant commercial opportunities.

We would like to thank patients, employees and shareholders for your trust, contributions and support in 2018.

Best wishes to you all,

Prof. Dr. Clemens van Blitterswijk	Prof. Dr. Joost de Bruijn
Chairman	Chief Executive Officer

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

Kuros Biosciences Ltd

Kuros is a group with a focus on bone repair and regeneration (orthobiology). The Group has developed commercial-stage products and a pipeline of product candidates at various stages of pre-clinical and clinical development. The most advanced orthobiology programs are targeting commercially attractive opportunities in the spinal field. Our initial focus is in the spinal field because there are unmet needs of patients and surgeons in the bone graft substitute market and the benefits of our technologies align perfectly to the evolving needs of the spinal surgeon community. In addition to many years of substantial work in the preclinical setting, Kuros has enrolled over 400 patients in multi-national clinical trials and generated promising data supporting the safety and efficacy of its product candidates in a number of indications.

The field of Orthobiologics

There is a requirement for bone generation 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 orthobiologic products and product candidates place current suboptimal synthetic and growth factor-based solutions by new, innovative products that address the shortcomings of existing products in each of these product groups.

Many patients suffer from chronic back pain due to degeneration, trauma or instability of the spine. When the pain can no longer be 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 a titanium or PEEK (polyether ether ketone) implant for immediate post-operative stability and implantation of a bone graft or bone graft substitute to promote bone growth between the vertebrae for long-term stability and pain relief.

Our products and product candidates for spinal fusion

The MagnetOs™ product range is based on a unique submicron surface technology that stimulates the body to form bone rather than scar tissue, as is often seen for other synthetic bone grafts currently available on the market. Fibrin-PTH is a drug-based technology that allows controlled and targeted release of PTH, a bone stimulating growth factor. Both orthobiologic solutions are unique in that they instruct the body to form bone with the goal to improve the success rates of spinal fusion.

MagnetOs™ Product Family – surface topography instructed bone formation

MagnetOs™ is Kuros' family of surface structured bone graft substitutes that is available in various forms in order to meet the different needs of surgeons and clinical situations. Kuros has market clearance for both MagnetOs™ Granules and MagnetOs™ Putty in both the EU (CE-mark) and US (FDA 510(k)) as a bone void filler for use in the spine. Kuros' proprietary MagnetOs™ bone graft technology comprises biphasic calcium phosphate with an advanced submicron surface topography

that directs bone formation after implantation. With its unique topography, it preferentially directs early wound healing toward the bone-forming pathway, resulting in predictable healing, reliable fusions and an osteoinductive claim in Europe.

MagnetOs™ (CE Mark/510(k))	Therapeutic area	Preclinical	Registration	Market Clearance
Granules EU	Spine (all indications)			
Granules US	Spine (PLF)			
Putty EU	Spine (all indications)			
Putty US	Spine (PLF)			

Fibrin-PTH Interbody Fusion Product Candidate

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 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. Kuros is combining these known and safe products in a novel patent protected way to produce new products. Currently, Kuros' Fibrin-PTH product candidate for spinal fusion is KUR-113.

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

* *KUR-113 will directly enter into a Phase II clinical study in spine utilizing safety data from tibial shaft fracture trial*

KUR-113 consists of a natural healing matrix (fibrin sealant) combined with a bone growth factor (TGplPTH$_{1-34}$, a variant of parathyroid hormone). KUR-113 has great potential in spinal surgery and is applied into and around an interbody spinal cage. Non-clinical studies have shown that administration of KUR-113, induces a response from the adjacent vertebrae that facilitates fusion through the cage. Also, as mentioned below, KUR-113 has shown significant efficacy in a clinical study in a tibial shaft fractures. Clinical studies of KUR-113 for interbody spinal fusion are currently being planned.

Our products and product candidates for other indications

MagnetOs™ Product Family – surface topography instructed bone formation

In addition to approval for use in spine, Kuros has market clearance for MagnetOs™ Putty for use as a bone void filler in orthopaedics in both the EU (CE-mark) and US (FDA 510(k)). In addition, MagnetOs Granules™ and MagnetOs Putty™ are cleared for use in dental indications in the EU.

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

Fibrin-PTH Product Candidates in Trauma Indications

Kuros has two Fibrin-PTH product candidates in trauma indications, KUR-111 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 (TGplPTH$_{1-34}$, 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.

In addition to spine fusion, KUR-113 addresses trauma procedures in which no bone graft substitute is applied during surgery. 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.

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

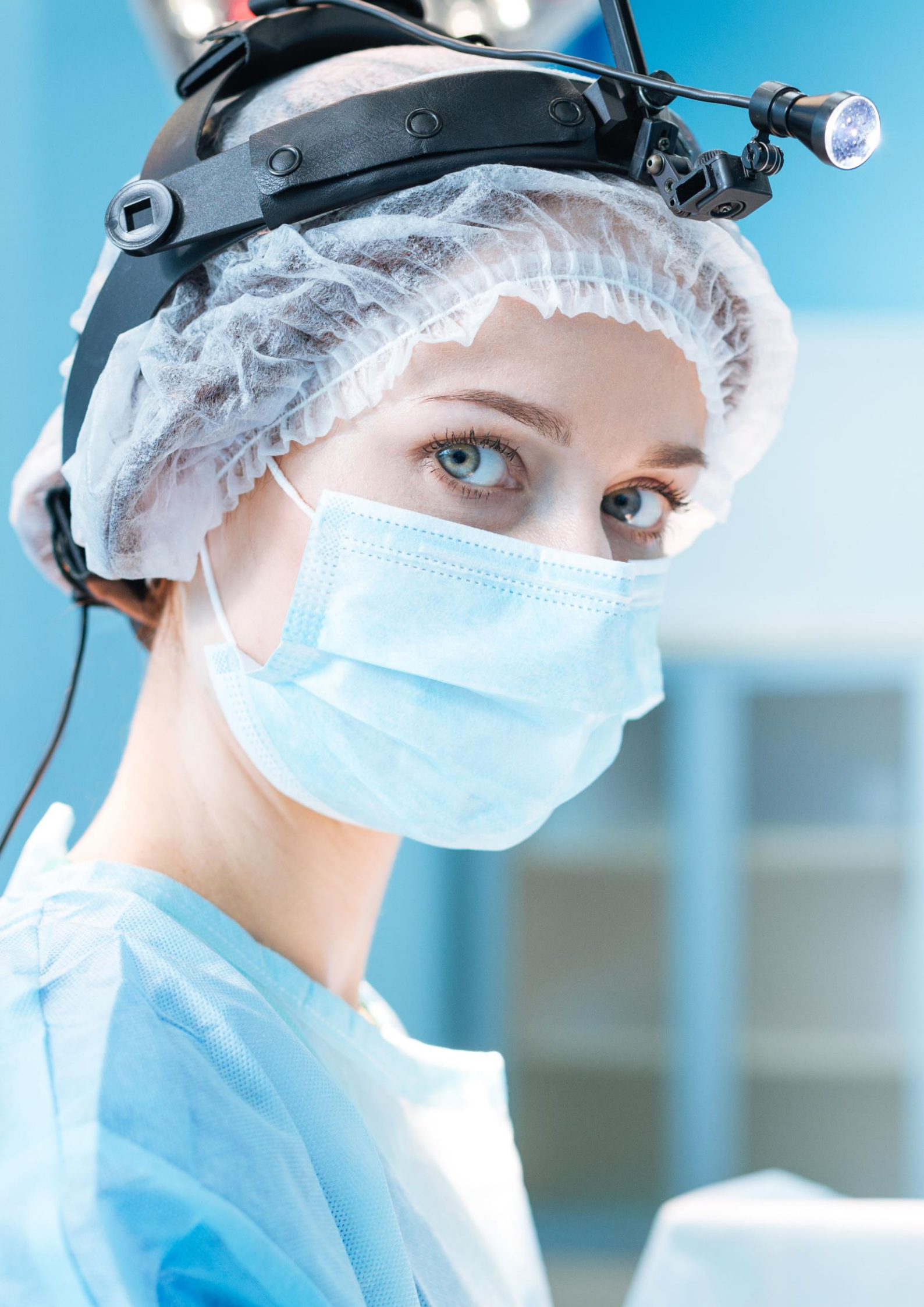
Non-core products and product candidates: Surgical Sealants

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 as a protective barrier for the brain and spinal cord ensuring they remain bathed 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.



Corporate Governance Report 2018

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 bone regeneration (orthobiology). 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 (Schlieren, Switzerland), which holds 100% of Kuros Biosurgery Ltd (Schlieren, Switzerland).

As of December 31, 2018, the total headcount of the Group amounted to 35 employees. The legal domicile of the Company headquarter is Wagistrasse 25, 8952 Schlieren, Switzerland.

The Board of Directors approved these consolidated financial statements on April 12, 2019.

The information published below conforms to the Corporate Governance Directive (“DCG”) of the 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)

The group structure is as follows:

- Kuros Biosciences Ltd (Schlieren, Switzerland), mother company and 100% shareholder of following subsidiaries
    - Proteome Therapeutics Limited (Konstanz, Germany)
    - Kuros Biosurgery Holding Ltd (Schlieren, Switzerland) which holds 100% of the shares of Kuros Biosurgery Ltd (Schlieren, Switzerland)
    - Kuros Biosciences B.V. (Bilthoven, the Netherlands) which holds 100% of the shares of RevisiOs B.V. (Bilthoven, Netherlands)
    - Kuros Biosciences USA, Inc. (Burlington (MA), USA)

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, 2018	CHF 34.6 million

The Company is a corporation established under Swiss law with its registered office in Schlieren, Switzerland. As of December 31, 2018 the Group consists of the parent company Kuros Biosciences Ltd and five non-listed companies:

Name	Share capital
Kuros Biosurgery Holding Ltd, Zurich, Switzerland	CHF 1,446,004.10
Kuros Biosurgery Ltd., Zurich, Switzerland	CHF 435,459.00
Proteome Therapeutics GmbH, Singen, Germany	EUR 25,000.00
Kuros Biosciences B.V., Bilthoven, The Netherlands	EUR 18,000.00
RevisiOs B.V., Bilthoven, The Netherlands	EUR 22,000.00
Kuros Biosciences USA, Inc., Burlington (MA), USA	USD 25

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, 2018.

Name	Shareholding/ Purchase Positions*
YA II PN, Ltd., George Town, Cayman Island**	71.5 %
Incubation B.V., Bilthoven, the Netherlands / Aldabra B.V., Amersfoort, The Netherlands	16.7 %
CS (CH Small Cap Switzerland Equity Fund), Zurich, Switzerland	9.5 %
Eckenstein-Geigy-Stiftung, Binningen, Switzerland	9.3 %
Banque Pictet & Cie SA, Geneva, Switzerland	8.9 %
LSP V Coöperatieve U.A., Amsterdam, The Netherlands	6.6 %
Venture Incubator AG, 6302 Zug, Switzerland	3.2 %

* The shareholdings or purchase positions indicated in this table correspond to the amounts as disclosed on the SIX website (as indicated below).

**This is a purchase position which allows Kuros at its discretion to draw down up to US$30 million under a standby equity agreement.

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, 2018 the company holds purchase positions of 0.1% and sale positions of 86.1%.

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, 2018 (DCG 2)

The capital structure of the Company is as per the excerpts below from the articles of association (the "Articles") as of December 14, 2018, valid as of December 31, 2018, available on the Company's website at www.kuros.ch/investors/corporate-governance.html:

Capital (DCG 2.1)

"Art. 3a Share Capital and Shares

[1] The share capital of the Company is CHF 15'058'611.00 and fully paid-in. It is divided into 15'058'611 registered shares with a nominal value of CHF 1.00 each.

[2] Registered shares may be converted into bearer shares and bearer shares may be converted into registered shares by a resolution of the General Meeting."

Conditional capital (DCG 2.2)

"Art. 3b Conditional Capital Increase for Bonds or Similar Debt Instruments

[1] The share capital of the Company shall be increased by a maximum amount of CHF 1,720,585 through the issue of a maximum of 1,720,585 registered shares, payable in full, each with a nominal value of CHF 1 through the exercise of conversion and/or option rights granted in connection with bonds or similar instruments, issued or to be issued by the Company or by subsidiaries of the Company, including convertible debt instruments.

[2] Shareholders' subscription rights for these shares are excluded. Shareholders' advance subscription rights with regard to the new bonds or similar instruments may be restricted or excluded by decision of the Board of Directors in order to finance or re-finance the acquisition of companies, parts of companies or holdings, or new investments planned by the Company, or in order to issue convertible bonds or similar instruments on the international capital markets or through private placement. If advance subscription rights are excluded, then (1) the instruments are to be placed at market conditions, (2) the exercise period is not to exceed ten years from the date of issue of option rights and twenty years for conversion rights and (3) the conversion or exercise price for the new shares is to be set at least in line with the market conditions prevailing at the date on which the instruments are issued.

[3] The acquisition of registered shares through the exercise of conversion or option rights and any transfers of registered shares shall be subject to the restrictions specified in Article 4 of the Articles of Association."

"Art. 3c Conditional Capital for Employees, Persons of comparable Positions and Board Members

1 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 position and Board members under the employee participation plans, 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 1,141,258.00 by issuance of up to 1,141,258 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.

2 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).

3 The further transfer of the registered Shares acquired by the exercise of the options rights under this article shall be subject to the restrictions of Article 4 of these Articles of Association."

Authorized capital (DCG 2.2)

"Art. 3d Authorized Share Capital

1 The Board of Directors is authorized, at any time until June 13, 2020, to increase the share capital by a maximum of CHF 1'592'246.00 through the issuance of a maximum of 1'592'246 registered shares, to be fully paid up, with a nominal value of CHF 1.00 each. Increases by underwriting as well as partial increases are permissible. The issue price, the time of dividend entitlement, and the type of contribution will be determined by the Board of Directors. Upon acquisition, the new shares will be subject to the transfer restrictions pursuant to Art. 4 of the Articles of Association. The contribution may also be made by conversion of available reserves (including also the amount of the capital contribution reserve exceeding the legal requirements of the Swiss Code of Obligations for legal reserves) into share capital, provided that an audited statutory balance sheet evidences the availability of such reserves and is not older than six months at the time of the completion of the capital increase; the amount, which may be converted from the reserves into share capital for the purpose of an authorized capital increase, may not exceed CHF 3,746,464.00.

2 The Board of Directors 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 preemptive rights offering in which more preemptive 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) which probably could not be reached without the exclusion of the statutory pre-emptive right of the existing shareholders.

3 If the Company assumes obligations to serve convertible bonds or loans or option bonds in the context of company takeovers or investment projects, the Board of Directors is obliged to issue new shares under exclusion of the pre-emptive right of the shareholders in order to fulfill delivery obligations.

4 If pre-emptive rights have been granted but not exercised for registered shares, such shares must be used in the interest of the Company or must be sold at market conditions on the market."

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, 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 purchased			(630)				(630)
Treasury shares sold			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 purchased			(1,020)				**(1,020)**
Treasury shares sold			1,042		26		**1,068**
December 31, 2017	**8,171**	**104,153**	**–**	**17,973**	**(59,889)**	**2,732**	**73,140**
January 1, 2018	**8,171**	**104,153**	**–**	**17,973**	**(59,889)**	**2,732**	**73,140**
Loss for the period					(11,693)		(11,693)
Other comprehensive income					204	(862)	(658)
Capital increases, net	6,888	7,862	(17)				14,750
Share based payment 2018				675			675
Treasury shares purchased			(62)				(62)
Treasury shares sold		211	45		75		331
December 31, 2018	**15,059**	**112,226**	**(17)**	**18,648**	**(71,303)**	**1,870**	**76,483**

For further information, see the consolidated statements of change in Shareholders' equity and note 19 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 of Association 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, 2018, the Company had no outstanding convertible loans.

The following table applies to all valid share options outstanding on December 31, 2018:

Exercise price (CHF)	**Options*** (number)	**Remaining life** (years unless stated otherwise)	**Exercisable options** (number)
2.00	272,427	6.9	272,427
3.09	15,000	4.9	15,000
5.00	15,000	4.8	15,000
8.20	2,500	4.7	-
9.26	58,000	4.5	-
10.20	47,500	4.5-4.6	-
12.10	90,768	4.1	-
18.30	64,435	3.5	62,247
24.00	110,200	2.4	110,200
25.00	20,400	1.5	20,400
26.00	15,000	2.1	14,063
27.75	20,000	2.6	16,250
33.00	47,782	2.5	43,407
42.00	25,000	2.2	25,000
45.00	22,327	0.1–2.7	22,327
52.00	19,453	1.0– 3.5	19,453
56.00	40,587	1–1.9	40,587
60.00	54,000	1.5	54,000
305.00	200	1.0	200
349.00	14,642	0.9	14,642
363.00	5,823	0.2	5,823
384.00	2,000	0.2	2,000
385.00	3,800	0.2	3,800
404.00	600	0.3	600
409.00	2,400	0.3	2,400
Total	**969,844**		**759,826**

** 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 969,844 outstanding options represent CHF 969,844.00 of nominal capital. Each option entitles the option holder to purchase one share. For further details please see note 27 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
Clemens van Blitterswijk, PhD Chairman, The Netherlands	1957	2017	2019			
Leanna Caron, MBA Vice-Chairperson, Canada	1968	2016	2019	⊙	✉	
Scott Bruder[3], MD Member, USA	1962	2018	2019			
Jason Hannon[3], MA Member, USA	1972	2018	2019		⊙	
Giacomo Di Nepi, MBA Member, Italy	1953	2017	2019			⊙
Gerhard Ries, PhD Member, Switzerland	1969	2016	2019	✉		⊙
Oliver Walker[3], MBA Member, Switzerland	1969	2018	2019		⊙	✉
Christian Itin[1], PhD Member, Switzerland	1964	2012	2019			
Joost de Bruijn[3] Member, The Netherlands	1966	2018	2019			
Frank-Jan van der Velden[2] Member, The Netherlands	1959	2017	2018			
Didier Cowling[2] Member, UK	1965	2016	2018			
Harry Welten[2] Member, Switzerland	1965	2016	2018			

✉ *Chairman* ⊙ *Member*
[1] *Chairman until June 14, 2018*
[2] *until June 14, 2018*
[3] *as of June 14, 2018*

Clemens van Blitterswijk

Professor Clemens van Blitterswijk, PhD, serves as Chairman of the Board of Directors (the "Board") of the Company. He 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 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.

Leanna Caron

Leanna Caron is the Vice-Chairperson of the Company. As a global business executive, Leanna Caron has extensive experience in the pharmaceutical and medical devices industries. She is a respected sales, marketing, business development, and overall

general management leader with demonstrated effectiveness in corporate governance. Ms. Caron currently serves as Vice Chair of the Board of the Company and is an advisor to the board of directors of CartiHeal, an Israeli medical device company focused on cartilage regeneration and osteoarthritis. She is also President and Chair of the board of directors for Skate Canada, the largest and longest standing figure skating organization in the world. Previous positions include executive vice president and chief commercial officer at AgNovos Healthcare, overseeing all aspects of global commercial development, commercialization, and corporate communications; Vice President and General Manager at Sanofi, overseeing the global commercial operations for Cell Therapy & Regenerative Medicine. Ms. Caron 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 blockbuster products, globally. 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.

Scott Bruder

Scott P. Bruder, MD, PhD, has enjoyed a long and distinguished career in the discovery, development and commercialization of products to diagnose and treat patients around the world. He founded the Bruder Consulting & Venture Group in 2014 after 25 years in the industrial sector, serving in the C-suites of Stryker Corporation as the Chief Medical and Scientific Officer, and at Becton, Dickinson and Company as the Chief Science and Technology Officer. Previously, while at Johnson & Johnson, he and his team built a portfolio of tissue repair products for the DePuy franchise before establishing a new business unit known as J&J Regenerative Therapeutics, LLC. In addition to his tenure through industry, Dr. Bruder has maintained an active academic presence, serving as a Professor of Biomedical Engineering at Case Western Reserve University, USA since 2011, after 13 years as faculty in the Department of Orthopaedic Surgery. Dr. Bruder holds an Honors ScB from Brown University, USA, both an MD and PhD from Case Western Reserve University, and received post-graduate clinical training at Albert Einstein Medical Center and the University of Pennsylvania, USA.

Jason Hannon

Jason Hannon is currently the Chief Executive Officer and a Director of Mainstay Medical, which is focused on bringing to market ReActiv8®, an implantable neurostimulation system to treat disabling Chronic Low Back Pain. Mr. Hannon has extensive experience in the healthcare and medical devices industry, particularly related to commercialization of new products, penetration of new markets, product innovation, strategic and financial planning, raising capital, regulatory and clinical management, and the building of a high-performance culture. Mr. Hannon previously served as President and Chief Operating Officer of NuVasive (NASDAQ:NUVA), a medical device company focused on the spine market. He helped grow NuVasive from a small U.S.-centric business with a handful of products into the third largest spine company in the world, operating in over 40 countries. During his 12 years at NuVasive, and prior to becoming COO, Mr. Hannon led the international business, was responsible for business development and strategy, and also served as general counsel. Mr. Hannon has a JD degree from Stanford University Law School, USA, and a BA degree from the University of California, Berkeley, USA.

Giacomo Di Nepi

Giacomo Di Nepi is the Chief Executive Officer of Polyphor (SIX: POLN), a pharmaceutical company based near Basel, developing a new class of antibiotics and other products for severe or life-threatening diseases. 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. Prior, he was in senior leadership responsibilities with Takeda and Novartis, where he was also member of the Pharma Executive Committee, and was a Partner with McKinsey&Co. He currently serves on the boards of Geneuro (GNRO.PA) and as shareholders' advisor for NTC, a privately held company. Giacomo Di Nepi holds a degree in Economics from Bocconi University, Milan, Italy and an MBA from INSEAD, Fontainebleau, France.

Gerhard Ries

Gerhard Ries, PhD, 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 pharma 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&Co., 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. Dr. Ries' current board memberships include DiaMedCare, Devis Pharma, Leon Nanodrugs, AO Invest, Leukocare, SkyCell, Food Guardians, apoplex medical, Immunic, Precision OS and numares. Dr. Ries holds a M.S. and a Ph.D. degree in Molecular Biology from the University of Basel, Switzerland and a M.S. degree in Biotechnology from the Fachhochschule Weihenstephan (Munich, Germany).

Oliver Walker

Oliver Walker is a senior executive with more than 20 years of experience in international companies, both listed and privately-held, and was active in high growth industries and mature industries alike. Currently, he is CEO of Evolva, a Swiss stock listed industrial biotech company, and serves on the board of several privately-owned companies including Neuroth Hearing Aids and Sereviso. Amongst other senior positions he was previously Executive Vice President and CFO of several leading Life Science companies, including Sivantos (Singapore), Nobel Biocare, Sonova, and Stratec Medical (all Switzerland). Oliver Walker holds a MSc in Business Administration & Economics from the University of Berne, Switzerland. Mr. Walker is a Swiss citizen.

Christian Itin

Christian Itin, PhD, serves as the Chairman and CEO of Autolus Therpeutics (NASDAQ: AUTL), London, UK. From November 2012 to January 2016 he served as Kuros' Chief Executive Officer and from November 2012 to June 2018 as Chairman of the Company's Board. Prior to joining the Company, Dr. Itin was President and Chief Executive Officer of Micromet Inc., a former Nasdaq-listed biopharmaceutical company, with its headquarters in Rockville, MD, USA and an R&D center in Munich, Germany, which was acquired in March 2012 by Amgen. He spent 13 years with Micromet in a number of senior management roles, becoming CEO in 2004. Prior to joining Micromet in 1999, Dr. Itin co-founded Zyomyx, Inc., a protein chip company based in Hayward, CA, USA. He received a diploma in biology and a PhD in cell biology from Basel University, Switzerland. In addition, he also performed post-doctoral research at the Biocenter of Basel University, Switzerland and at the Stanford University School of Medicine, Stanford, CA, USA. Dr. Itin serves as Chairman of Autolus Ltd, London, UK and as a non-executive director of Kymab Ltd (Cambridge, UK).

Joost de Bruijn

Joost de Bruijn, PhD, is currently Chief Executive Officer of the Company. Dr. de Bruijn founded Xpand Biotechnology B.V. in 2005 (renamed to Kuros Biosciences B.V. in May 2017) and remained Chief Executive Officer of Xpand after the acquisition by Kuros in early 2017. Dr. de Bruijn also 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 issue engineering technologies that were brought to clinical application. Dr. de Bruijn has more than 20 years' experience in academia and the life science industry. He 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 in 1993.

Biographies of former members of the Board of Directors

Didier Cowling

Didier Cowling co-founded Kuros in 2002 and has been its Chief Executive Officer ("CEO") until April 3, 2017 where he stepped down and became President. He was also Kuros' chairman from 2002 to 2007. He did not stand for re-election at the Company's Annual General Meeting on June 14, 2018. 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.

Harry Welten

Harry Welten was Chief Financial Officer ("CFO") of Kuros (formerly known as Cytos Biotechnology Ltd) from June 2010 until January 2018 and member of the Board of the Company until June 2018. He did not stand for re-election at the Company's Annual General Meeting on June 14, 2018. Mr. Welten 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 a MBA (Hons.) from Columbia University, New York/NY, USA.

With the exception of Joost de Bruijn, CEO of Kuros, Frank Jan van der Velden, Head of Business Affairs and Finance Kuros Biosciences B.V., Christian Itin, former CEO of Cytos Biotechnology Ltd, 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.

Frank-Jan van der Velden

See under Executive Committee (DCG 4).

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, 2018, it consisted of nine 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 2018.

The Board convened in person or by phone 8 times in 2018. 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 2018.

Attendance at the Board and committee meetings in 2018:

Name	Board[1]	Compensation Committee[2]	Nomination & Corporate Governance Committee[3]	Audit Committee[4]
Clemens van Blitterswijk[3]	8			
Leanna Caron	8	4	4	
Giacomo Di Nepi[5]	5	4	2	4
Gerhard Ries[5]	6	4	2	6
Christian Itin	5			
Scott Bruder[6]	5			
Jasson Hannon[6]	2		2	
Oliver Walker[6]	5		2	3
Joost de Bruijn[6]	6			
Frank-Jan van der Velden[7]	2			
Didier Cowling[7]	2			
Harry Welten[7]	2			

[1] *Comprising of 3 meetings and 5 telephone conferences*
[2] *Comprising of 4 telephone conferences*
[3] *Comprising of 3 meetings and 1 telephone conference*
[4] *Comprising of 6 telephone conferences*
[5] *Compensation Committee member until June 14, 2018*
[6] *From June 14, 2018 onwards*
[7] *Until June 14, 2018*

Compensation Committee

The Compensation Committee meets as often as business requires. In 2018, the Compensation Committee held 4 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 2018, the Nomination and Corporate Governance Committee held 4 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 2018, the Audit Committee held 6 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 ac- counting 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 effective- ness 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 frame- work 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 2018 to the members of the Board on a quarterly 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 2018, none of the members of the Board, except for Harry Welten (former CFO) and Joost de Bruijn (CEO), participated in any meeting of the Executive Committee.

In 2018, 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
Joost de Bruijn, PhD	1966	The Netherlands	Chief Executive Officer
Michael Grau, MBA	1962	Germany	Chief Financial Officer[1]
Alistair Irvine, PhD	1969	UK	Chief Business Officer
Pascal Longlade, MD	1962	France	Chief Medical Officer[2]
Philippe Saudan, PhD	1967	Switzerland, UK	Chief Development Officer
Frank-Jan van der Velden	1959	The Netherlands	Head of Business Affairs and Finance at Kuros Biosciences B.V.
Virginia Jamieson, MB ChB	1953	UK	Former Chief Medical Officer[3]
Harry Welten, MBA	1965	Switzerland	Former Chief Financial Officer[4]

[1] Since February 1, 2018
[2] Since September 1, 2018
[3] Until May 30, 2018
[4] Until January 31, 2018

Joost de Bruijn

See under Board of Directors (DCG 3).

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 Peat 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, PhD, joined Kuros as Director of Business Development in September 2006 following a period working as a technical and commercial consultant to the biotechnology industry. Prior to his work as a consultant, he was Deputy Director of Research and Research Operations Manager at Innovata plc, where in addition to managing research programs in the fields of gene expression, cell culture, polymer science and oncology he also played a major role in business development. He has also held the positions of Head of Biology at ML Laboratories plc, Sub-divisional Head (Research) at Cobra Therapeutics Ltd, Group Leader (Immunotherapy) at Cobra Therapeutics Ltd and Senior Scientist with Therexsys Ltd. He 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, U.K. and a BSc in biochemistry from the University of Edinburgh, U.K.

Pascal Longlade

Dr. Pascal Longlade was appointed Chief Medical Officer (CMO) in September 2018. He has more than 24 years of experience in both pharmaceutical and medical device/biotech companies. His expertise spans Clinical Development, Medical Affairs, Pharmacovigilance/Drug Safety and Regulatory Affairs in various therapeutic areas. Dr. Longlade has also more than 10 years of clinical practice and worked in ER's, ICU's and CCU's in leading hospitals in Paris. In his last position, he served as Director of Medical Affairs, Head of Regulatory Affairs and Director of Pharmacovigilance at D&A Pharma, responsible for filing of the

company lead product in EU through a decentralized procedure. Dr. Longlade holds a MD degree from the University of Paris Lariboisiere-St Louis, France.

Philippe Saudan

Dr. Philippe Saudan was appointed Chief Development Officer (CDO) in August 2016. He has spent more than 18 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 Ltd, 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.

Frank-Jan van der Velden

Frank-Jan van der Velden, MBA, co-founded Xpand Biotechnology B.V. in 2005 (renamed to Kuros Biosciences B.V. in May 2017) and acted as executive board member since then. He did not stand for re-election at the Company's Annual General Meeting on June 14, 2018. Mr. van der Velden was co-founder of several other companies in the field of regenerative medicine, including CellCoTec B.V., Progentix Orthobiology B.V. and Materiomics B.V. Prior to co-founding Xpand Biotechnology B.V., he was a partner at Krüger & Partners management consultants for 10 years after being director of Quote Media Holding B.V. for several years. Currently Mr. van der Velden is a board member of RiverDiagnostics International B.V. (a manufacturer of raman spectroscopy equipment for life science application), member of the executive board of Materiomics B.V. (high throughput screening for cell-surface topography interaction) and chairman of the supervisory board of TIIN Techfund III B.V. (a venture capital firm for technology start-ups). Mr. van der Velden is a graduate of Erasmus University Rotterdam School of Management.

Biographies of former members of the Executive Committee:

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 Ltd 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.

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 2018 Compensation Report, which is an integral part of the 2018 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 fix 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 2018 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 2018 financial year.

Auditing fees (DCG 8.2)
In 2018, PwC invoiced a total TCHF 636.9 for auditing the full-year statutory and consolidated financial statements and for reviewing capital increase reports, the issuance of a comfort and bring-down letter, the Interim Report for the first three months, the six months and the nine months of 2018 and the internal control system.

Additional fees (DCG 8.3)
In 2018, PwC earned additional fees from the Group in the amount of TCHF 6 for services relating to 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.

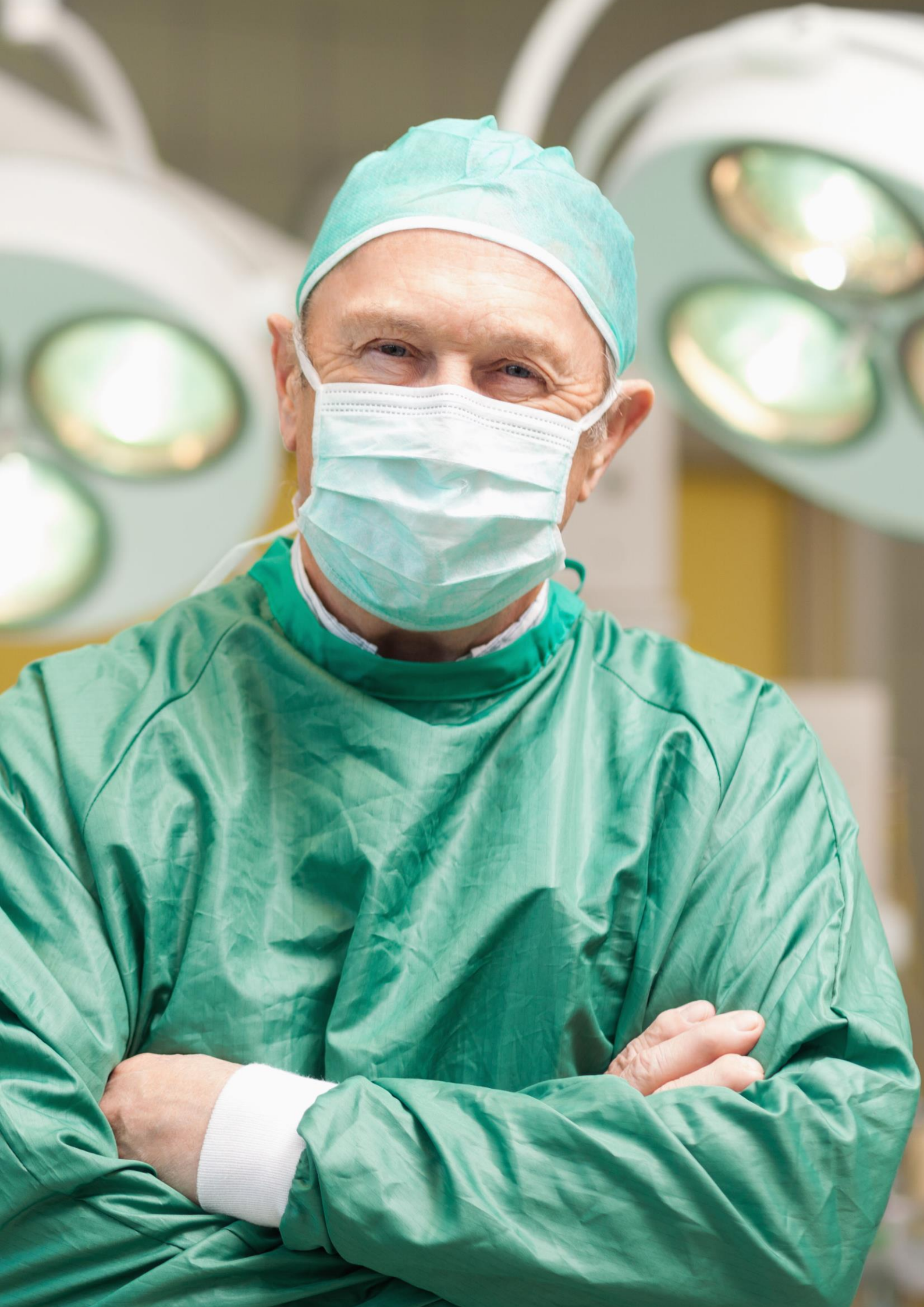
Shareholder communications and notices the shareholders shall be made by publication in the Swiss Official Gazette of Commerce or sent by mail or email to the addresses registered in the share register.

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 2018

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.

The Board of Directors ("Board") will submit the Compensation Report to a consultative vote at the General Meeting 2019 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 2018 (audited)

Name	Cash (TCHF)	Options (TCHF)	Variable bonus (TCHF)	Employer Social Security (TCHF)	Total (TCHF)	Options (number)
Clemens van Blitterswijk[1] Chairman	41.3	5.6	–	–	46.9	3,375
Leanna Caron Vice Chairperson	37.5	3.9	–	3.4	44.8	2,375
Christian Itin[2] Member	34.0	3.9	–	4.6	42.5	2,375
Giacomo Di Nepi Member	30.0	3.9	–	2.2	36.1	2,375
Scott Bruder[3] Member	19.0	3.9	–	–	22.9	2,375
Jason Hannon[3] Member	11.3	3.9	–	–	15.2	2,375
Oliver Walker[3] Member	21.3	3.9	–	1.7	26.9	2,375
Gerhard Ries Member	38.8	3.9	–	–	42.7	2,375
Joost de Bruijn[3] Member	299.7	33.7	–	11.8	345.2	11,000
Frank-Jan van der Velden[4] Member	231.8	33.7	–	11.8	277.3	11,000
Didier Cowling[4] Member	364.4	–	–	68.6	433.0	–
Harry Welten[4] Member	304.4	–	133.3	70.4	508.1	–
Total Board of Directors	**1,433.5**	**100.3**	**133.3**	**174.5**	**1,841.6**	**42,000**

On an accrual basis the variable bonus for executive management team members who are also board members amounts to CHF 123,874.

[1] *Chairman since June 14th 2018, was a member before*
[2] *Member since June 14th 2018, was the chairman before*
[3] *newly elected since June 14th 2018*
[4] *did not stand for re-election*

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 2018, 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	**June 14, 2018**
Exercise price	CHF 10.20
Fair value (Black-Scholes)	CHF 1.6451
Expiry date (100% vesting upon change of control)	June 14, 2023
Christian Itin	2,375
Leanna Caron	2,375
Clemens van Blitterswijk	3,375
Giacomo Di Nepi	2,375
Gerhard Ries	2,375
Scott Bruder	2,375
Jason Hannon	2,375
Oliver Walker	2,375

Grant date	**July 17, 2018**
Exercise price	CHF 10.20
Fair value (Black-Scholes)	CHF 3.0641
Expiry date (100% vesting upon change of control)	July 17, 2023
Joost de Bruijn	11,000
Frank-Jan van der Velden	11,000

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 Chairperson	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 an 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 (adjusted to reverse split)	CHF 18.30
Fair value (Black-Scholes, adjusted to reverse split)	CHF 3.9357
Expiry date 100% vesting upon change of control	July 03, 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).*

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 Executive Committee 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 2018 (audited)

Name	Cash (TCHF)	Options (TCHF)	Variable bonus[1] (TCHF)	Employer Social Security (TCHF)	Total (TCHF)	Options (number)
Michael Grau (highest compensated member of Executive Committee)	292.0	487.5	–	49.5	829.0	101,768
Total Executive Committee	**1,433.2**	**558.7**	**45.1**	**240.4**	**2,277.4**	**126,268**

[1] The figures in the above table represents the variable bonus paid out in 2018. On an accrual basis the variable bonus amounts to TCHF 70.6 for Michael Grau (the highest compensated member of the executive management team) and TCHF 210.6 for the other members of the executive team.

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. The Company intends to settle the 2018 bonus payment for the executive management through the issuance of options. The number of options to be granted to the executive management team will be determined based on the bonus payment approved by the Board of Directors divided by the fair value of the options on the grant date.
- Kuros regularly grants share options to the members of the Board, the members of the Executive Committee and the employees. Seven option grants were allocated in 2018. The fair values were calculated using Black-Scholes method. Each option entitles the holder to buy one share of the Company. Between February 1, 2018 and November 30, 2018, a total of 168,268 options were granted to the Board of Directors (42,000 options) and to members of the Executive Committee (126,268 options). The fair value on the grant date ranges between CHF 5.04 and CHF 1.65. The exercise price ranges between CHF 12.10 and CHF 3.09. The expiry date of the options ranged between February 2023 and November 2023.

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 an accrual basis the variable bonus amounts to TCHF 74.1 for Philippe Saudan (the highest compensated member of the executive management team) and TCHF 244.1 for the other members of the executive team.
[*] Subject to forfeiture of certain option due to termination of employment (remaining options as per termination date will be 40,309).

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 2017; the fair values were calculated using Black-Scholes method. Each option entitles the holder to buy one share of the Company. In 2017 a total of 174,896 options were granted to the Board of Directors (46,000) and to members of the Executive Committee (128,896). The fair value at the grant date was 3.94. The exercise price is CHF 18.30 with expiry date of July 3, 2022.

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 generally 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 issued by Kuros Biosciences as a replacement of the regular options granted by Kuros Biosurgery Holding Ltd.
(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, a total of 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 to members of the Board and management.
(f) In 2018, a total of 168,268 options were granted to members of the Board and management.

The following table shows the range of conditions as well as the range of assumptions applied to the share-based payment arrangements for 2018.

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) to (f) 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 2018:

	(a) New Kuros options granted in 2018	(b) New Kuros options granted in 2018	(c) New Kuros options granted in 2018
Grant date	February 1, 2018	June 14, 2018	July 16, 2018
Number of options	90,768	20,000	2,500
Exercise price	CHF 12.10	CHF 10.20	CHF 9.26
Share price at date of grant	CHF 12.10	CHF 8.28	CHF 9.26
Contractual life	5 years	5 years	5 years
Vesting period	22,692 options vest after 1 year, 68,076 options vest quarterly over the following three years	20,000 options vest after 1 year	625 options vest after 1 year, 1,875 options vest quarterly over the following three years
Settlement	Shares	Shares	Shares
Expected volatility at day of grant	49.65%	32.22%	45.00%
Expected option life at grant date	until maturity	until maturity	until maturity
Risk-fee interest rate p.a.	(0.35%)	(0.75%)	(0.44%)
Expected dividend	Zero	Zero	Zero
Estimated fair value of option at grant date	CHF 5.04	CHF 1.65	CHF 3.50
Expiry date	February 1, 2023	June 14, 2023	July 16, 2023
Valuation model	Black Scholes	Black Scholes	Black Scholes

	(d) New Kuros options granted in 2018	(e) New Kuros options granted in 2018	(f) New Kuros options granted in 2018
Grant date	July 17, 2018	September 3, 2018	October 31, 2018
Number of options	22,500	2,500	15,000
Exercise price	CHF 10.20	CHF 8.20	CHF 5.00
Share price at date of grant	CHF 9.00	CHF 8.20	CHF 5.00
Contractual life	5 years	5 years	5 years
Vesting period	5,625 options vest after 1 year, 16,875 options vest quarterly over the following three years	625 options vest after 1 year, 1,875 options vest quarterly over the following three years	15,000 options vest upon grant date
Settlement	Shares	Shares	Shares
Expected volatility at day of grant	45.00%	54.38%	69.44%
Expected option life at grant date	until maturity	until maturity	until maturity
Risk-fee interest rate p.a.	(0.44%)	(0.38%)	(0.45%)
Expected dividend	Zero	Zero	Zero
Estimated fair value of option at grant date	CHF 3.06	CHF 3.70	CHF 2.79
Expiry date	July 17, 2023	September 3, 2023	October 31, 2023
Valuation model	Black Scholes	Black Scholes	Black Scholes

	(g) New Kuros options granted in 2018
Grant date	November 30, 2018
Number of options	15,000
Exercise price	CHF 3.09
Share price at date of grant	CHF 3.09
Contractual life	5 years
Vesting period	15,000 options vest upon grant date
Settlement	Shares
Expected volatility at day of grant	99.16%
Expected option life at grant date	until maturity
Risk-fee interest rate p.a.	(0.51%)
Expected dividend	Zero
Estimated fair value of option at grant date	CHF 2.25
Expiry date	November 30, 2023
Valuation model	Black Scholes

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-fee 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

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

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 2018 or 2017.

Fees (unaudited)

A consulting fee for services rendered by former members of the Executive Committee has been totaling TCHF 56.9 (2017: TCHF 0).

Report of the statutory auditor

to the General Meeting of Kuros Biosciences AG

Schlieren

We have audited the compensation report of Kuros Biosciences AG for the year ended 31 December 2018. 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 page 43, page 45 and page 47 of the compensation report.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the compensation report of Kuros Biosciences AG for the year ended 31 December 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

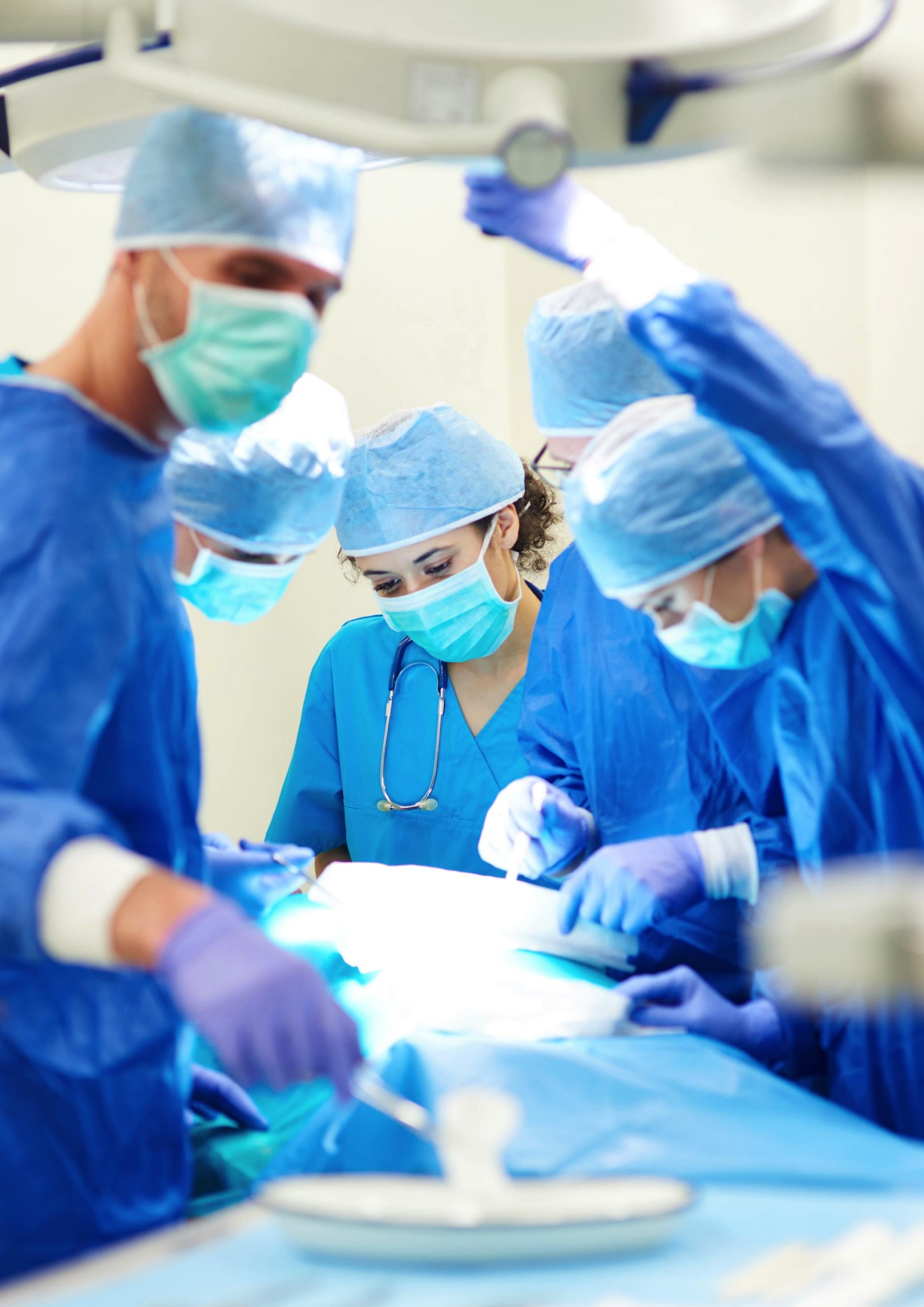
Thomas Bruederlin

Audit expert
Auditor in charge

Thomas Ebinger

Audit expert

Basel, 12 April 2019



Financial Report 2018

Consolidated Financial Statements 2018

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 mark approval obtained for Europe, 510(k) clearance obtained for the U.S. – both for the granules and the Putty 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 510(k) approval 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. Both milestones were achieved, and 0.74 million shares were issued to the Xpand's shareholders. All shares required for the transaction were issued from Kuros' authorized share capital.

In 2018, Kuros has recorded first product sales of its MagnetOS product line in the US and Europe. Furthermore, the Group raised gross proceeds of CHF 16.1 million from a rights offering in December 2018, to advance its product pipeline, in particular the Phase II clinical study of its KUR-113 product in spinal fusion, and to progress commercialization of MagnetOs in the US and selected geographies in Europe.

Financial position and other assets

Funds available for financing the operations of Kuros amounted to CHF 19.0 million as at December 31, 2018, which included cash and cash equivalents, trade and other receivables. This is an increase of CHF 2.0 million compared to December 31, 2017 (CHF 17.0 million). The increase is mainly driven by capital increases which have overcompensated the net operating cash outflow.

In 2017, 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 at December 31, 2018 total intangible assets amounted to CHF 31.1 million and goodwill amounts to CHF 34.2 million.

Revenues primarily consists of product sales

In 2018, Kuros recorded revenues from product sales of CHF 0.5 million (2017: CHF 0) and a milestone payment of CHF 0.2 million (2017: CHF 0.5 million) from a collaboration partner.

Operating costs decreased by CHF 2.4 million

Operating costs amounted to CHF 14.3 million, compared to CHF 16.8 million in the previous year. The decrease is primarily driven by significantly lower general and administration costs as a result of the restructuring which took place in 2017. Research and development costs increased from CHF 4.5 million to CHF 6.9 million mainly as a result of the expenses associated with the preparation of the clinical study for KUR 113. General and administrative costs decreased from CHF 15.2 million to CHF 8.9 million in 2018. Other income decreased from CHF 2.9 million to CHF 1.5 million and consisted primarily of

payments earned from sublet space (payments made to the landlord are captured in general and administrative costs). From September 2018 onwards the Company only rents office space which is required to run the operations.

Net finance cost

With CHF 0.04 million interest income mainly from pension plan assets, finance income remained stable compared to 2017 (CHF 0.04 million). Finance costs amounted to CHF 0.1 million and were lower than in 2017 (CHF 0.4 million).

Cash burn

The gross cash burn for operating activities, as calculated on the cash flow statement, was a monthly average of CHF 1.1 million in 2018 compared to CHF 0.9 million in 2017. The reason for this increased cash burn is the expense related to the capital increase in December 2018.

Consolidated balance sheet

in TCHF, IFRS, as at December 31	Note	2018	2017
Non-current assets:			
Property and equipment	13	634	630
Intangible assets	14	31,113	33,231
Goodwill	14	34,241	34,546
Total non-current assets		**65,988**	**68,407**
Current assets:			
Inventories	12	547	220
Prepayments and other assets	16	325	430
Trade receivables	15	214	154
Other receivables	15	413	197
Cash and cash equivalents	11	18,334	16,673
Total current assets		**19,833**	**17,674**
Total assets		**85,821**	**86,081**
Shareholders' equity:			
Share capital	19	15,059	8,171
Share premium		112,226	104,153
Treasury shares	19	(17)	–
Other reserves		18,648	17,973
Accumulated loss		(69,433)	(57,157)
Total shareholders' equity		**76,483**	**73,140**
Non-current liabilities:			
Pension liabilities	26	961	1,688
Deferred tax liabilities	25	4,337	6,597
Total non-current liabilities		**5,298**	**8,285**
Current liabilities:			
Trade and other payables		1,611	1,320
Accrued expenses	18	2,137	1,652
Provisions	24	292	1,684
Total current liabilities		**4,040**	**4,656**
Total shareholders' equity and liabilities		**85,821**	**86,081**

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

Consolidated income statement

in TCHF, IFRS, year ended December 31	Note	2018	2017
Revenue from sale of products		466	–
Revenue from collaborations		249	534
Revenue	7, 8	**715**	**534**
Cost of goods sold		(96)	–
Cost of goods sold		**(96)**	**–**
Research and development costs		(6,882)	(4,470)
General and administrative costs		(8,934)	(15,242)
Other income		1,470	2,935
Net operating costs	**20**	**(14,346)**	**(16,777)**
Operating loss		**(13,727)**	**(16,243)**
Finance income		40	43
Finance costs		(126)	(393)
Net finance costs		**(86)**	**(350)**
Loss before tax		**(13,813)**	**(16,593)**
Income taxes	25	2,120	109
Net loss		**(11,693)**	**(16,484)**
Basic and diluted net loss per share (CHF)	28	(1.34)	(2.32)

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

Consolidated statement of comprehensive income

in TCHF, IFRS, year ended December 31	2018	2017
Net loss	**(11,693)**	**(16,484)**
Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	262	(119)
Tax effects	(58)	26
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences arising during the year	(862)	2,732
Other comprehensive income/ (loss)	**(658)**	**2,639**
Total comprehensive loss	**(12,351)**	**(13,845)**

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

Consolidated statement of cash flows

in TCHF, IFRS, year ended December 31	Note	2018	2017
Cash flows from operating activities:			
Loss before tax		(13,813)	(16,593)
Adjustments to reconcile loss before tax to net cash used in operating activities:			
Depreciation and amortization		1,947	1,147
Impairment of intangible assets	14	–	2,197
Net finance costs		86	350
Provisions	24	(1,392)	1,684
Share-based compensation	27	675	2,039
Changes in retirement benefit obligation		(465)	(612)
Other non-cash items		5	(1)
Changes in operating assets and liabilities:			
Trade and other receivables		(284)	507
Current prepayments and accrued income		106	476
Current liabilities		799	(1,380)
Inventories		(337)	(79)
Cash used in operating activities		**(12,673)**	**(10,265)**
Interest received		–	43
Interest paid		(91)	(393)
Income tax paid		(74)	(64)
Net cash used in operating activities		**(12,838)**	**(10,678)**
Cash flows from investing activities:			
Cash acquired in acquisition		–	653
Purchase of plant and equipment		(64)	(536)
Proceed from sale of plant and equipment		10	–
Reduction in current financial assets		–	15
Capitalization of intangible assets	14	(598)	(1,037)
Net cash used in investing activities		**(652)**	**(905)**
Cash flows from financing activities:			
Proceeds from issuance of shares		16,201	16,092
Transaction costs on issuance of shares		(1,451)	(405)
Transactions with treasury shares and non-voting shares		268	292
Net cash from financing activities		**15,018**	**15,979**
Cash and cash equivalents, at the beginning of the year		16,673	12,369
Net change in cash and cash equivalents		1,528	4,395
Net effect of currency translation on cash		133	(91)
Cash and cash equivalents, at the end of the year	**11**	**18,334**	**16,673**

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

Consolidated statement of change in shareholders' equity

in TCHF, IFRS	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings/ accumulated loss	Translation Differences	Total
At 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, 19	1,365	29,280					30,645
Capital increases, net	19	1,722	13,965	244				15,931
Share based payment 2017	27				2,039			2,039
Treasury shares purchased	19			(1,020)				(1,020)
Treasury shares sold	19			1,042		26		1,068
At December 31, 2017		**8,171**	**104,153**	**–**	**17,973**	**(59,889)**	**2,732**	**73,140**
At January 1, 2018		**8,171**	**104,153**	**–**	**17,973**	**(59,889)**	**2,732**	**73,140**
Loss for the period						(11,693)		(11,693)
Other comprehensive income						204	(862)	(658)
Capital increases, net	19	6,888	7,862					14,750
Share based payment 2018	27				675			675
Treasury shares purchased	19			(62)				(62)
Treasury shares sold	19		211	45		75		331
At December 31, 2018		**15,059**	**112,226**	**(17)**	**18,648**	**(71,303)**	**1,870**	**76,483**

Notes

1. General information

Kuros Biosciences Ltd., ("Company") is a limited company, incorporated and domiciled in Switzerland, whose shares are publicly traded at the SIX Swiss Exchange ("SIX") with valor symbol: KURN. The registered office is located at Wagistrasse 25, 8952 Schlieren, Switzerland. Kuros Biosciences Ltd. is the mother company of the Group. The Group is engaged in the development and commercialization of innovative products for tissue repair and regeneration (orthobiology).

The Group structure is as following:

- Kuros Biosciences Ltd in Schlieren, Switzerland (mother company and 100% shareholder of following subsidiaries)
- Proteome Therapeutics GmbH (Konstanz, Germany)
- Kuros Biosurgery Holding Ltd (Schlieren, Switzerland) which holds 100% shares of Kuros Biosurgery Ltd (Schlieren, Switzerland)
- Kuros Biosciences B.V. (Bilthoven, the Netherlands) which holds 100% shares of RevisiOs B.V. (Bilthoven, Netherlands)
- Kuros Biosciences USA, Inc. (Burlington (MA), USA)

As at December 31, 2018, the Group employs 35 people.

The consolidated financial statements for the year ended December 31, 2018 have been approved for issuance by the Board of Directors ("Board") on April 12, 2019.

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 2018. 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".

The consolidated financial statements are presented in Swiss Francs (CHF) and values are rounded to the nearest thousand (TCHF), except when otherwise indicated.

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.

The Group has incurred net operating losses during most fiscal periods since its inception and anticipates that it will continue to incur substantial operating losses for the foreseeable future. The Group may never achieve or sustain profitability.

The Group expects that it will incur significant operating losses in the foreseeable future, primarily due to its continuing pre-clinical studies, clinical development programs, and exploratory research as well as commercialization of product candidates. If the Group does not receive revenues, or milestone and other payments, or does not enter new partnerships for current or future product candidates on acceptable terms, or at all, its operating losses will substantially increase over the next few years.

The Group's ability to achieve sustainable profitability will depend, among other things, on attracting sufficient financial resources, successfully bringing existing or new product candidates through clinical development, obtaining regulatory approvals, arrangements with third parties, raising sufficient funds to finance its activities and profitably selling its products. No assurance can be given that the Group will be able to achieve and maintain profitability.

To become and remain profitable, the Group, or its partners, must succeed in financing the development of its product candidates and building up marketing and sales capabilities, obtaining regulatory approvals, and manufacturing, marketing and selling the products for which it or its partners may obtain regulatory approval. The Group, or its partners, may not succeed in these activities, and the Group may never generate revenues from product sales that are significant enough to achieve profitability. Even if the Group achieves profitability, it may not be able to sustain profitability in subsequent periods. The Group's failure to become or remain profitable could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as its share price.

The development and commercialization of the Group's product candidates will require substantial additional financing and a failure to obtain sufficient financing or opportunities to partner programs could force the Group to delay, limit, reduce or terminate development or commercialization of the Group's product candidates.

The cash flows, if any, from the Group's operations, will not be sufficient to fund the Group's anticipated capital expenditures and working capital requirements for the foreseeable future. If its currently available funding will not be sufficient to cover these steps, the Group will have to rely on the availability of additional funding. Furthermore, any additional steps for the development or commercialization of its product candidates will depend on the availability of such funding.

No assurance can be given that the Group can obtain sufficient funding when needed. The Group's ability to raise additional funds will depend on financial, economic and other factors, many of which are beyond the Group's control. If the Group fails to obtain additional funds and on acceptable terms, or at all when needed, it may have to delay, reduce or terminate certain research and development programs or the production and commercialization of certain products. In addition, the Group's shareholders may have to accept equity financing terms which may significantly dilute their participation.

Any such event could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as its share price.

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 (iii) cash paid within collaborations. None of these cash resources can be considered recurring, in particular as the Group has limited 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 Group 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 30).

Group companies

As at December 31, 2018, Kuros Biosciences Ltd, the ultimate parent company of the Group, owns the following subsidiaries:

		Ownership held		Share Capital (in TCHF)	
Name of entity	**Place of business**	**2018**	**2017**	**2018**	**2017**
Kuros Biosurgery Holding Ltd	Zurich, Switzerland	100%	100%	1,446	1,446
Kuros Biosurgery Ltd	Zurich, Switzerland	100%	100%	435	435
Proteome Therapeutics GmbH*	Konstanz, Germany	100%	100%	25	25
Kuros Biosciences B.V.	Bilthoven, The Netherlands	100%	100%	18	18
RevisOs B.V.	Bilthoven, The Netherlands	100%	100%	22	22
Kuros Biosciences USA, Inc.**	Burlington (MA), United States	100%	–	1	–

** Non-operative since May 2002*
*** Incorporated on February 1, 2018*

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, 2017 with the following relevant exceptions.

The Group applies IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" for the first time. The nature and effect of those changes as a result of adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2018, but do not have a material impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 "Financial Instruments"

The Group has adopted IFRS 9 "Financial Instruments" as of January 1, 2018. The Group adopted IFRS 9 using the full retrospective method of adoption. The full retrospective adoption of IFRS 9 has no material impact on:

- the consolidated balance sheet as at January 1, 2017, December 31, 2017, and December 31, 2018
- the consolidated income statement for the year ended December 31, 2017 and December 31, 2018
- the consolidated statement of other comprehensive income for the year ended December 31, 2017 and December 31, 2018
- the consolidated statement of cash flows for the year ended December 31, 2017 and December 31, 2018
- the basic and diluted net loss per share for the year ended December 31, 2017 and December 31, 2018 and
- the notes to the financial statements

IFRS 15 "Revenue from contracts with customers"

The Group has adopted IFRS 15 "Revenue from contracts with customers" as of January 1, 2018. IFRS 15 supersedes IAS 11 "Construction Contracts", IAS 18 "Revenue" and related Interpretations and it applies to all revenues arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenues arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

For details on the Group's accounting policy for revenue from contracts with customers please refer to below paragraphs. The Group adopted IFRS 15 using the full retrospective method of adoption. The full retrospective adoption of IFRS 15 has no material impact on:

- the consolidated balance sheet as at January 1, 2017, December 31, 2017 and December 31, 2018
- the consolidated income statement for the year ended December 31, 2017 and December 31, 2018
- the consolidated statement of other comprehensive income for the year ended December 31, 2017 and December 31, 2018
- the consolidated statement of cash flows for the year ended December 31, 2017 and December 31, 2018
- the basic and diluted net loss per share for the year ended December 31, 2017 and December 31, 2018 and
- the notes to the financial statements

Standards issued but not applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 "Leases" was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of TCHF 3,044. Of these commitments, approximately TCHF 35 relate to short-term leases and TCHF 28 to low value leases which will both be recognized on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognize right-of-use assets of approximately TCHF 2,608 on January 1, 2019, lease liabilities of TCHF 2,692 and the impact on retained earnings is TCHF 84. The Group expects that net loss after tax will increase approximately by TCHF 15. Operating cash flows will increase and financing cash flows decrease by approximately TCHF 55.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group will apply 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 "Leases", the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 at 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 intercompany balances, transactions and unrealized gains on transactions are 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 Kuros Biosciences Ltd.'s functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or an average rate as an approximation. 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 the income statement 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 at the dates of transaction, 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.

For the consolidated financial statements, the applicable exchange rates are based on the exchange rates published by the Swiss Federal Tax Association (ESTV).

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. The Group estimates the asset's recoverable amount, when an annual impairment test is required or if there is a triggering event or existing indication for impairment. The recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. Unless an asset or CGU is largely dependent on other (group of) asset's generated cash-flows, the recoverable amount is determined for the smallest aggregation of asset. An impairment and corresponding write-down of asset occur to the recoverable amount, when the carrying value exceeds the recoverable amount.

The value in use is estimated by the present value of discounted future cash flows, using a pre-tax discount rate that is based on current market conditions (including risks and time value of money). Recent market transactions are considered, when determining the fair value less costs of disposal. In case that no such transactions have been taken place, an appropriate valuation model is used (multiples, quoted share prices or other available financial modelling tools). The Group's impairment model is based on budgets and financial forecasts.

Previous impairments for assets excluding goodwill are determined at reporting date, whether the previous impairment losses remain valid and shall be reversed or further impairment loss is necessary. Basis for the reversal or increasing of impairment losses is the recoverable amount. Previously recognized impairment losses are reversed only when there are significant changes in the assumptions and estimates for the underlying recoverable amount since the recognition of an impairment loss.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. A yearly impairment test on CGU level applies to intangible assets with indefinite useful lives. An impairment is recognized in case that the recoverable amount of a CGU is lower than its carrying value. Impairment losses on goodwill are restricted for reversal in future periods.

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 receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 5.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property and equipment

Property and equipment are 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:

(a) Research and development fixtures (incl. clean room): 8–10 years
(b) Leasehold improvements: 8–10 years
(c) Machinery and equipment: 5–10 years
(d) Office equipment, furniture and others: 3–10 years

Leasehold improvements and research and development fixtures (incl. clean room) are depreciated over the estimated useful life. If the lease term is shorter than the useful life the lease term can be used instead. 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 the income statement 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 life for the Checkmate agreement is 9 years. The estimated useful lives for intangible assets related to products is based on the patent lifetime.

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.

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 the income statement, 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 liabilities

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 comprises of the present value of the defined pension obligation less the fair value of plan assets at the reporting date. In respect of defined benefit plans, liabilities and service costs are determined by management annually, based on actuarial valuation techniques, using the projected unit credit method and related assumptions. 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 are recognized in other comprehensive income.

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's 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 from contracts with customers

The Group has two forms of revenue streams. The first stream relates to product sales and the second stream of revenue is based on collaborative long-term research and development agreements where the Group grants access to technologies to a third party.

(a) Product sales

The Group's contracts with distributors for product sales generally include one performance obligation. The Group has concluded that revenue from product sales should be recognized at the point in time when the control of the asset is transferred to the customer, generally at a point in time of delivery of products. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition. Generally, the expected revenue and not the invoiced amount is recognized. Therefore, the Group assesses for which products the performance obligation has been met to recognize revenue and anticipates the amounts which are collectable.

Any changes in the transaction price subsequent to contract inception are allocated to the performance conditions on the same basis as at contract inception. Amounts that are allocated to performance obligation which has already been satisfied are recognized as revenue in the period in which the transaction price changes. This approach ensures that changes in estimates of variable consideration that are included in (or excluded from) the transaction price will be allocated to the performance obligation to which the variable consideration relates.

(b) Collaborative agreements

Collaborative agreements contain success and milestone payments for development activities and royalty fees on net sales from successfully developed and approved products. Milestone payments are contractually agreed and based on pre-defined performance goals. The Group provides the collaboration partner with a right to use the product as it exists at the point in time at which the access to the product is granted. In these cases, the respective performance obligations are satisfied at this point in time. The accomplishment of milestones by the counterparty cannot be specified upfront, therefore

revenue is recognized when the counterparty confirms accomplishment of a milestone. Royalty payments are recognized as revenue at the time that the performance goal for product sales have been met.

Research and development costs

Research and development ("R&D") costs consist primarily of compensation and other expenses related to functions of R&D and Quality & Assurance 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 be reliably 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.

Revenue from contracts with customers (note 7 and 8)

Derived from the Group's two revenue streams the Group applied following estimates and judgements.

(a) Product sales

The Group's contracts with distributors for product sales generally includes one performance obligation. The Group has concluded that revenue from product sales should be recognized at the point in time when the control of the asset is transferred to the customer, generally at a point in time of delivery of products. The Group determines that that product sales are distinct, as the products are sold on a stand-alone basis. Therefore, no significant estimates or judgement inhere the timing of product sales.

(1) Variable consideration

Some distribution contracts for product sales provide distributors with volume rebates. Prior to adoption the Group did not recognize revenue from product sales. Under IFRS 15, rights of return and volume discounts give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In the distribution agreements, the Group provides retrospective volume discounts on the product sales. In the reporting period such discounts were not applied yet for product sales as the targeted volumes will not be reached. Therefore, the Group did not estimate the expected volume rebates in this reporting.

(2) Warranty obligations

The Group generally provides warranties for defective products. The warranties are assurance-type warranties under IFRS 15, which the Group will account for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. In the current year the Group has not identified any need for provisions, contingent liabilities or assets with respect to warranty obligations.

(3) Rendering of services

For product sales, the Group renders services related to validation of the production process. The Group can only sell and deliver products after successful completion on agreed amount of production runs. As the rendered services are bound to a distinct performance obligation the Group does not apply significant judgements or estimates by rendering services.

(4) Principal versus agent considerations

The Group has entered into distribution contracts, where the distributors act as a principal or agent selling products to customers. In these contracts the Group is primarily responsible for fulfilling the promise to provide the specified product in a given time and volume. The Group does not bear inventory risks after the specified products have been transferred to the customer. The Group generally has no discretion in establishing the price for the specified product. However, the Group's consideration in these contracts is determined in accordance with the maximum purchase price by the end-customer. The Group bears credit risks for cost of goods sold.

(b) Collaborative agreements

As outlined in the accounting policies the general performance obligation of the Group's collaborative agreement is satisfied at a point-in time. No significant judgments or estimates apply for such agreements as the performance obligation is based on predefined performance goals.

Carrying value of Intangible assets for In-Process Research & Development and Goodwill (note 14)

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 14)
To determine the amortization charges the Group estimates 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 25)
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 sufficient suitable deferred tax liabilities are available.

Estimations of employee post-employment benefits obligations (note 26)
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

Incorporation of Kuros Biosciences USA, Inc. (Burlington (MA), US) in 2018
As at February 1, 2018, Kuros incorporated a subsidiary in the US to expand its business activities in this key market. Kuros Biosciences AG holds 100% of Kuros Biosciences USA, Inc. shares. For the incorporation, Kuros Biosciences USA, Inc. created 500 shares with a par value of 0.0001 USD which are held by Kuros Biosciences Ltd.

As a result of the announced 510(k) clearance of MagnetOs for the US in May 2, 2018, Kuros Biosciences USA, Inc. could realize the first product sales in the US on July 2, 2018. In the year of incorporation Kuros Biosciences USA, Inc. generated TCHF 14 revenues and contributed TCHF 330 to the net loss of the Group.

Acquisition of Kuros Biosciences B.V. (“Xpand”) in 2017
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 at 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 510(k) 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 at 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 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 at December 31, 2017. There have been no changes compared to the provisional purchase price allocation disclosed as at 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.

In the year 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. In 2018 Kuros Biosciences B.V. generated 7 TCHF revenues and contributed CHF 0.5 million to the net loss of the Group.

5. Financial risk management

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, interest rate and other price risks. The currency risk mainly results in foreign exchange risks due to the translation of the subsidiaries with Euro and USD as functional currency. The interest rate risks as well as market price risks are insignificant as the Group has no borrowings, loans, convertible bonds or convertible loan notes outstanding as at December 31, 2018 .

Liquidity risk

The Group manages its liquidity by planning and closely monitoring cash burn, investments in fixed-term time deposits and projected revenues on an ongoing basis to ensure sufficient liquidity and appropriate interest income. The Group’s financial status at December 31, 2018, provides funds to continue operations, taking into account further revenue streams.

The table below shows the maturities of the liquidity relevant financial liabilities and commitments as at December 31, 2018:

in TCHF (undiscounted amounts)	Within 1 year	Between 1 year and 5 years	Over 5 years
Trade accounts payables	1,611	–	–
Other liabilities and accrued expenses	1,341	–	–
Rent and leasing	365	1,257	1,421

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

In TCHF (undiscounted amounts)	Within 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	1,074	18	–

Foreign exchange risk

The Group has investments in foreign entities 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 at December 31, 2018, 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 10 (2017: TCHF 14) 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, 2018 (in TCHF)	Sensitivity	Effect on profit or loss
EUR/CHF	5% / (5%)	(6) / 6
USD/CHF	5% / (5%)	(3) / 3
GBP/CHF	5% / (5%)	(1) / 1

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

Credit risk

The Group considers the related credit risk limited to trade receivables for product sales and from the collaborative agreements and other receivables. Trade and other receivables are not past due and not impaired and contain only existing customers with no defaults in the past. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The Group has therefore concluded that the expected loss rates for trade and other receivables are a reasonable approximation of the loss rates for the contract assets. On that basis, the Group determined that there is no impact of the loss allowance for trade and other receivables as at December 31, 2018, December 31, 2017 and January 1, 2017 (on adoption of IFRS 9).

The significant share of cash and cash equivalents and the financial assets are held, with financial institutions with at least an "A" rating (Standard & Poor's) equivalent or financial institutions which deposits are generally backed by local government. Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, however no impairment loss has been identified.

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 currently.

Interest rate risk

As at December 31, 2018, no loans, convertible bonds or convertible bond notes were outstanding. As a result, the Group is not exposed to changes in interest rates except for rental adjustments. 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 (2017: TCHF 0) lower/higher, as a result of higher/lower interest income. Due to the current low interest rate of fixed deposits, the Group has not made any investments in financial assets in 2018 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 shareholders in the General Meeting or the Extraordinary General Meeting to ensure the necessary capital remains intact. Shareholders' equity is included as capital.

Fair value estimation

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. Revenue from contract with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

in TCHF, year ended December 31	2018	2017
Timing of revenue recognition		
Revenue recognized at a point in time	715	534
Revenue recognized over time	–	–
Total revenue from contracts with customers	**715**	**534**

For detailed information of the disaggregation of the Group's revenue from contracts with customers please see note 8. There are no reconciling items between the Group's revenue from contracts with customers and the amounts disclosed in the segment information.

The Group announced on January 8, 2018 that it has amended its exclusive license agreement, which was originally signed in 2015, granting Checkmate Pharmaceuticals Inc., Cambridge, MA, USA ("Checkmate") access to the Group's clinically validated product candidate CYT003 as well as its VLP platform and to technology related to oligonucleotide synthesis. This amendment represents a contract modification according to IFRS 15. As the amendment changes the scope and the transaction price of the contract, it is accounted for as a separate contract. There is no significant effect on Kuros' financial reporting by treating the modified contract as a new separate contract.

The Group announced on July 2, 2018 the first commercial usage of MagnetOs in the United States and United Kingdom. In the United States, MagnetOs Putty has been successfully used in a minimally invasive spinal fusion. MagnetOs Putty has also been successfully used in a scoliosis intervention.

As at January 1, 2017, December 31, 2017 and December 31, 2018, the Group has not recognized significant assets or liabilities related to contracts with customers.

8. Segment and geographic information

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. Intercompany sales are carried out at arm's lengths and are eliminated on consolidation.

Analysis of revenues by country:

in TCHF, year ended December 31	2018	2017
United States of America	552	–
United Kingdom	83	534
Other	80	–
Total	**715**	**534**

Analysis of revenues by category:

in TCHF, year ended December 31	2018	2017
Product sales	466	–
Milestone payments	249	534
Total	**715**	**534**

Analysis of revenues by customer:

in TCHF, year ended December 31	2018	2017
Checkmate	249	–
DePuy Synthes	–	534
Other	466	–
Total	**715**	**534**

As noted above, revenue is sourced from diverse customers, as the Group started commercialization of MagnetOs (Putty and Granules) in the United States of America and Europe. The Group's business is predominantly in research and development status and currently not impacted by significant risks from revenue fluctuation.

Product sales

The Group recognized its first commercial sale of MagnetOs (Putty and Granules) in the United States and United Kingdom. The product sales originate from the distribution agreements and were recognized at the point in time (on delivery date) within the agreed terms and conditions. The contributed costs of goods sold consists of direct and indirect cost allocated to the production of each product sold. Payment terms for product sales are generally 30 days and in certain contracts with customers up to 60 days.

Revenue from collaborations

The Group receives payments with respect to a licensing agreement, where it grants technology access to Checkmate, a third party. The contract was modified on January 5, 2018 as described in the key developments section. There is no additional impact which is not reflected in these financial statements. Payment terms are usually 30 days, the milestone payments are contractually agreed and are based on pre-defined performance goals.

The Group 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. As the revenues of the Group are partly linked to revenues of the royalties from the counterparty, which are dependent on market demand, the revenues of the contract cannot be specified with a specific USD amount upfront.

Geographical segments

Revenues from product sales and collaboration agreements are attributable to individual countries and are based on the location of each business partner, while the entities in Switzerland and the Netherlands contributed almost all material assets and liabilities. The US entity contributed less than 1% of the Group's assets and liabilities.

9. Licensing, research and development collaborations

In August 2008, Kuros and Pfizer Vaccines LLC (Pfizer) entered into a research, option and license agreement under which Pfizer was granted the right to conduct research on novel products based on Kuros' VLP technology platform which products incorporate a defined number of specific human disease targets as antigens. Kuros retained its rights to products against different disease targets in the field of the same human diseases. Kuros received an upfront payment of CHF 10 million from Pfizer and research funding to support collaborative research activities. In December 2008, Pfizer exercised the option granted to it under this agreement, and Kuros and Pfizer entered into exclusive commercial license agreements under which Pfizer was granted the right to develop, manufacture and commercialize said products.

In February 2013, Kuros was informed by Pfizer that the first patient had been dosed in a Phase I clinical trial with an anti-IgE VLP vaccine subject to said license agreement. According to clinicaltrials.gov, the study was completed in June 2015.

In April 2019, Pfizer has informed Kuros that it does not intend to continue the development of the licensed programs and therefore the agreements were terminated.

In August 2015, Kuros and Checkmate Pharmaceuticals LLC, Cambridge, MA, USA (Checkmate), entered into an exclusive license agreement in the field of oncology granting Checkmate exclusive access to Kuros' clinically validated product candidate CYT003 as well as its VLP platform and to technology related to oligonucleotide synthesis. Kuros received license fees of USD 1 million (USD 0.5 million in September 2015 and USD 0.5 million in February 2016). Kuros may receive up to USD 90 million in development milestone payments and may receive up to double-digit royalties on net sales from successfully developed products. In April 2016, Kuros was informed by Checkmate that the first melanoma patient had been dosed in a Phase 1b clinical trial with CMP-001, formerly known as CYT003. Kuros received a milestone payment of USD 1 million from Checkmate for achieving this milestone in the license agreement. In January 2018, this license agreement was extended to cover all indications and the range of product candidates covered was also broadened.

RevisiOs and Progentix Orthobiology have entered into an exclusive license agreement that gives RevisiOs an exclusive, worldwide, perpetual royalty-free, fully-paid right, with the right to grant sublicenses, to use, market and sell in the field of cranio-maxillofacial applications, products based on current patents and improvements of these patents, owned by Progentix Orthobiology.

RevisiOs and NuVasive have entered into a license agreement that gives NuVasive an exclusive, worldwide, perpetual royalty-free, fully-paid right to use, market and sell in the field of spinal applications products based on current and improvements of

these patents, owned by RevisiOs. If NuVasive wants to sell products based on these patents, conditions, including pricing, have to be negotiated between the parties.

10. Financial instruments by category

Financial assets at amortized cost:

in TCHF	2018	2017
Prepayments and other assets	325	430
Trade and other receivables	627	351
Cash and cash equivalents	18,334	16,673
Balance as at December 31	**19,286**	**17,454**

Financial liabilities at amortized cost:

in TCHF	2018	2017
Trade and other payables	1,611	1,320
Accrued expenses	2,137	1,652
Balance as at December 31	**3,748**	**2,972**

The carrying amounts of the Group's financial instruments carried at amortized cost were not materially different from their fair values as at December 31, 2018 and December 31, 2017 as they are short-term in nature.

11. Cash and cash equivalents

in TCHF	2018	2017
Cash at bank and on hand	18,334	16,673

In 2018, the Group recorded TCHF 0.7 interest income (2017: TCHF 3.2).

12. Inventories

in TCHF	2018	2017
Raw materials (at cost)	165	6
Work in progress (at cost)	151	117
Finished goods (at lower of cost and net realizable value)	231	97
Balance as at December 31	**547**	**220**

13. Property and equipment

Property and equipment increased from TCHF 630 as at December 31, 2017 by TCHF 4 to TCHF 634 as at December 31, 2018. 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.

14. Goodwill and intangible assets

in TCHF	Goodwill	Subleasing	Licensing	Currently Marketed Products	In-Process Research & Development	Total
Cost						
At January 1, 2018	**34,546**	**2,526**	**8,025**	**8,970**	**20,967**	**75,034**
Additions	–	–	–	598	–	598
Start commercialization	–	–	–	20,282	(20,282)	–
Exchange differences	(305)	–	–	(834)	(19)	(1,158)
At December 31, 2018	**34,241**	**2,526**	**8,025**	**29,016**	**666**	**74,474**
Accumulated amortization						
At January 1, 2018	**–**	**(2,526)**	**(4,321)**	**(410)**	**–**	**(7,257)**
Amortization charge	–	–	(523)	(1,392)	–	(1,915)
Exchange differences	–	–	–	52	–	52
At December 31, 2018	**–**	**(2,526)**	**(4,844)**	**(1,750)**	**–**	**(9,120)**
Net book value at December 31, 2018	**34,241**	**–**	**3,181**	**27,266**	**666**	**65,354**

in TCHF	Note	Goodwill	Subleasing	Licensing	Currently Marketed Products	In-Process Research & Development	Total
Cost							
At 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
At December 31, 2017		**34,546**	**2,526**	**8,025**	**8,970**	**20,967**	**75,034**
Accumulated amortization							
At January 1, 2017		**–**	**(160)**	**(3,796)**	**–**	**–**	**(3,956)**
Amortization charge		–	(169)	(525)	(431)	–	(1,125)
Impairment		–	(2,197)	–	–	–	(2,197)
Exchange differences		–	–	–	21	–	21
At December 31, 2017		–	**(2,526)**	**(4,321)**	**(410)**	**–**	**(7,257)**
Net book value at December 31, 2017		**34,546**	**–**	**3,704**	**8,560**	**20,967**	**67,777**

Commercialization

In May 2018, the Group announced that it has received the CE Mark for MagnetOs Putty indicated for use as an osteoconductive and osteoinductive bone void filler in the skeletal system (i.e. spine, extremities, pelvis, cranium, mandible and maxilla). This market clearance allows commercialization of MagnetOs Putty in Europe, and complements the existing clearance for MagnetOs Granules, and the 510(k) clearance for both formulations from the U.S. Food and Drug Administration as an autograft extender in the posterolateral spine. Due to this fact, capitalized costs for development of MagnetOs has been reclassed from In-Process Research & Development to Currently Marketed Products segment.

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 effect from March 30, 2018. As a consequence, the Group has fully impaired the sublease agreement in 2017.

15. Trade and other receivables

in TCHF	2018	2017
Trade receivables	214	154
Value added taxes (VAT)	410	195
Other	3	2
Balance as at December 31	**627**	**351**
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 298; 2017: TCHF 223), EUR (TCHF 286; 2017: TCHF 48), USD (TCHF 19; 2017: TCHF 80) and GBP (TCHF: 24; 2017: TCHF 0) and are not considered impaired as they are fully performing. 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.

16. Prepayments and other assets

in TCHF	2018	2017
Prepayments	325	263
Deferred income	–	38
Other	–	129
Balance as at December 31	**325**	**430**

17. 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. Indications of impairment derive from external or internal events. The current movement of the Group's stock price triggered an impairment test as at December 31, 2018.

Goodwill is allocated to the CGU or group of CGUs that is the principal economic beneficiary. The Group's 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 recoverable amount of the CGU is determined based on a value-in-use calculation, which requires the use of assumptions. The impairment test is based on a discounted cash flow model, which includes comprehensive data with no terminal value taken into consideration. This forecast period was chosen as Kuros currently does not incur substantial revenues from product sales and therefore historical information is not available. No terminal value was applied as the products being commercialized are intellectual property (IP) protected and, after the maturity of such IP protection, a decline

in revenues could be possible. The weighted-average cost of capital (WACC) is used to determine the applicable pre-tax discount rate. The Group operates in one segment and identified one CGU to allocate the carrying amount of Goodwill and intangible assets to.

Key input parameters into the discounted cash flow model

General key assumptions:

▪ The business plan underlying the impairment model is based on the assumption that the company can obtain the relevant funding in line with its planned timeframe. Consequently, it is assumed that the necessary steps of the business plan can be reached and executed within the planned timeframe. An impairment could be triggered in case of significant changes to or delays in the current business plan or in case specific milestones are not met.

▪ WACC of 12.0% reflects the advanced stage of the Company. Further, certain probabilities for revenues and costs are assumed (2017: WACC 9.8%). The corresponding pre-tax WACC amounts to 14.4% (2017: 13.5%).

▪ Tax rate of 22%, 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 (2017: 26%).

▪ Inflation rate of 2.0% reflects the low inflation environment currently as well expected increases of inflation according to third party forecasts (2017: 1.0%).

▪ The applied forecast period is based on the product life cycle of the underlying products which in turn are based on the duration of their patent protection. Whilst the Group has a broad portfolio of currently granted patents in place for its products it has taken into account currently pending patent extensions. The model reflects management's estimate of the probability of such patent extensions being granted. No terminal value is applied after the period of expiry of pending patent extensions.

▪ For the extrapolation of cash flow projections beyond the period covered by the most recent business plan no growth rate (i.e. 0%) is applied. Also, no growth rate was used for the products, industries, or countries in which the Group operates, or for markets to which the Group is dedicated. The cash flow projections are, however, adjusted for inflation for the extrapolated period.

Key input parameters – cash in:

▪ Cash in from products of Kuros Biosurgery Ltd which originate from Fibrin-PTH spinal fusion (KUR-113) and Neuroseal (KUR-023).

▪ 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 0% and 60% (2017: between 20% and 60%) have been applied to reflect uncertainty on market approvals and timing of cash-flows.

Key input parameters – cash out:

▪ Cash out from Fibrin-PTH spinal fusion including (i) general and administrative costs, (ii) clinical and nonclinical costs for product candidates, and (iii) costs associated with the preparation and conduct of commercialization activities.

▪ Cash out from MagnetOs products are related to the commercialization activities.

Key assumptions in sensitivity to changes

The valuation of value in use for the CGU is most sensitive to the following assumptions:

- Future cash flows
- Discount rate

Future cash flows are the net amount of cash and cash equivalents being transferred into or from a CGU. The CGU's ability to create future cash flows is substantial to distinct the value in use of the underlying assets. Furthermore, future cash flows relate to the direct refinancing possibilities of a CGU and determine (future) liquidity needs. Therefore, changes in the assumptions of future cash flows can materially impact the value in use and the refinancing possibilities of a CGU.

Discount rate is derived from the current market assessment of the risks specific to a CGU, considering the present value of future cash flows and individual risks of the underlying assets that are not addressed in the cash flow estimates. Basis for the discount rate is the weighted average cost of capital (WACC), which estimates the individual financing costs for debt and equity financing. The cost of equity is derived from the shareholder return expectations. The cost of debt is derived from interest-bearing payables the Group is or would be obliged to service. By applying additional beta factors, the WACC incorporates branch specific risks. The beta factor is evaluated on basis on publicly available data of a selected peer group.

The cash flow projections were based upon financial plans approved by the key decision makers of the Group. The overall assumptions used in the calculations are consistent with the assumptions for the segment served by the Group.
The sensitivity analysis for the CGU to which the goodwill is allocated was based on a reduction in future cash flows by 10 % or an increase in discount rates by 1 %. The Group concluded that no impairment loss needs to be recognized on intangible assets and goodwill. The parameters for the sensitivity analysis were chosen based on historic variations experienced and assumed projected volatilities and are therefore considered reasonably possible.

18. Accrued expenses

in TCHF	2018	2017
Accrued payroll and bonuses	796	742
Other	1,341	910
Balance as at December 31	**2,137**	**1,652**

Other accrued expenses mainly included costs of materials, consumables and services, and legal, accounting and consulting fees accrued as at December 31, 2018. (2017: costs of materials, consumables and services, and legal, accounting and consulting fees)

19. Shareholders' equity

	Shares (number)	Share capital (in TCHF)	Treasury shares (in TCHF)
At 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
At December 31, 2017	**8,170,929**	**8,171**	**–**
At January 1, 2018	**8,170,929**	**8,171**	**–**
Capital increases	6,887,682	6,888	–
Treasury shares purchased	–	–	(62)
Treasury shares sold	–	–	45
At December 31, 2018	**15,058,611**	**15,059**	**(17)**

Number of shares	Issued and fully paid shares	Treasury shares	Total shares
At December 31, 2017	**8,170,929**	–	**8,170,929**
At December 31, 2018	**15,058,611**	**17,244**	**15,075,855**

Authorized and conditional capital

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

in TCHF	2018	2017
Authorized capital as at December 31	1,592	1,503
Conditional capital as at December 31	3,110	1,208
Weighted average number of shares used for basic and diluted net loss per share (note 28)	8,724,369	7,091,413

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 the 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) and authorize the Board to issue a maximum number 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 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 at December 31, 2018 at nominal value were created in February 2018.

	Number of shares	Weighted average purchase price	in TCHF
Balance as at January 1, 2017	**20,546**	**12.94**	**266**
Purchase	56,643	18.01	1,020
Sale*	(77,189)	16.66	(1,286)
Balance as at December 31, 2017	–	–	–
Balance as at January 1, 2018	–	–	–
Purchase	62,000	1.00	62,000
Sale**	(44,756)	1.00	(44,756)
Balance as at December 31, 2018	**17,244**	**1.00**	**17,244**

** Weighted average sales price in 2017 was CHF 17.01.*
*** Weighted average sales price in 2018 was CHF 1.00.*

Options

No options were exercised in 2018 and 2017.

Change in capital structure

As at January 1, 2018 the nominal share capital of the ultimate parent company of the Group, Kuros Biosciences Ltd ("Kuros"), amounted to CHF 8,170,929 and was divided into 8,170,929 registered common shares with a par value of CHF 1.00.

On May 2, 2018, Kuros received European clearance for MagnetOs Putty. As a result of that and in accordance with the combination agreement, Kuros has issued 370,000 shares and transferred those shares to the sellers of Xpand for no additional consideration, since these shares were included in the calculation of the consideration for the acquisition of Xpand in 2017. In September 2018, a capital increase was realized by converting the share premium to share capital in the amount of CHF 370,000 as a result of the reached milestone on May 2, 2018.

In December 2018, the final number of offered shares and gross proceeds from the rights offering and share placement, first announced on November 29, 2018, in which a total of 8,013,306 new registered shares of Kuros sourced from the ordinary and authorized share capital with a nominal value of CHF 1.00 each, were offered at an offer price of CHF 2.50 per share. After completion of the share placement, 3,686,074 new registered shares for which subscription rights were not exercised, were placed in the share placement to eligible institutional investors or others. Combined with the 2,769,608 new registered shares, which were validly subscribed for in the rights offering, the total number of new registered shares placed in the offering at the offer price of CHF 2.50 per share amounts to 6,455,682. Total gross proceeds raised from the capital increase amount to CHF 16.1 million.

In 2018, three transactions were entered under the Group's SEDA-Agreement (described below):

- In February 2018 the Company issued 62,000 shares as treasury shares within the Group in a transaction to service the existing SEDA-Agreement. For this purpose, the shares were issued at par and placed according to the conditions specified in the SEDA-Agreement. 6,174 shares were transferred to the third party as a commitment fee for this equity line, with an effect of TCHF 75 to retained earnings.
- In April 2018, the Group placed 31,979 shares under the SEDA-Agreement for a gross amount of TCHF 300.
- In November 2018, the Group placed 6,603 shares under the SEDA-Agreement for a gross amount of TCHF 30.

The final balance of treasury shares amounts to 17,244 shares.

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.

20. Costs by nature

in TCHF	2018	2017
Depreciation and amortization of assets	(1,947)	(1,147)
Impairment of assets	–	(2,197)
Employee benefits (note 21)	(4,956)	(7,995)
Materials, consumables, services	(3,320)	(3,305)
Rental expenses	(1,169)	(1,739)
Legal, accounting and consulting fees	(2,772)	(1,822)
Other expenses	(1,652)	(1,507)
Other income	1,470	2,935
Total	**(14,346)**	**(16,777)**

In 2018 and 2017, other income is primarily related to rental payments and pass through costs recovered from subtenants.

21. Employee benefits

in TCHF	2018	2017
Salaries	(3,570)	(4,599)
Social security costs	(512)	(648)
Pension costs, defined benefit plan (note 26)	203	327
Share-based compensation	(675)	(2,039)
Other costs related to employees	(402)	(1,036)
Total	**(4,956)**	**(7,995)**

22. Operating leases

The Group has entered into operating leases on its office, development and manufacturing premises. These leases have terms ranging from 6 months to 10 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The total contingent rent recognized as income during the year is CHF 0.9 million (2017: CHF 1.1 million).

Future minimum rental payables under non-cancellable operating leases as at 31 December are as follows:

in TCHF	2018	2017
Within one year	(365)	(1,074)
After one year but not more than five years	(1,257)	(18)
More than five years	(1,421)	–
Total	**(3,043)**	**(1,092)**

23. Related party transactions

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

in TCHF	2018	2017
Short-term employee benefits	(3,045)	(3,193)
Share-based compensation	(659)	(1,624)
Post-employment benefits	63	(13)
Total	**(3,641)**	**(4,830)**

The income of TCHF 63 for post-employment benefits derives from employer contributions of total TCHF (415) and curtailment gain for key management of total TCHF 478 (please refer to note 26). In prior year the costs of TCHF (13) for post-employment benefits derives from contributions of total TCHF (395) and curtailment gain for key management of total TCHF 382.

No other compensation has been paid to the key management in 2018 and 2017.

24. Provisions

in TCHF	Onerous contract (sublease)	Personnel	Total
At January 1, 2017	**–**	**–**	**–**
Additional provisions made	(206)	(1,478)	(1,684)
At December 31, 2017	**(206)**	**(1,478)**	**(1,684)**
At January 1, 2018	**(206)**	**(1,478)**	**(1,684)**
Additional provisions made	–	(176)	(176)
Provisions utilized	206	1,362	1,568
At December 31, 2018	**–**	**(292)**	**(292)**

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 consisted of personnel related expenses. Kuros underwent these changes as part of its transition to create a leading commercial-stage orthobiologics company. The costs for this provision are partially offset by the curtailment of the pension liability according to IAS 19 “Employee Benefits”, resulting in a gain of TCHF 622 (2017: TCHF 382).

In 2018, the lease contract as well as the corresponding sub-lease contracts have been terminated. As a result, no further provisions for onerous contracts (sublease) is necessary.

For the provisions recorded, all outflows of financial resource are expected to occur in 2019.

25. Income taxes

in TCHF	2018	2017
Current income tax charge	(62)	(80)
Deferred tax credit	2,182	189
Total income tax credit recognized in income statement	**2,120**	**109**

In 2018, capital tax expenses amounted to TCHF 45 (2017: TCHF 65) and are included in the net operating costs.

Composition of deferred tax assets and liabilities:

	Assets		Liabilities		Net	
in TCHF	2018	2017	2018	2017	2018	2017
Intangible assets	–	–	(6,155)	(7,937)	(6,155)	(7,937)
Retirement benefit obligations	211	371	–	–	211	371
Tax losses	1,607	969	–	–	1,607	969
Deferred tax assets/(liabilities) prior to offset	**1,818**	**1,340**	**(6,155)**	**(7,937)**	**(4,337)**	**(6,597)**
Offset of deferred tax assets and liabilities	(1,818)	(1,340)	1,818	1,340	–	–
Deferred tax assets/(liabilities)	**–**	**–**	**(4,337)**	**(6,597)**	**(4,337)**	**(6,597)**

Movements in deferred taxes:

in TCHF	Retirement benefit obligation	Tax losses	Intangible assets	Total
Balance as at January 1, 2018	**371**	**969**	**(7,937)**	**(6,597)**
Deferred tax credit/(charge) in the income statement	(102)	638	1,646	**2,182**
Deferred tax charge in other comprehensive income	(58)	–	–	**(58)**
Exchange differences	–	–	136	**136**
Balance as at December 31, 2018	**211**	**1,607**	**(6,155)**	**(4,337)**

in TCHF	Retirement benefit obligation	Tax losses	Intangible assets	Total
Balance as 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 in other comprehensive income	26	–	–	**26**
Exchange differences	–	40	(609)	**(569)**
Balance as at December 31, 2017	**371**	**969**	**(7,937)**	**(6,597)**

The deferred tax charge of TCHF 58 (2017: credit of TCHF 26) in the statement of other comprehensive income was arising from the 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	2018	2017
Loss before tax	(13,813)	(16,593)
Expected income tax rate (%)	22%	22%
Expected income tax credit	**3,039**	**3,650**
Expenses not deductible for tax purposes	(140)	(449)
Effect of deferred tax assets not recognized in the current year	(1,836)	(3,067)
Effect of changes in future expected tax rates	1,187	–
Effect of utilization of prior year unrecognized tax losses or deductible temporary differences	3	–
Effect of different tax rates in other countries	(141)	(24)
Other	8	(1)
Total income tax credit recognized in income statement	**2,120**	**109**

The Group's expected tax rate is 22% for 2018 and 2017, 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 consisted of tax losses in Switzerland. Effect of changes in future expected tax rates related to a lower expected income tax rate in the Netherlands, which has been published as part of the "2019 Dutch Tax Package" on September 18, 2018 by the Dutch Ministry of Finance. Changes include the gradual lowering of the corporate income tax (CIT) rates and the limitation of loss carry forward from nine to six years.

Tax loss carry-forwards

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

in CHF million	2018	2017
2018	–	46,548
2019	16,270	16,299
2020	57,575	57,604
2021	37,692	37,721
2022	6,125	6,154
2023	14,340	14,369
2024	15,479	15,508
2025	10,622	–
No expiry	4,241	4,100
Total	**162,345**	**198,303**

As at December 31, 2018, the Group's total gross operating loss carry-forwards amounted to CHF 162 million (2017: CHF 198 million), of which CHF 158 million (2017: CHF 194 million) related to Switzerland with an expected income tax rate of 22% for 2018 (2017: 22%). CHF 4.1 million (2017: CHF 4.1 million) related to Germany, which has an expected income tax rate of 28% for 2018 (2017: 28%).

The unrecognized tax loss carry-forwards and deductible temporary differences would have given rise to deferred tax assets of CHF 35.6 million and CHF 44.0 million in 2018 and 2017, 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 partially

recognized deferred tax assets relating to tax loss carry-forwards and deductible temporary differences in 2017 and 2018 to the extent that there are suitable taxable temporary differences.

26. Benefit plans

The Group maintains a retirement plan (the “Plan”) covering employees, including the Executive Committee. In addition to retirement benefits, the Plan provides 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 company.

During 2017 and 2018 Kuros was affiliated with one collective foundation to meet its obligations under Switzerland’s mandatory company provided pension:

PKG Pensionskasse
This pension scheme provides benefits in 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
During the first half year 2018 the Company, Kuros Biosciences Ltd had personnel fluctuations due to the restructuring in the Swiss entities and the Group’s refocus on orthobiology (spine). This led to a reduction of approximately 14% of the defined benefit obligation and the savings capital. This decrease has been qualified as settlement. The settlement date has been recognized as at April 30, 2018 whereof a gain of TCHF 274 has been recognized through the income statement.
In the second half year 2018, the Company, Kuros Biosciences Ltd had further personnel fluctuations due to the restructuring, which led to an extension of the settlement as at April 30, 2018, whereof an additional settlement gain of TCHF 348 has been recognized through the income statement.

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 coverage 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	**2018**	**2017**
Balance as at January 1	**(7,170)**	**(8,635)**
Service cost	(403)	(420)
Employee contributions	(262)	(285)
Interest cost	(51)	(62)
Curtailments/settlements	622	382
Actuarial gain/(loss) on benefit obligation	245	(172)
Benefits paid	2,118	1,637
Past service cost	–	385
Balance as at December 31	**(4,901)**	**(7,170)**

in TCHF	2018	2017
Actuarial gain/(loss) arising from plan experience	59	(172)
Actuarial gain arising from demographic assumptions	–	–
Actuarial gain arising from financial assumptions	186	–
Total gain/(loss)	**245**	**(172)**

Change in plan assets:

in TCHF	2018	2017
Fair value as at January 1	**5,482**	**6,454**
Interest income	39	46
Employer contributions	262	285
Employee contributions	262	285
Benefits paid	(2,118)	(1,637)
Administrative expense	(4)	(4)
Actuarial gain on plan assets	17	53
Fair value as at December 31	**3,940**	**5,482**

in TCHF	2018	2017
Actuarial gain/(loss) arising from financial assumptions	–	–
Actuarial gain arising from plan experience	17	53
Total gain	**17**	**53**

Assets breakdown:

At December 31, 2018	Quoted market price	Not quoted market price	Total
Cash	–	1%	1%
Bonds	45%	–	45%
Equities	30%	–	30%
Property	19%	–	19%
Other	–	5%	5%
Total value of assets	**94%**	**6%**	**100%**

At 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%**

Funded status:

in TCHF	2018	2017
(Un) funded status	(961)	(1,688)
Net defined benefit liability recognized in the balance sheet	**(961)**	**(1,688)**

Defined benefit costs:

in TCHF	2018	2017
Service cost	(403)	(420)
Interest cost	(51)	(62)
Administrative expense	(4)	(4)
Interest income	39	46
Past service cost recognized in year	–	385
Curtailment/settlement, gain/(loss)	622	382
Defined benefit cost for the year recognized in the income statement	**203**	**327**

The pension expense is included in the income statement in general and administrative costs (see note 20).

Net defined benefit assets/(liabilities):

in TCHF	2018	2017
Pension assets as at December 31	3,940	5,482
Benefit obligation as at December 31	(4,901)	(7,170)
Net defined benefit liability recognized in the balance sheet	**(961)**	**(1,688)**

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

Assumptions:

	2018	2017
Discount rate	0.90%	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	22.61/25.64	22.50/25.53

Sensitivity analysis

The sensitivity analysis were performed by recalculating the defined benefit obligation (DBO) and the service sost 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 affected the DBO by the amounts shown below:

At December 31, 2018 (in TCHF (decrease)/increase)	**DBO**
Discount rate +0.25%	(221)
Discount rate –0.25%	231

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

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	**At December 31, 2018**
Expected annual employee contribution in 2019	169
Expected annual employer contribution in 2019	169

in TCHF	**At December 31, 2017**
Expected annual employee contribution in 2018	263
Expected annual employer contribution in 2018	263

27. 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 Ltd 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 as at 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 Ltd were replaced with 168,713 options issued by Kuros Biosciences Ltd. 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 Ltd 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, a total of 231,200 options were granted.
(e) In 2017, a total of 174,986 options were granted.
(f) In 2018, a total of 230,768 options were granted.

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), (d), (e) and (f) 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.

Total expenses for the share-based compensation amount to TCHF 675 (2017: TCHF 2,039) for granted and forfeited options.

In 2018, a total of 230,768 options were granted (2017: 174,986 options) and 2,000 options (2017: 112,739 options) were forfeited due to the terminations of employees. The expense of forfeited options is reversed in 2018.

The following table shows the range of conditions as well as the range of assumptions applied to the share-based payment arrangements for 2018.

Share options, conditions and assumptions

Options granted in 2018:

	(a) New Kuros options granted in 2018	(b) New Kuros options granted in 2018	(c) New Kuros options granted in 2018
Grant date	February 1, 2018	June 14, 2018	July 16, 2018
Number of options	90,768	20,000	60,000
Exercise price	CHF 12.10	CHF 10.20	CHF 9.26
Share price at date of grant	CHF 12.10	CHF 8.28	CHF 9.26
Contractual life	5 years	5 years	5 years
Vesting period	22,692 options vest after 1 year, 68,076 options vest quarterly over the following three years	20,000 options vest after 1 year	15,000 options vest after 1 year, 45,000 options vest quarterly over the following three years
Settlement	Shares	Shares	Shares
Expected volatility at day of grant	49.65%	32.22%	45.00%
Expected option life at grant date	until maturity	until maturity	until maturity
Risk-fee interest rate p.a.	(0.35%)	(0.75%)	(0.44%)
Expected dividend	Zero	Zero	Zero
Estimated fair value of option at grant date	CHF 5.04	CHF 1.65	CHF 3.50
Expiry date	February 1, 2023	June 14, 2023	July 16, 2023
Valuation model	Black Scholes	Black Scholes	Black Scholes

	(d) New Kuros options granted in 2018	(e) New Kuros options granted in 2018	(f) New Kuros options granted in 2018
Grant date	July 17, 2018	September 3, 2018	October 31, 2018
Number of options	27,500	2,500	15,000
Exercise price	CHF 10.20	CHF 8.20	CHF 5.00
Share price at date of grant	CHF 9.00	CHF 8.20	CHF 5.00
Contractual life	5 years	5 years	5 years
Vesting period	6,875 options vest after 1 year, 20,625 options vest quarterly over the following three years	625 options vest after 1 year, 1,875 options vest quarterly over the following three years	15,000 options vest upon grant date
Settlement	Shares	Shares	Shares
Expected volatility at day of grant	45.00%	54.38%	69.44%
Expected option life at grant date	until maturity	until maturity	until maturity
Risk-fee interest rate p.a.	(0.44%)	(0.38%)	(0.45%)
Expected dividend	Zero	Zero	Zero
Estimated fair value of option at grant date	CHF 3.06	CHF 3.70	CHF 2.79
Expiry date	July 17, 2023	September 3, 2023	October 31, 2023
Valuation model	Black Scholes	Black Scholes	Black Scholes

	(g) New Kuros options granted in 2018
Grant date	November 30, 2018
Number of options	15,000
Exercise price	CHF 3.09
Share price at date of grant	CHF 3.09
Contractual life	5 years
Vesting period	15,000 options vest upon grant date
Settlement	Shares
Expected volatility at day of grant	99.16%
Expected option life at grant date	until maturity
Risk-fee interest rate p.a.	(0.51%)
Expected dividend	Zero
Estimated fair value of option at grant date	CHF 2.25
Expiry date	November 30, 2023
Valuation model	Black Scholes

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-fee 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

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

	Options (number)	**Weighted average exercise price** (CHF)
Balance outstanding at 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 at December 31, 2017	**790,170**	**40.80**
Balance outstanding at January 1, 2018	**790,170**	**40.80**
Granted in 2018	230,768	9.89
Exercised	–	–
Forfeited	(13,032)	34.59
Lapsed	(38,062)	133.66
Balance outstanding at December 31, 2018	**969,844**	**29.88**

The following table applies to all valid share options outstanding as at December 31, 2018:

Exercise price (CHF)	**Options*** (number)	**Remaining life** (years unless stated otherwise)	**Exercisable options** (number)
2.00	272,427	6.9	272,427
3.09	15,000	4.9	15,000
5.00	15,000	4.8	15,000
8.20	2,500	4.7	–
9.26	58,000	4.5	–
10.20	47,500	4.5–4.6	–
12.10	90,768	4.1	–
18.30	64,435	3.5	62,247
24.00	110,200	2.4	110,200
25.00	20,400	1.5	20,400
26.00	15,000	2.1	14,063
27.75	20,000	2.6	16,250
33.00	47,782	2.5	43,407
42.00	25,000	2.2	25,000
45.00	22,327	0.1–2.7	22,327
52.00	19,453	1.0–3.5	19,453
56.00	40,587	1–1.9	40,587
60.00	54,000	1.5	54,000
305.00	200	1.0	200
349.00	14,642	0.9	14,642
363.00	5,823	0.2	5,823
384.00	2,000	0.2	2,000
385.00	3,800	0.2	3,800
404.00	600	0.3	600
409.00	2,400	0.3	2,400
Total	**969,844**		**759,826**

** Includes all options granted within the Group*

The following table applies to all valid share options outstanding as at 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*

28. Net loss per share

Basic and diluted net loss per share have been computed based upon the weighted average number of registered shares outstanding. Basic 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 net loss per share:

in CHF	2018	2017
Total basic net loss attributable to the ordinary equity holders	(1.34)	(2.32)

b) Diluted net loss per share:

in CHF	2018	2017
Total diluted net loss attributable to the ordinary equity holders	(1.34)	(2.32)

c) Reconciliation of net loss used in calculating net loss per share:

in TCHF	2018	2017
Basic net loss per share:	(1.34)	(2.32)
Net loss attributable to the ordinary equity holders from continuing operations	(11,693)	(16,484)
Diluted net loss per share:	(1.34)	(2.32)
Net loss attributable to the ordinary equity holders	(11,693)	(16,484)

d) Weighted average number of shares used as denominator:

	2018	2017
Weighted average number of ordinary shares	8,724,369	7,091,413
Adjustments: options	–	–
Weighted average number and potential ordinary shares	8,724,369	7,091,413

e) Information concerning the classification of securities

Options granted to employees under the Employee Option Plan are considered as potential ordinary shares. They have been included in the determination of diluted net loss 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 net loss per share as the effect would have been anti-dilutive. Details relating to the options are set out in note 27. These options could potentially dilute basic net loss per share in the future.

29. 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.

30. Events after balance sheet date

In February 2019 Kuros' Dutch subsidiary, Kuros Biosciences BV, has signed a private label Original Equipment Manufacturer (OEM) agreement with SeaSpine Holdings Corporation (NASDAQ: SPNE), a global medical technology company focused on surgical solutions for the treatment of spinal disorders. Under the agreement the Group will supply the bone graft in various forms and SeaSpine will market the products under the brand name OsteoCurrent in the U.S. and other selected markets in Europe, South America and the Middle East providing the necessary regulatory approvals are achieved. Initial sales in the U.S. are expected prior to the end of H1 2019. Terms of the agreement were not disclosed.

In April 2019, Kuros entered into a convertible bonds financing agreement with Nice & Green S.A. for up to a maximum of CHF 5 million. The facility is provided by Nice & Green, a private Swiss company which specializes in financing solutions tailored to the requirements of listed growth companies in the biotech and clean-tech industries. This agreement can be extended by Kuros for an additional CHF 5 million over a further period of 12 months. The facility enables Kuros to draw 12 equal tranches representing 100,000 shares each over 12 months against issuance of convertible bonds. The convertible bonds are mandatory convertible into equity at the discretion of Nice & Green S.A. within a period of 12 months after their issuance, with a conversion rate of 95% of the lowest volume-weighted average price during the six trading days preceding the conversion date.

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 of financial position as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 56 to 106) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 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 over 96% of the Group's consolidated revenue and over 99% of the Group's consolidated assets. In addition, specified procedures were performed on one further reporting unit in the United States of America representing a further 4% of the Group's consolidated revenue.

As key audit matter the following area of focus has been identified:

Carrying value of Goodwill and IPR&D intangible assets

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Context of our audit 2018

During the year the company started the commercialisation of its product in 2 key markets, the U.S. and Europe. It also sought financing from shareholders through a sale of additional share on the SIX during the month of December.

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.

Overall Group materiality	CHF 450'000
How we determined it	3.5% of the Group's free cash flow, rounded
Rationale for the materiality benchmark applied	We chose the Group's free cash flow as the benchmark because, in our view, it is the benchmark against which the performance of the Group, which is now in its commercialisation phase, is most commonly measured.

Audit scope

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 2018, the Group's financial statements are a consolidation of 7 reporting entities. We identified 4 reporting entities that, in our view, required an audit of complete financial information. For one component, we performed audit procedures over specified balances and transactions. And 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 where 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.

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.

Carrying value of Goodwill and IPR&D intangible assets

Key audit matter	*How our audit addressed the key audit matter*
As per 31 December 2018 the carrying value of Goodwill amounted to TCHF 34'241 and the carrying value of intangible assets for In-Process Research & Development (IPR&D) which are not yet amortised amounted to TCHF 666. 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 69 (Accounting policies), page 74 (Critical accounting estimates and judgments), and page 84 (Note 17 'Impairment test').	We challenged management's determination of the sole cash-generating unit (CGU), representing the group's single reportable segment by evaluating internal documentation. 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, 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. We challenged management's explanation of the difference between the Group's market capitalisation and the higher value of consolidated equity. Due to the significant estimation uncertainty in the cash flow assumptions, we sought additional evidence from comparing management's valuation and assumptions used therein to the most recent available analyst coverage. 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, 12 April 2019

Statutory financial statements 2018

Balance sheet

in TCHF	Note	December 31, 2018	December 31, 2017
Cash and cash equivalents	12	12,756	9,088
Trade receivables – third parties		14	106
Other current receivables – third parties		294	57
Other current receivables - subsidiaries	16	120	1,722
Accrued income and prepaid expanses		141	301
Total current assets		**13,325**	**11,274**
Long-term interest-bearing receivables - subsidiaries	16	5,183	-
Investments	4	21,717	21,346
Fixed Assets		53	59
Total non-current assets		**26,953**	**21,405**
Total assets		**40,278**	**32,679**
Trade accounts payable – third parties		564	350
Accounts payables to subsidiary		-	1,650
Other accounts payable – third parties	17	196	68
Provisions	13	292	1,684
Accrued expenses and deferred income		1229	777
Total current liabilities		**2,281**	**4,529**
Share capital	14	15,059	8,171
Legal reserves:			
– Capital contribution reserve	15	52,759	44,315
– Other legal reserves		51,392	51,393
– Treasury shares	3, 14	(17)	-
Retained loss:			
– Brought forward	14	(75,656)	(66,223)
– Profit/(loss) for the year		(5,541)	(9,506)
Total shareholders' equity		**37,996**	**28,150**
Total liabilities and shareholders' equity		**40,278**	**32,679**

Income statement

in TCHF	Note	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017
Revenue	6	249	-
Other income	7	1,368	2,594
Research expense		(269)	(277)
Employee expenses		(2'482)	(6,544)
Other operating expenses	8	(4'196)	(4,242)
Depreciation and amortization on fixed assets		(32)	(22)
Total operating expenses		**(6,979)**	**(11,085)**
Earnings before interest and taxes		**(5,362)**	**(8,491)**
Financial income		79	167
Financial expense		(196)	(1,127)
Loss before taxes		**(5,479)**	**(9,451)**
Direct taxes		(62)	(55)
Loss for the year		**(5,541)**	**(9,506)**

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 ("CO"). 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).

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.

The Company has incurred net operating losses during most fiscal periods since its inception and anticipates that it will continue to incur substantial operating losses for the foreseeable future. The Company may never achieve or sustain profitability.

The Company expects that it will incur significant operating losses in the foreseeable future, primarily due to its continuing pre-clinical studies, clinical development programs, and exploratory research as well as commercialization of product candidates. If the Company does not receive revenues, or milestone and other payments, or does not enter new partnerships for current or future product candidates on acceptable terms, or at all, its operating losses will substantially increase over the next few years.

The Company's ability to achieve sustainable profitability will depend, among other things, on attracting sufficient financial resources, successfully bringing existing or new product candidates through clinical development, obtaining regulatory approvals, arrangements with third parties, raising sufficient funds to finance its activities and profitably selling its products. No assurance can be given that the Company will be able to achieve and maintain profitability.

To become and remain profitable, the Company, or its partners, must succeed in financing the development of its product candidates and building up marketing and sales capabilities, obtaining regulatory approvals, and manufacturing, marketing and selling the products for which it or its partners may obtain regulatory approval. The Company, or its partners, may not succeed in these activities, and the Company may never generate revenues from product sales that are significant enough to achieve profitability. Even if the Company achieves profitability, it may not be able to sustain profitability in subsequent periods.
The Company's failure to become or remain profitable could have a material adverse effect on the Company's business, financial condition, results of operations and prospects, as well as its share price.

The development and commercialization of the Company's product candidates will require substantial additional financing and a failure to obtain sufficient financing or opportunities to partner programs could force the Company to delay, limit, reduce or terminate development or commercialization of the Company's product candidates.

The cash flows, if any, from the Company's operations, will not be sufficient to fund the Company's anticipated capital expenditures and working capital requirements for the foreseeable future. If its currently available funding will not be sufficient to cover these steps, the Company will have to rely on the availability of additional funding. Furthermore, any

additional steps for the development or commercialization of its product candidates will depend on the availability of such funding.

No assurance can be given that the Company can obtain sufficient funding when needed. The Company's ability to raise additional funds will depend on financial, economic and other factors, many of which are beyond the Company's control. If the Company fails to obtain additional funds and on acceptable terms, or at all when needed, it may have to delay, reduce or terminate certain research and development programs or the production and commercialization of certain products. In addition, the Company's shareholders may have to accept equity financing terms which may significantly dilute their participation.

Any such event could have a material adverse effect on the Company's business, financial condition, results of operations and prospects, as well as its share price.

In the past years, the Company 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 (iii) cash paid within collaborations. None of these cash resources can be considered recurring, in particular as the Company has limited 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 Company 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.

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 as well as sublease 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 Company'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:

	2018 Income statement	Balance sheet as of December 31, 2018	2017 Income statement	Balance sheet as of December 31, 2017
EUR	1.17087	1.13726	1.1131	1.1702
USD	0.98729	0.99433	0.9979	0.9745
GBP	1.32053	1.26162	1.2755	1.3183
JPY	n/a	n/a	0.0089	0.0087

The exchange rates used for balance sheet items are the rates prevailing on December 31, 2018. 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, 2018	December 31, 2017
Authorized capital with a nominal value of	3'746	1'503
Conditional capital with a nominal value of	3'111	1'208

3. Treasury shares

	Number of shares	Weighted average purchase price	in TCHF
Balance as of January 1, 2017	20,546	12.94	266
Purchased	56,643	18.01	1,020
Sold	(77,189)	16.66	(1,286)
Balance as of December 31, 2017	**-**	**-**	**-**
Purchased*	62,000	1.00	62
Sold	(44,756)	1.00	(45)
Balance as of December 31, 2018	**17,244**	**1.00**	**17**

** Capital increase of 62,000 new shares. Purchased at nominal value of 1.00 CHF*

Please refer to note 14 for movements of treasury shares.

4. Investments

As of	December 31, 2018	December 31, 2017
Kuros Biosurgery Holding Ltd, Zurich, Switzerland		
Share capital (TCHF)	1,446	1,446
Shareholding (%)	100	100
Kuros Biosurgery Ltd, Zurich, Switzerland		
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 Netherlands		
Purpose: Provider of research and development services		
Share capital (TEUR)	18	18
Shareholding (%)	100	100
RevisiOs B.V., Bilthoven, The Netherlands		
Purpose: Provider of research and development services		
Share capital (TEUR)	22	22
Shareholding (%)	100	100
Kuros Biosciences USA, Inc., Burlington (MA), United States of America		
Purpose: Commercialization of Products		
Share capital (TUSD)	1	-
Shareholding (%)	100	-

5. Lease commitments not recorded in the balance sheet

in TCHF, as of	December 31, 2018	December 31, 2017
Rent and leasing	64	1,092

6. Revenue

in TCHF	Twelve months ended 2018	Twelve months ended 2017
Revenue from milestone payments	249	-
Total	**249**	**-**

7. Other income

in TCHF	Twelve months ended 2018	Twelve months ended 2017
Rent	1,313	2,304
Fees of collaboration agreements	44	280
Others	11	10
Total	**1,368**	**2,594**

8. Other operating expenses

in TCHF	Twelve months ended 2018	Twelve months ended 2017
Rental expenses	(977)	(1,533)
Insurances, public charges	(36)	(74)
Energy expenses	(117)	(189)
Administration and legal fees	(2,459)	(1,619)
Marketing expenses	(265)	(655)
Other expenses	(342)	(172)
Total year ended December 31	**(4,196)**	**(4,242)**

9. Main shareholders

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, 2018.

Name	Shareholding/Purchase Positions*
YA II PN, Ltd., George Town, Cayman Island**	71.5 %
Incubation B.V., Bilthoven, the Netherlands / Aldabra B.V., Amersfoort, The Netherlands	16.7 %
CS (CH Small Cap Switzerland Equity Fund), Zurich, Switzerland	9.5 %
Eckenstein-Geigy-Stiftung, Binningen, Switzerland	9.3 %
Banque Pictet & Cie SA, Geneva, Switzerland	8.9 %
LSP V Coöperatieve U.A., Amsterdam, The Netherlands	6.6 %
Venture Incubator AG, 6302 Zug, Switzerland	3.2 %

* The shareholdings or purchase positions indicated in this table correspond to the amounts as disclosed on the SIX website (as indicated below).
**This is a purchase position which allows Kuros at its discretion to draw down up to US$ 30 million under a standby equity agreement (SEDA).
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

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., 1071 DV Amsterdam, 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 %

10. Employees

As of December 31, 2018 the Company employed 9 employees (2017: 15).

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):

			Options expiring		
As of December 31, 2018	**Shares held**	**Options granted***	**2019**	**2020**	**2021 or later**
Christian Itin Board Member	60,000	31,775	2,400	21,000	8,375
Leanna Caron Board Member	-	6,375	-	-	6,375
Giacomo Di Nepi Board Member	-	4,375	-	-	4,375
Gerhard Ries Board Member	4,575	6,375	-	-	6,375
Clemens van Blitterswijk Chairman of the Board	2,518,926[1]	5,375	-	-	5,375
Scott Bruder Board member	-	2,375	-	-	2,375
Jason Hannon Board Member	-	2,375	-	-	2,375
Oliver Walker Board Member	-	2,375	-	-	2,375
Frank-Jan van der Velden Head of Business Affairs and Finance	2,518,926[1]	11,000	-	-	11,000
Philippe Saudan Chief Development Officer	-	66,200	2,400	15'300	48,500
Alistair Irvine Chief Business Officer	-	78,224	-	2,412	75,812
Pascal Longlade Chief Medical Officer	-	2,500	-	-	2,500
Michael Grau Chief Financial Officer	-	101,768	-	-	101,768
Joost de Bruijn Chief Executive Officer and Board Member	2,518,926[1]	11,000	-	-	11,000

* *Options that have been granted and that are not expired as of December 31,2018*

[1] As of December 19, 2018 the shareholders are part of a Lock-up Group that holds all shares of each participant. The total shares held by the Group amount to 2,518,926 shares. For details please refer to https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html#notificationId=TBICL00033

			Options expiring		
As of December 31, 2017	**Shares held**	**Options granted***	**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	2,105,000[3]	2,000	-	-	2,000
Frank-Jan van der Velden Board Member	2,105,000[3]	-	-	-	-
Harry Welten Board Member	1	108,300	1,500	2,600	104,200
Philippe 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	2,105,000[3]	-	-	-	-
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*

[3] As of January 21, 2017 the shareholders are part of a Lock-up Group that holds all shares of each participant. The total shares held by the Group amount to 2'105'000 shares. For details please refer to https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html#notificationId=TBH1U00018

12. Pledged assets

in TCHF	December 31, 2018	December 31, 2017
Cash and cash equivalents (security for credit card liabilities)	80	80
Total	**80**	**80**

13. Provisions

in TCHF	December 31, 2018	December 31, 2017
Employee expenses	292	1,478
Onerous contract	-	206
Total	**292**	**1,684**

14. Changes in share capital

As of January 1, 2018 the nominal share capital of the ultimate parent company of the Company, Kuros Biosciences Ltd ("Kuros"), amounted to CHF 8,170,929.00 and was divided into 8,170,929 registered common shares with a par value of CHF 1.00.

On May 2, 2018, Kuros received European clearance for MagnetOs Putty. As a result of that and in accordance with the combination agreement, Kuros has issued 370,000 shares and transferred those shares to the sellers of Xpand for no additional consideration, since these shares were included in the calculation of the consideration transferred for the acquisition of Xpand in 2017. In September 2019, a capital increase was realized by conversion of share premium to share capital in the amount of CHF 370,000 as a result of the reached milestone on May 2, 2018.

In December 2018, the final number of offered shares and gross proceeds from the rights offering and share placement, first announced on November 29, 2018, in which a total of 8,013,306 new registered shares of Kuros sourced from the ordinary and authorized share capital with a nominal value of CHF 1.00 each were offered at an offer price of CHF 2.50 per share. After completion of the share placement, 3,686,074 new registered shares for which subscription rights were not exercised, were placed in the share placement to eligible institutional investors or others. Combined with the 2,769,608 new registered shares, which were validly subscribed for in the rights offering, the total number of new registered shares placed in the offering at the offer price of CHF 2.50 per share amounts to 6,455,682. Total gross proceeds raised from the capital increase amount to CHF 16.1 million.

In 2018 three transactions were entered under the Company's SEDA-Agreement (described below):

- In February the Company issued 62,000 shares as treasury shares within the Company in a transaction to service the existing SEDA-Agreement. For this purpose, the shares were issued at par and placed according to the conditions specified in the SEDA-Agreement. 6,174 shares were transferred to the third party as a commitment fee for this equity line, with an effect of TCHF 75 to retained earnings.
- In April 2018, the Company placed 31'979 treasury shares under the SEDA-Agreement for a gross amount of TCHF 300.
- In November 2018, the Company placed 6'603 treasury shares under the SEDA-Agreement for a gross amount of TCHF 30.

The final balance of treasury shares amounts to 17,244 shares.

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.

15. Capital contribution reserve

Due to the SEDA transactions and the capital increase as described in note 14, the capital contribution reserve increased by total TCHF 8,444.

The swiss federal tax department confirmed a capital contribution reserve of CHF 43,634,529 in accordance to Art. 5 of Swiss Withholding Tax Act (WHTA) as of December 31, 2017. The swiss federal tax department has not yet acknowledged the reported reserves for capital contribution in accordance to Art. 5 of WHTA as of December 31, 2018.

16. Long-term receivables from subsidiaries

In 2018, the Company entered into a long-term interest-bearing contract with Kuros Biosciences B.V., whereof all receivables from the subsidiary as of January 01, 2018 have been entered as well.

17. Pension liabilities

As of December 31, 2018, the pension liabilities amount to TCHF 124 (2017: TCHF 0).

18. Events after balance sheet date

In April 2019, Kuros entered into a convertible bonds financing agreement with Nice & Green S.A. for up to a maximum of CHF 5 million. The facility is provided by Nice & Green, a private Swiss company which specializes in financing solutions tailored to the requirements of listed growth companies in the biotech and clean-tech industries. This agreement can be extended by Kuros for an additional CHF 5 million over a further period of 12 months. The facility enables Kuros to draw 12 equal tranches representing 100,000 shares each over 12 months against issuance of convertible bonds. The convertible bonds are mandatory convertible into equity at the discretion of Nice & Green S.A. within a period of 12 months after their issuance, with a conversion rate of 95% of the lowest volume-weighted average price during the six trading days preceding the conversion date.

Appropriation of the accumulated losses

The Board of Directors proposes that the net loss of the year 2018 in the amount of CHF 5,540,596.11 is applied against the loss brought forward of CHF 75,655,891.42 resulting in a new balance of the loss brought forward of CHF 81,196,487.53 to be carried forward to the new accounts.

pwc

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 2018, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 112 to 125) as at 31 December 2018 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 380'000

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

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

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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.

Overall materiality	CHF 380'000
How we determined it	1% of net assets, rounded
Rationale for the materiality benchmark applied	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.

Audit scope

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

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

Key audit matter	*How our audit addressed the key audit matter*
As of 31 December 2018, investments in subsidiaries of Kuros Biosciences AG amounted to TCHF 21'717 (about 54% of total assets). Due to the significance of these assets in the financial statements and because of the judge-ment involved in the valuation of these invest-ment, we consider the impairment assessment of the investments in subsidiaries as a key audit matter. Please refer to page 116 (Accounting principles) and page 118 (Note 4, Investments).	We performed detailed procedures over the valuation of the investments in subsidiaries, which include the following: 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 2018. 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. • We evaluated the reasonableness of the discount rate, as determined by management, 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. We challenged management's explanation of the difference between the Group's market capitalisation and the higher value of statutory equity as per the balance sheet date. Due to the significant estimation uncertainty in the cash flow assumptions, we sought additional evidence from comparing management's valuation and assumptions used therein to the most recent available analyst coverage. 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.

A further description of our responsibilities for the audit of the financial statements is located at the web-site 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 financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of accumulated losses (page 126) complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Furthermore, we draw attention to the fact that half of the share capital and 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, 12 April 2019

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.

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