# 2016 Annual Report

*"We are in transition to become a leading commercial-stage orthobiologics company."*

Kuros Biosciences

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# Highlights of the last 16 months

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|---|---|
| **April 13** | **Change of CEO reflects focus on commercialization:** Kuros names Dr. Ivan Cohen-Tanugi new CEO succeeding Didier Cowling, who continues as President and remains on the Executive Committee and Board. |
| **February 27** | **MagnetOs™ approved for US commercialization:** The FDA clears the novel orthobiologic for use as an autograft extender in posterolateral spine. |
| **February 8** | **ISO certification received for surgical sealant:** Kuros is compliant for the design, development, manufacturing and distribution of implantable polymeric sealants for surgical application. |
| **January 25, 2017** | **Xpand transaction closed:** Takeover accelerates Kuros' transition to commercial stage and provides a EU operation with certified and GMP-controlled manufacturing capabilities. |
| **December 21** | **Application for CE mark submitted:** Kuros completes the modular application for CE mark of its novel dural sealant Neuroseal. |
| **December 19** | **Acquisition of Xpand announced:** Kuros acquires Dutch orthobiologics specialist Xpand in a strategic all-share transaction. |
| **October 20** | **Rare pediatric disease designation received:** FDA grants designation to KUR-112 for treatment of solitary bone cysts. |
| **September 29** | **2016 Interim Report published:** Two non-cash-relevant, non-recurring effects shape the net result after six months. Cash reserves at mdi-year amount to CHF 17.5 million. |
| **August 30** | **Licensed rights returned:** Arbutus terminates exclusive license agreement for VLP platform for treatment of hepatitis B infections. |
| **August 10** | **Chief Development Officer appointed:** Dr. Philippe Saudan is promoted to Executive Committee, having previously been Head of Integration. |
| **June 28** | **Late-stage pipeline valued:** valuationLAB initiates research coverage and estimates value of late-stage pipeline at CHF 55 per share. |
| **June 23** | **Stock split:** New merged shares are traded for the first time at the SIX Swiss Stock Exchange. |
| **June 16** | **All resolutions resolved:** Shareholders approve the proposed increase of authorized capital and reverse stock-split at the ratio of 100 to 1. |
| **May 26** | **Invitation for Shareholders' Meeting mailed:** Board proposes industry expert Leanna Caron as new Board member. |
| **April 26** | **Annual Report 2015 published:** Three one-time factors – buy-out of CAD106, reorganization and mandatory conversion – lead to positive net results of CHF 6.2 million. |
| **April 20** | **First milestone payment received:** Checkmate doses first patient with advanced melanoma in Phase 1b study with CMP-001. |
| **March 8** | **Chief Medical Officer appointed:** Dr. Virginia Jamieson returns to Kuros having previously been with the Company in the same position. |
| **January 20** | **Merger closed:** Business combination creates future leader in tissue repair and regeneration. |
| **January 8** | **New Board constituted and Executive Officers appointed:** Dr. Christian Itin and Didier Cowling become Chairman of the Board and Chief Executive Officer, respectively. |
| **January 6** | **Merger approved:** Former Cytos shareholders vote in favor of proposed resolutions at extraordinary Shareholders' Meeting. |

*Dates correspond to the official announcements.*

# Dear Shareholders

2016 has been year of significant change and progress for Kuros Biosciences. At the beginning of the year, we combined our businesses in a reverse-merger and created the basis for a future leader in orthobiologics. During the year we continued to make progress with our extensive development activities. And finally, at the end of year, we announced the acquisition of Dutch-based Xpand Biotechnology.

Following the reverse-merger in early 2016, our initial focus was to successfully integrate the former Kuros and Cytos businesses without compromising on our extensive product development activities. We are pleased to report that the two businesses are now one, with all facilities and employees situated at our dedicated site in Schlieren. During the integration process, we achieved ISO certification for the first time and continued with our planned product development, including the filing of an application to obtain CE mark for Neuroseal, formerly designated KUR-023. The year culminated with the announcement of the Xpand acquisition, which paves the way to create a leading focused orthobiologics company.

The Xpand transaction significantly accelerates Kuros' transition to commercial stage with two products planned to be ready for commercialization in the EU in 2017, one of which meanwhile has obtained US approval. Xpand brings in commercial-stage orthobiologics assets and effectively doubles the size of the combined group. It further provides us with an EU operation in the Netherlands with certified and GMP-controlled manufacturing capabilities. As a result of the acquisition, Kuros has leading products in key segments of the orthobiologics field and the opportunity to build an integrated business with promising products on the market and in development.

Kuros' combined pipeline now provides near-term commercial opportunities in attractive markets. We are positioned as a technology leader in both synthetic and biologic bone graft substitutes. Our promising lead candidates include MagnetOs™, a novel orthobiologic, and Neuroseal, a novel dural sealant. MagnetOs™ is our most advanced product. It received CE mark in the EU in July 2016 and US FDA approval in February 2017. A putty formulation of the product is currently being developed to meet market demand. Neuroseal has been submitted for CE mark with market introduction planned for 2017. Our two follow-up product candidates, KUR-111 and KUR-113, are advanced orthobiologics, that have been successfully tested in large, controlled Phase 2b clinical trials and further development continues as planned. Another promising opportunity is KUR-112, which has obtained Rare Pediatric Disease Designation (RPD) from the FDA for the treatment of solitary bone cysts. Kuros is eligible to receive a Priority Review Voucher, which has a commercial value by itself as it can be traded with third parties.

By developing and marketing innovative, cost-effective products that have demonstrated clinical effectiveness, we believe that Kuros is now well positioned to benefit from the evolving healthcare landscape. The medical technology market environment continues to move towards providing value rather than volume and evidence-based medicine will continue to benefit from this shift. We believe that the combination of safety, efficacy and cost-effectiveness make our products attractive for physicians, patients and payers.

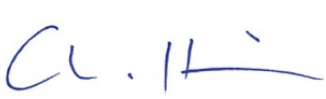
We welcome our new colleagues in Bilthoven and in particular the founders of Xpand, Prof. Joost de Bruijn and Frank-Jan van der Velden who have joined Kuros' executive committee. In addition, Prof. Clemens van Blitterswijk will be proposed as a new Board member of Kuros at the next General Meeting. These gentlemen are distinguished experts and entrepreneurs in the field of orthobiologics. We are delighted that they have decided to remain involved, and in key positions, thereby contributing to Kuros' future development.

We thank Dominik Ellenrieder and Vincent Ossipow, who left the Board in mid-2016. At the last General Meeting, shareholders elected industry expert Leanna Caron as new Vice-Chairman of the Board. In addition, we enlarged the Executive Committee, with the appointment of Dr. Virginia Jamieson and Dr. Philippe Saudan as Chief Medical Officer and Chief Development Officer, respectively.

In a move to prepare the Company for commercialization, Kuros diligently prepared a CEO succession plan and named Dr. Ivan Cohen-Tanugi Ivan as its new CEO, effective April 13, 2017. Ivan brings extensive experience in commercialization and will lead the launch activities of MagnetOs™ and Neuroseal, which are due later this year. Kuros thanks Didier for his outstanding services and contributions. He was instrumental to the success and development from a spin-off to a commercial-stage orthobiologics company. We are happy Didier remains involved as an invaluable source of expertise in orthobiologics. As President, member of the Board and the Executive Committee he remains committed to Kuros' vision to become a leading orthobiologics company.

2017 promises to be another transformational year for Kuros as we now look forward to launching products for the first time in our company's history. We would like to take this opportunity to thank everyone for helping make 2016 another very significant year of progress and development for Kuros, in particular our employees for their continued hard work and our shareholders for their continued support.

Sincerest thanks and best wishes to you all,



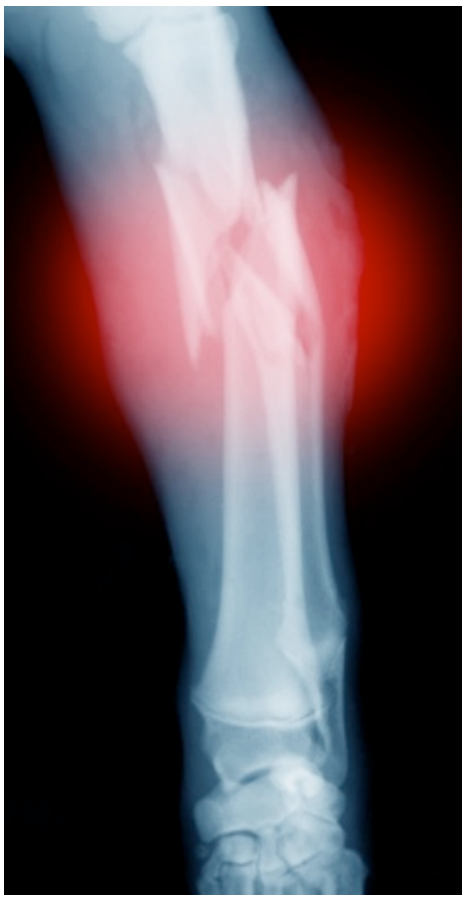
Dr. Christian Itin
Chairman

Dr. Ivan Cohen-Tanugi
Chief Executive Officer

Didier Cowling
President

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

Kuros focuses on tissue repair and regeneration in a number of indications and applications. The Company has developed commercial-stage products and a pipeline of clinical and pre-clinical product candidates at various stages of development. The most advanced programs are targeting commercially attractive opportunities in orthobiologics and surgical sealants. In addition to many years of substantial work in the preclinical setting, Kuros has enrolled over 600 patients in multi-national clinical trials and generated promising data supporting the safety and efficacy of its product candidates in a number of indications.

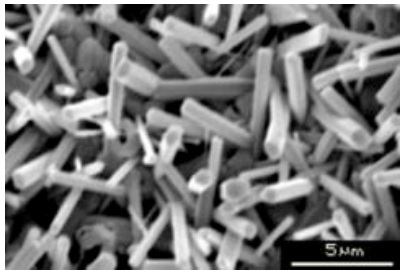


## Orthobiologics: Our products and candidates

There is a requirement for bone generation in many different clinical situations, including during fracture repair, joint replacement and treatments where bones are fused together such as 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 commonly considered to be 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, or is developing, products in each of these categories.

### Kuros' pipeline of synthetic orthobiologics

| PRODUCT | INITIAL INDICATIONS | NON-CLINICAL | REGISTRATION | MARKET APPROVAL |
|---|---|---|---|---|
| MagnetOs Granules EU | Orthopedics and Dental | CE Mark approval recieved | | |
| MagnetOs Granules US | Spinal Fusion (Posterolateral) | 510k approval received | | |
| MagnetOs Putty EU | Orthopedics and Dental | Submission being prepared | | |
| MagnetOs Putty US | Spinal Fusion (Posterolateral) | Submission being prepared | | |



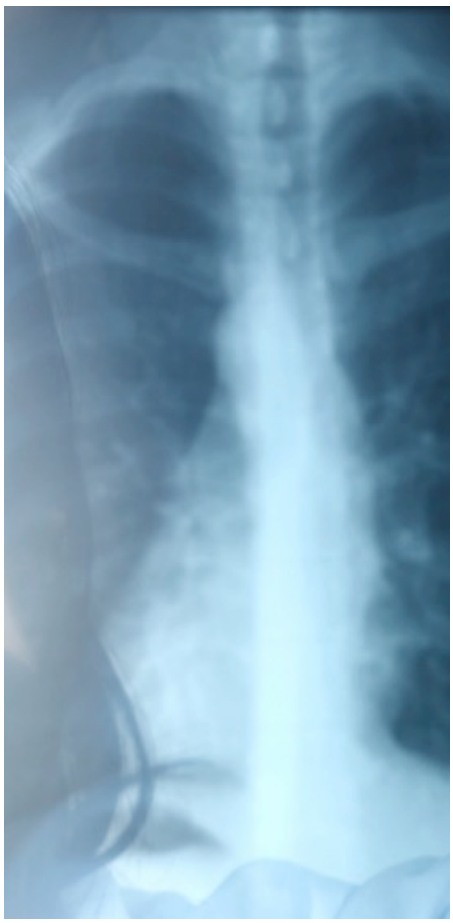

Electron micrograph of the surface of MagnetOs™ Granules

### MagnetOs™ – a next generation synthetic

MagnetOs™ is Kuros' family of next generation synthetic bone graft substitute intended to be available in various forms in order to meet the different needs of surgeons and clinical situations. Currently, Kuros has marketing approval for MagnetOs™ Granules in both the EU and US. The Company is also developing a putty formulation and intends to submit for marketing approval of this product form in the EU and US in the second half of 2017.

**MagnetOs™ is approved for commercialization in the EU and in the US. It has demonstrated equivalent efficacy to the current golden standard autograft.**

MagnetOs™ has demonstrated equivalent efficacy to autograft in key preclinical models. This high efficacy level is primarily due to a proprietary surface science technology resulting in a complex surface structure that promotes efficient bone regeneration.

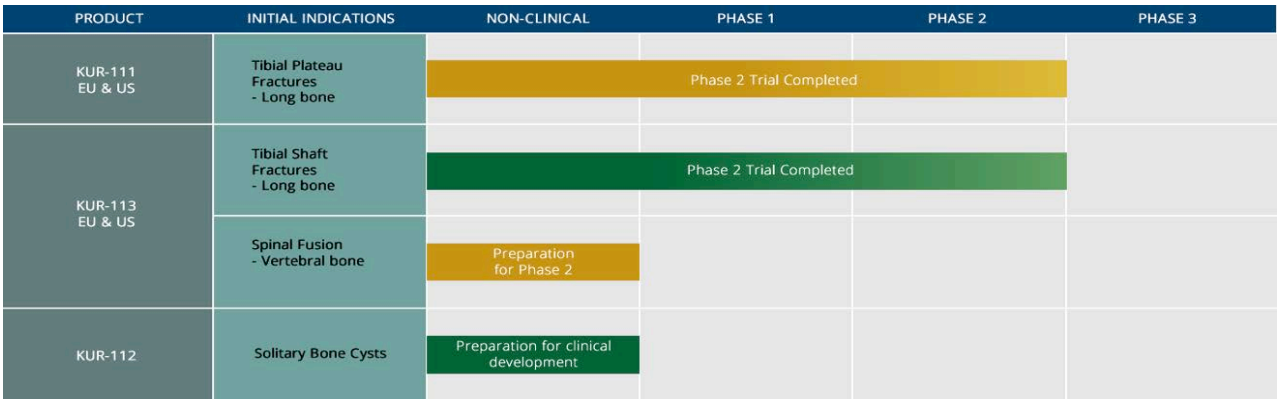


### Fibrin-PTH Product Family

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

KUR-111 has been specifically designed as a bone graft substitute that safely and effectively regenerates bone without having to resort to an autograft. KUR-111 incorporates three key components: a natural healing matrix (fibrin sealant), with a potent targeted drug (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. 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 IIb study in patients with tibial plateau fractures requiring grafting, KUR-111 met the primary efficacy endpoint (statistical non-inferiority to gold standard autograft) demonstrating its potential as a safe and effective treatment for severe bone trauma, such as tibial plateau fractures.

## Kuros' pipeline of fibrin/PTH orthobiologics




KUR-113 addresses trauma procedures in which no bone graft substitute is applied during surgery or in which bone needs to be generated in or around local tissue or implants, such as in spinal fusion. There are many surgical procedures to repair fractures that do not use a bone graft or a bone graft substitute. In most of these procedures no product is applied during surgery to increase the chance of successful healing. KUR-113 has been designed to address these procedures. KUR-113 consists of a natural healing matrix (fibrin sealant) combined with a targeted bone growth factor (a variant of parathyroid hormone). 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 IIb study in which it met its primary endpoint demonstrating improvement over standard of care.

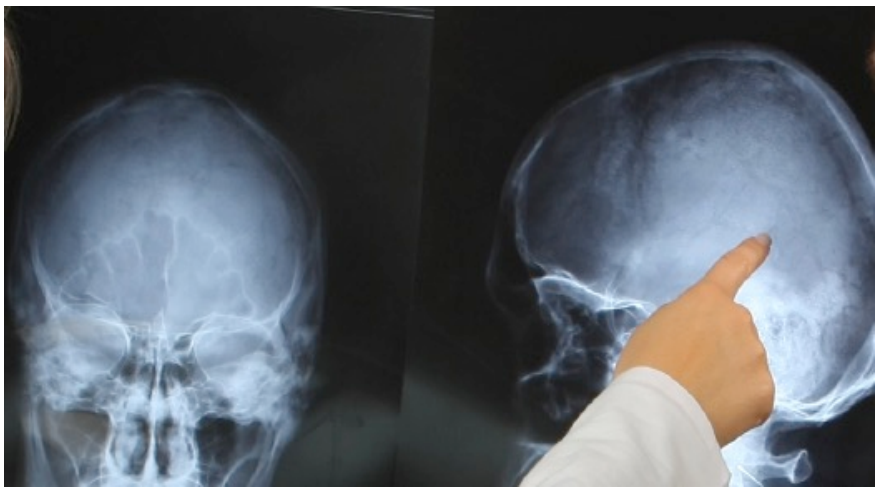
**Kuros' Fibrin-PTH-based product candidates contain fibrin sealant and a variant of parathyroid hormone designed to promote bone formation.**

KUR-113 is also being investigated for spinal fusion. Many patients suffer from chronic back pain due to degeneration, trauma or instability of the spine. When the pain is not addressed by conservative treatment, a common solution is to fuse two or more vertebrae, i.e. perform a spinal fusion. This is achieved by removal of the damaged disc, placement of an implant (often referred to as an inter-body cage) and promoting bone growth between the vertebrae using a bone graft substitute. KUR-113 is applied directly into and around an inter-body spinal cage, where the gel polymerizes in situ. Studies show that fibrin and the localized bone growth factor combined induce a response from the adjacent vertebrae, facilitating fusion through the cage.

KUR-112 is a product candidate for the treatment of solitary bone cysts. Solitary bone cysts are non-malignant fluid-filled cavities found primarily in the long bones such as the femur and tibia. In severe cases, solitary bone cysts may lead to pathological fractures. The condition is rare with an incidence estimated at less than 1 case per 10,000 of the general population per year in Europe and the US. The vast majority of patients are children. Current treatments for solitary bone cysts include bone grafting, intra-lesion corticosteroid and bone marrow injections. Since these methods may require multiple applications and show only limited efficacy, a simple, relative safe and effective treatment of solitary bone cysts needed.

KUR-112 consists of a natural healing matrix (fibrin sealant) combined with a targeted bone growth factor (a variant of parathyroid hormone). It is intended to be applied as a single percutaneous injection into solitary bone cysts and could therefore become a simpler, minimally invasive treatment for this rare condition.

KUR-112 has received Orphan Drug Designation in the US and Europe, which entitles the sponsor to receive assistance in the development process, exemption from application fees and several years of marketing exclusivity following approval. In October 2016, the US FDA granted Rare Pediatric Disease Designation to KUR-112. Currently, upon approval by the FDA of any drug that is considered a treatment for a rare pediatric disease, the owner of the drug may also apply for and receive a priority review voucher (PRV). Such PRVs allow expedited review of any new drug application and these PRVs can be sold between companies. A number of PRVs have been sold for amounts ranging from USD 67 to 350 million. The KUR-112 program has completed non-clinical testing. Kuros is currently evaluating the development options for KUR-112.



## Surgical sealants: Our product candidate

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 has been submitted for CE certification

The most advanced sealant product candidate, Neuroseal, previously known as KUR-023, is being developed for sealing of the dura after cranial or spinal surgery. The dura is a membrane surrounding the brain and spine and separates the central nervous system from the rest of the body. The dura acts mainly as a protective barrier bathing the brain and spinal cord in the cerebrospinal fluid, which is essential for the healthy functioning of the central nervous system. It serves as cushion for the brain and protects against impact and infection, amongst other functions. During most cranial and some spinal

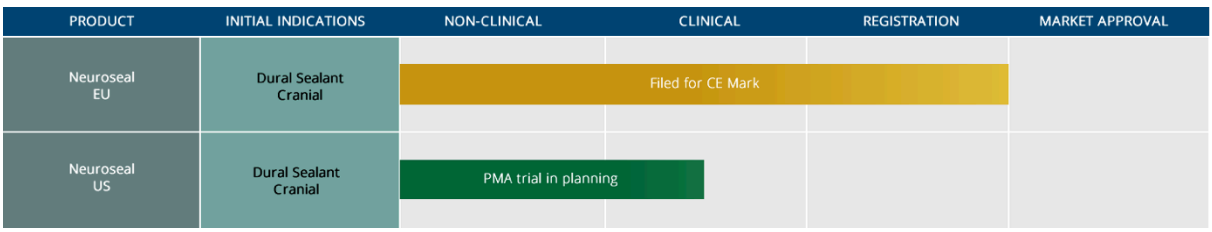
surgeries, the dural membrane is cut or torn and thus the watertight closure is compromised. Complications include increased risk of infection (meningitis), delayed wound healing and pain. These may then result in safety risks to the patient, longer hospitalizations and associated increase in healthcare costs.

**Neuroseal is a liquid spray that instantly forms a watertight gel upon contact. It is under review for CE mark certification as an adjunct to suturing, to seal the dura after cranial surgery.**

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.

A multinational clinical trial in the European Union demonstrated KUR-023'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. Neuroseal has been submitted for CE marking in the EU. In the United States, Neuroseal is being prepared for a pivotal study prior to potential approval.

### Kuros' pipeline of sealants



# Corporate Governance Report 2016

## Preface and Important Information

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

The disclosures contained in the Corporate Governance Report 2016 are a continuation of those of Kuros Biosciences Ltd (formerly Cytos Biotechnology Ltd) with the exception of the changes in capital (DCG 2.3). For accounting purposes (IFRS 3), the legal acquiree Kuros Biosurgery Holding Ltd was identified as the acquiring entity. Consequently, the table in DCG 2.3 reflects the numbers disclosed in the Financial Report 2016.

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

## Group Structure and Shareholders (DCG 1)

### Group structure (DCG 1.1)

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

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

| | |
|---|---|
| Security number | 1 102 521 |
| ISIN | CH0325814116 |
| Ticker symbol in 2016 | KURN* |
| Market capitalization on December 31, 2016 | CHF 104,2 million |

** Amended from CYTN on January 18, 2016 following the closing of the reverse merger*

The Company is a corporation established under Swiss law with its registered office in Schlieren, Switzerland. As of December 31, 2016 the group consists of the parent company Kuros Biosciences Ltd and three non-listed companies:

| Name | Share capital (in thousands) | Shareholding |
|---|---|---|
| Kuros Biosurgery Holding Ltd, Zurich, Switzerland | CHF 1,446,004.10 | 100 % |
| Kuros Biosurgery AG, Zurich, Switzerland | CHF 435,459.00 | 100 % |
| Proteome Therapeutics GmbH, Singen, Germany | EUR 25,000.00 | 100 % |

BioSupport AG in Liquidation, Schlieren, Switzerland, was liquidated in 2016.

**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, 2016.

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

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

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, 2016 (DCG 2)

### Capital (DCG 2.1)

The share capital of the Company is CHF 5,084,323.00 and fully paid-in. It is divided into 5,084,323 registered shares with a nominal value of CHF 1.00 each. For details, see the article 3a of the Articles of Associations ("Articles") available on the Company's website at www.kuros.ch/investors/corporate-governance.html.

### Conditional capital (DCG 2.2)

The conditional capital is CHF 800,000.00. The share capital may be increased by issuance of up to 800,000 fully paid-in registered shares with a nominal value of CHF 1.00 each, subject to the exercise of options granted by the Company to employees of the Company or its subsidiaries, persons of a comparable positions and to Board members. The pre-emptive rights of the Shareholders will be excluded. The Board will determine in the form of special rules (Stock Option Plans) 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. For details, see article 3c of the Articles.

### Authorized capital (DCG 2.2)

The authorized capital is CHF 2,542,141.00. The Board is authorized, at any time until June 16, 2018, to increase the share capital by issuance of a maximum of 2,542,141 registered shares with a nominal value of CHF 1.00 each to be fully paid-in. Increases by underwriting as well as partial increases are permissible. The Board will determine the issue price, the time of dividend entitlement, and the type of contribution. The Board is authorized to exclude the pre-emptive right of Shareholders if the newly issued registered shares (a) are at disposal as shares in the context of a pre-emptive rights offering in which more pre-emptive rights are exercised than shares are at disposal; or (b) for the acquisition of companies, business units or participations through exchange of shares; or (c) for financing or refinancing of the acquisition of companies, business units or participations; or (d) for investment projects and/or investment vehicles which are applied in national or international capital markets or for a quick and flexible raising of capital, including private placements. If the Company assumes obligations to serve convertible bonds or loans or option bonds in the context of takeovers or investment projects, the Board is obliged to issue new shares under exclusion of the pre-emptive right of the Shareholders to fulfill delivery obligations. For details, see article 3d of the Articles.

**Changes in capital (DCG 2.3)**

For accounting purposes (IFRS 3), the legal acquiree was identified as the acquiring entity. To be consistent with the financial reporting, the table bellow reflects the changes in capital of Kuros Biosurgery Holding Ltd, the legal acquiree.

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

| in TCHF (except for share information) | Number of shares | Share capital | Additional paid-in capital | Treasury shares | Other* | Total |
|---|---|---|---|---|---|---|
| **January 1, 2014** | **129,362,514** | **483** | **6,326** | **–** | **(8,254)** | **(1,445)** |
| Profit/loss for the period | | | | | (1,896) | (1,896) |
| Other comprehensive income | | | | | (519) | (519) |
| **December 31, 2014** | **129,362,514** | **483** | **6,326** | **–** | **(10,669)** | **(3,860)** |
| **January 1, 2015** | **129,362,514** | **483** | **6,326** | **–** | **(10,669)** | **(3,860)** |
| Profit/loss for the period | | | | | (5,784) | (5,784) |
| Other comprehensive income | | | | | 258 | 258 |
| Capital increase, issuance of share capital, net | 219,947,525 | 822 | 18,459 | – | – | 19,281 |
| Share-based compensation | | | | | 546 | 546 |
| **December 31, 2015** | **349,310,040** | **1,305** | **24,785** | **–** | **(15,650)** | **10,440** |
| **January 1, 2016** | **349,310,040** | **1,305** | **24,785** | **–** | **(15,650)** | **10,440** |
| Capital increase, issuance of share capital, net | 51,106,984 | 242 | 5,965 | – | – | 6,207 |
| Reverse acquisition | 108,015,276 | 3,537 | 30,158 | (210) | – | 33,485 |
| Treasury shares acquisition | | | | (630) | – | (630) |
| Treasury shares sale | | | | 574 | 59 | 633 |
| **Total prior to stock split (100:1)** | **508,432,300** | **5,084** | **60,908** | **(266)** | **(15,592)** | **50,135** |
| **Total after stock split (100:1)** | **5,084,323** | **5,084** | **60,908** | **(266)** | **(15,592)** | **50,135** |
| Profit/loss for the period | | | | | (19,744) | (19,744) |
| Other comprehensive income/loss | | | | | (539) | (539) |
| Share based compensation | | | | | 8,470 | 8,470 |
| **December 31, 2016** | **5,084,323** | **5,084** | **60,908** | **(266)** | **27,405** | **38,322** |

** Includes legal reserves and retained earnings/accumulated losses.*

For further information, see the consolidated statements of change in Shareholders' equity and note 18 of the consolidated financial statements.

**Shares and participation certificates (DCG 2.4)**

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

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

**Dividend-right certificates (DCG 2.5)**

The Company has not issued any dividend-right certificates.

**Limitations on transferability and nominee registrations (DCG 2.6)**

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

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

**Convertible bonds and options (DCG 2.7)**

Kuros Biosurgery Holding had an outstanding convertible loan with SABIC Ventures B.V. ("SABIC Ventures") with an outstanding amount of CHF 2,397,315 including accrued interest until December 31, 2015. Immediately after the closing of the reverse merger, SABIC Ventures elected to convert the aggregate amount of the outstanding loan into Preferred A Shares. The conversion was into shares of Cytos Biotechnology. As of December 31, 2016, the Company had no outstanding convertible loans.

Overview of outstanding options on December 31, 2016:

| Year of grant | Number of options outstanding | Exercise price (CHF) | Exercise period (years) |
|---|---|---|---|
| 2012 | 6,454[1] | 257.00 | 6 |
| 2012 | 9,600[1] | 254.00 | 6 |
| 2013 | 5,823 | 363.00 | 6 |
| 2013 | 2,0000 | 384.00 | 6 |
| 2013 | 3,800 | 385.00 | 6 |
| 2013 | 2,400 | 409.00 | 6 |
| 2013 | 600 | 404.00 | 6 |
| 2013 | 14,642[1] | 349.00 | 6 |
| 2013 | 200[1] | 305.00 | 6 |
| 2014 | 2,040[1] | 25.00 | 6 |
| 2015 | 54,000[1] | 60.00 | 5 |
| 2016 | 272'427 | 2.00 | 10 |
| 2016 | 110'200 | 24.00 | 5 |
| 2016 | 15'000 | 26.00 | 5 |
| 2016 | 20'000 | 27.75 | 5 |
| 2016 | 57'000 | 33.00 | 5 |
| 2016 | 18'728 | 37.00 | 1 |
| 2016 | 29'000 | 42.00 | 5 |
| 2016 | 49'702[2] | 45.00 | 1 to 6 |
| 2016 | 19'453[2] | 52.00 | 3 to 6 |
| 2016 | 40'587[2] | 56.00 | 4 to 5 |
| **Total** | **752,016** | | |

[1] *Including options granted to the Board and individuals acting simultaneously as members of the Board and of the Executive Committee*
[2] *Legacy options from Kuros Biosurgery Holding Ltd replaced by options issued by Kuros Biosciences Ltd upon closing of the reverse merger*

The table above reflects the reverse stock split of 100:1 approved by the General Meeting on June 16, 2016. The total 752,016 outstanding options represent CHF 752,016.00 of nominal capital. Each option entitles the option holder to purchase one share. For further details please see note 25 to the consolidated financial statements.

## Board of Directors (DCG 3)

### Members of the Board of Directors (DCG 3.1)

| Name<br>Position, nationality | Year of birth | First elected | Elected until | Compensation Committee | Nomination & Corporate Governance Committee | Audit Committee |
|---|---|---|---|---|---|---|
| **Christian Itin[1], PhD**<br>Chairman, Switzerland | 1964 | 2012 | 2017 | | ⊙ | |
| **Dominik Ellenrieder[2, 3], MBA**<br>Vice-Chairman, Switzerland | 1958 | 2016 | 2016 | | | |
| **Leanna Caron[4], MBA**<br>Vice-Chairman, Canada | 1968 | 2016 | 2017 | | □ | |
| **Didier Cowling[2], MA**<br>Member & CEO, UK | 1965 | 2016 | 2017 | | | |
| **Arnd Kaltofen[2], MD, MBA**<br>Member, Switzerland and Germany | 1960 | 2016 | 2017 | ⊙ | | □ |
| **Jörg Neermann[2], PhD**<br>Member, Germany | 1967 | 2016 | 2017 | | | ⊙ |
| **Vincent Ossipow[2, 3], PhD**<br>Member, Switzerland | 1968 | 2016 | 2016 | | | |
| **Gerhard Ries[2], PhD**<br>Member, Switzerland and Germany | 1969 | 2016 | 2017 | □ | ⊙ | |
| **Harry Welten, MBA**<br>Member & CFO, Switzerland | 1965 | 2016 | 2017 | | | |

□ *Chairman* ⊙ *Member*

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

2 *former Board member of Kuros Biosurgery Holding Ltd*

3 *Until June 16, 2016*

4 *As of June 16, 2016*

Messr. John Berriman, Joseph Anderson and Kurt von Emster, former Board member of Cytos Biotechnology Ltd, resigned with effect as of the date of the closing of the business combination, i.e. January 18, 2016. Messr. Dominik Ellenrieder and Vincent Ossipow, former Board member of Kuros Biosurgery Holding Ltd, did not stand for re-election at the General Meeting on June 16, 2016.

**Christian Itin**

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

**Leanna Caron**

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

**Didier Cowling**

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

**Arnd Kaltofen**

Arnd Kaltofen joined VI Partners in 2001 as a partner focusing on early-stage life science investments. From 1998 to 2001, he built a team dedicated to venture capital transactions in the life science and health care industry for KPMG Corporate Finance. Dr. Kaltofen gained his entrepreneurial experience in several medical device and e-health start-ups where he held various management positions between 1991 and 1998. As an MD, he started his professional career in a university hospital and in medical research (1987 to 1991). Current board memberships include Jenavalve, Inc. and Ventaleon GmbH. In addition to his medical degree, Dr. Kaltofen holds an MBA from Kellogg Graduate Business School, Evanston/IL, USA, and WHU Koblenz, Germany, as well as a Postgraduate Degree in Computer Sciences from TU Munich, Germany. Dr. Kaltofen is Swiss and German citizen.

**Jörg Neermann**

Jörg Neermann joined LSP as Partner in 2007. Dr. Neermann's prime focus and responsibility within LSP is to invest in unlisted securities. Prior to joining LSP, Dr. Neermann was the Managing Director of Deutsche Bank's DVC, where he ran its healthcare investment franchise. Previously, he worked at Atlas Ventures in Germany, where he invested in the healthcare sector. Dr. Neermann has been appointed a Director at a large number of companies, all of which he has helped with his scientific expertise, biotechnology experience and global networks. Among others, Dr. Neermann is currently a Director at Probiodrug, a listed German biotech company active in the area of Alzheimer's disease. He holds a Master's degree and a PhD in Biotechnology from the Technical University in Braunschweig, Germany, and MIT in Cambridge/MA, USA. He also studied economics at Harvard Business School, Cambridge/MA, USA. Dr. Neermann is German citizen.

**Gerhard Ries**

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

**Harry Welten**

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

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

**Other activities and vested interests (DCG 3.2/3.3)**

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

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

**Elections and terms of office (DCG 3.4)**

The Articles provide that the Board must consist of three to nine board members. On December 31, 2016, it consisted of seven 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 2016.

The Board convened in person or by phone 11 times in 2016. 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 2016.

Attendance at the Board and committee meetings in 2016:

| Name | Board[1] | Compensation Committee | Nomination & Corporate Governance Committee | Audit Committee |
|---|---|---|---|---|
| Christian Itin | 11 | | 3 | 1 |
| Dominik Ellenrieder* | 4 | | | |
| Leanna Caron** | 7 | | 3 | |
| Didier Cowling | 11 | | | 2 |
| Arnd Kaltofen | 11 | 2 | | 3 |
| Jörg Neermann | 9 | | 1 | 5 |
| Vincent Ossipow* | 4 | | | 2 |
| Gerhard Ries | 10 | 2 | 3 | |
| Harry Welten | 11 | | | 5 |

[1] *Including telephone conferences*
* *Until June 16, 2016*
** *As of June 16, 2016*

**Compensation Committee**

The Compensation Committee meets as often as business requires. In 2016, the Compensation Committee held 2 meetings. The chairperson of the Committee shall report to the Chairman of the Board after each meeting and shall inform the Board at its next meeting on the activities as well as decisions taken by the Committee and the considerations that led to such decisions. Urgent matters shall be communicated to the Chairman 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 at- tract, 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 2016, the Nomination and Corporate Governance Committee held 3 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 2016, the Audit Committee held 5 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 http://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 2016 to the members of the Board on a half-year basis.

**Insider Trading Policy**

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

**Code of Conduct**

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

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

In 2016, none of the members of the Board, except Didier Cowling and Harry Welten, who are also CEO and CFO, respectively, participated in any meeting of the Executive Committee.

In 2016, 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 |
|---|---|---|---|
| Didier Cowling[1], MA | 1965 | UK | Chief Executive Officer |
| Alistair Irvine[1], PhD | 1969 | UK | Chief Business Officer |
| Virginia Jamieson[3], MB ChB | 1953 | UK | Chief Medical Officer |
| Philippe Saudan[4], PhD | 1967 | Switzerland, UK | Chief Development Officer |
| Jason Schense[1], PhD | 1972 | USA, Italy | Chief Technology Officer |
| Harry Welten[2], MBA | 1965 | Switzerland | Chief Financial Officer |

[1] *former member of the Executive Committee of Kuros Biosurgery Holding Ltd*
[2] *former member the Executive Committee of Cytos Biotechnology Ltd (renamed Kuros Biosciences Ltd)*
[3] *As of March 7, 2016*
[4] *As of August 9, 2016*

**Didier Cowling**

See under Board of Directors (DCG 3).

**Alistair Irvine**

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

**Virginia Jamieson, MB ChB**

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

**Philippe Saudan**

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

**Jason Schense**

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

**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 2016 Compensation Report, which is an integral part of the 2016 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 2016 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 2016 financial year.

**Auditing fees (DCG 8.2)**

In 2016, PwC invoiced a total TCHF 277 for auditing the full-year statutory and consolidated financial statements and for reviewing the capital increase report, the Interim Report for the first six months of 2016 and the internal control system.

**Additional fees (DCG 8.3)**

In 2016, PwC earned additional fees from the Group in the amount of TCHF 45 for services relating to M&A activities and VAT consulting.

**Information instruments pertaining to the external audit (DCG 8.4)**

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

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

## Information policy (DCG 9)

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

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

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

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

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

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

# Compensation Report 2016

## Overview of the Compensation Report

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

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

The Board of Directors ("Board") will submit the Compensation Report to a consultative vote at the General Meeting 2017 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 2016 (audited)

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

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

[2] *Elected at the General Meeting on June 16, 2016*

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

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

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

All amounts are gross amounts.

**Compensation for Board of Directors for the year 2015 (audited)**

| Name | Cash (TCHF) | Options (TCHF) | Variable bonus (TCHF) | Employer Social Security (TCHF) | Total (TCHF) | Options (number) |
|---|---|---|---|---|---|---|
| **Christian Itin** Chairman and CEO | 424.0 | 462.0 | 264.0 | 117.1 | 1,267.1 | 16,500 |
| **John Berriman** Vice Chairman | 20.0 | 42.0 | – | 0.2 | 62.2 | 1,500 |
| **Joseph Anderson** Member | 15.0 | 42.0 | – | 1.1 | 58.1 | 1,500 |
| **Kurt von Emster** Member | 15.0 | 42.0 | – | 1.1 | 58.1 | 1,500 |
| **Total Board of Directors** | **474.0** | **588.0** | **264.0** | **119.5** | **1,445.5** | **21,000** |

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 2015, 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 1, 2015 |
|---|---|
| Exercise price (adjusted to reverse split) | CHF 60.00 |
| Fair value (Black-Scholes, adjusted to reverse split) | CHF 28.00 |
| Expiry date 100% vesting upon change of control effective as per January 18, 2016 | July 1, 2020 |
| Christian Itin | 16,500 |
| John Berriman | 1,500 |
| Joseph Anderson | 1,500 |
| Kurt von Emster | 1,500 |

**Executive Committee**

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

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

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

**Compensation for Executive Committee for the year 2016 (audited)**

| Name | Cash (TCHF) | Options (TCHF) | Variable bonus (TCHF) | Employer Social Security (TCHF) | Total (TCHF) | Options (number) |
|---|---|---|---|---|---|---|
| **Alistair Irvine** (highest compensated member of Executive Committee) | 235.0 | 1,915.6[1] | 63.7 | 44.4 | 2,258.7 | 73,921[1] |
| **Total Executive Committee** | **986.3** | **4,263.0**[2] | **221.8** | **118.5** | **5,589.6** | **186,066** |

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

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

Explanations:

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

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

**Compensation for Executive Committee for the year 2015 (audited)**

| Name | Cash (TCHF) | Options (TCHF) | Variable bonus (TCHF) | Employer Social Security (TCHF) | Total (TCHF) | Options (number) |
|---|---|---|---|---|---|---|
| **Harry Welten** (highest compensated member of Executive Committee) | 304.4 | 364.0 | 156.5 | 79.8 | 904.7 | 13,000 |
| **Total Executive Committee** | **510.6** | **560.0** | **256.1** | **134.5** | **1,461.2** | **20,000** |

All amounts are gross amounts

Explanations:

- Individuals acting simultaneously as member of the Board and of the Executive Committee are reported under Board.
- Since 2012, the bonus year is equal to the calendar year. Therefore, the bonus amount is composed of the annual bonus of 2015, 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 2015; the fair values were calculated using Black-Scholes method. Each option entitles the holder to buy one share of the Company. In 2015, 54,000 options were granted on July 1, 2015. The fair value at grant date was CHF 28.00 and the exercise price was CHF 60.00 with an expiry date on July 1, 2020.

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

## Stock option program

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

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

(a) All 91,000 options issued to the members of the Board and the Executive Committee from former Cytos Biotechnology Ltd remained in place whereas all non-vested options vested on an accelerated basis with effect as of January 18, 2016 ("Legacy Options Cytos Biotechnology AG").
(b) All outstanding 127,994 options issued by Kuros Biosurgery Holding Ltd to their Board and members of the Executive Committee ("Legacy Options Kuros Biosurgery Holding Ltd") were replaced with 34,293 options (7,801 of which expired on 6 July 2016) issued by Kuros Biosciences as a replacement of the regular options granted by Kuros Biosurgery Holding AG.
(c) 222,622 options were granted to the members of the Executive Committee as a replacement of Kuros Biosurgery Holding options (which, in turn were granted in lieu cash payments – so called "Phantom Stock") as agreed within the reverse merger.
(d) 179,200 new options ("Kuros Options") were granted in of 2016 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 2016. All options granted in 2016 still exist as of December 31, 2016 as no forfeitures and/or cancellations took place.

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 (d) is equal to the market price of the shares of Kuros Biosciences Ltd on the grant date. The volatility is based on the historical volatility where available. The risk-free interest rate is based on the CHF swap rate for the expected life of the options.

**Share options, conditions and assumptions**

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

** 7,801 options expired; currently 26,492 options outstanding.*

## Indirect benefits

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

## Loans and credits (audited)

The Company has not granted any loans, credits or guarantees to current or past members of the Board, of the Executive Committee, or to related persons in 2016 or 2015. No consulting fee for services rendered by former members of the Executive Committee has been paid (2015: TCHF 0).

# *Report of the statutory auditor*

## *to the General Meeting of Kuros Biosciences AG Schlieren*

We have audited the remuneration report of Kuros Biosciences AG for the year ended 31 December 2016. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled 'audited' on pages 35 to 37 of the remuneration report.

### *Board of Directors' responsibility*

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

### *Auditor's responsibility*

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

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

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

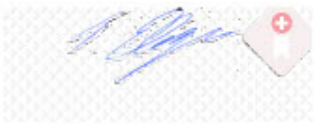
*PricewaterhouseCoopers AG, St. Jakobs-Strasse 25, Postfach, CH-4002 Basel, Switzerland*
*Telefon: +41 58 792 51 00, Telefax: +41 58 792 51 10, www.pwc.ch*

*Opinion*
In our opinion, the remuneration report of Kuros Biosciences AG for the year ended 31 December 2016 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, 25 April 2017

# Financial Report 2016

# Consolidated Financial Statements 2016

## Financial performance and results of operations (IFRS)

**General remark**

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

For accounting purposes, the legal acquiree Kuros Biosurgery Holding was identified as the acquiring entity. Consequently, these consolidated financial statements represent the continuation of the financial statements of Kuros Biosurgery Holding except the capital structure, which has been adjusted to reflect the capital structure of Kuros. See Note 4 "Reverse Acquisition" for further details of the transaction.

**Financial position and other assets**

Funds available for financing the operations of Kuros Biosurgery Holding amount to CHF 13.08 million as per December 31, 2016, and include cash and cash equivalents, financial assets and trade and other receivables. This is CHF 3.3 million lower than on December 31, 2015 (CHF 16.1 million) and is primarily driven by a milestone payment received from a collaboration partner and cash spent for development, general and operating costs as well as costs associated with the reverse merger.

Following the reverse merger, a purchase price allocation was conducted. Intangible assets amounting to CHF 10.6 million and goodwill of CHF 23.7 million were recorded. As per December 31, 2016 the intangible assets amount to CHF 6.6 million and the goodwill to CHF 23.7 million. Neither position was present as per December 31, 2015.

**Revenues primarily consists of a milestone payment**

In 2016, Kuros Biosurgery Holding received a milestone payment of TCHF 997 (USD 1 million) from a collaboration partner.

**Higher operating expenses due to increased activities and staff**

Operating expenses amount to CHF 22.4 million, compared to CHF 4.4 million in the previous year. As expected with an increase in development of assets and a higher number of employees, research and development expenses rose from CHF 0.5 million to CHF 7.9 million of which CHF 4.0 million is associated with non-cash costs such as depreciation and impairment charges. General and administrative expenses rose from CHF 3.9 million to CHF 17.1 million in 2016 primarily due to significantly higher non-cash expenses for share based compensation (CHF 8.5 million; 2015: CHF 0.5 million), increased salary expenses due to more staff (CHF 3.4 million; 2015: CHF 1.1 million) and increased other operating expenses such as rent, development and regulatory related costs for pipeline products, legal and accounting and audit services costs (CHF 8.6 million; 2015: CHF 2.5 million). Other income increased from CHF 0 to CHF 2.6 million and consists primarily of payments earned from sublet space (payments made to the landlord are captured in general and administrative costs). In prior year, no such other income incurred at the level of Kuros Biosurgery Holding as it is generated by former Cytos.

**Financial income**

With CHF 1.2 million, the financial income was significantly higher compared to 2015 (TCHF 154) as a effect of the amended terms of the convertible loan in context of the reverse merger resulting in a non-recurring gain on conversion of TCHF 1,154, which was included in the financial income for 2016.

Financial expenses amounted to TCHF 145 and were significantly lower than in 2015 (CHF 1.8 million) due to fact that the Group is free of debt as of December 31, 2016.

**Cash burn**

The gross cash burn for operating activities, as calculated on the cash flow statement, was a monthly average of CHF 0.7 million in 2016 compared to CHF 0.2 million in 2015. The reason for this increased cash burn is the intensified investment in development and regulatory work as well as the increase in headcount from 4 to 17 as per December 31, 2016.

## Consolidated balance sheets

| in TCHF, IFRS | Note | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| **Non-current assets:** | | | |
| Property and equipment, net | | 45 | 3 |
| Financial assets | 11 | 15 | 15 |
| Intangible assets | 12 | 6,595 | – |
| Goodwill | 15 | 23,717 | – |
| **Total non-current assets** | | **30,372** | **18** |
| | | | |
| **Current assets:** | | | |
| Prepayments | 14 | 362 | 62 |
| Trade receivables | 13 | 308 | 14 |
| Other receivables | 13 | 357 | 155 |
| Cash and cash equivalents | 10 | 12,369 | 15,940 |
| **Total current assets** | | **13,396** | **16,171** |
| **Total assets** | | **43,768** | **16,189** |
| | | | |
| **Shareholders' equity:** | | | |
| Share capital | 18 | 5,084 | 1,305 |
| Share premium | 18 | 60,908 | 24,785 |
| Treasury shares | 18 | (266) | – |
| Other reserves | 18 | 15,934 | 7,464 |
| Accumulated loss | 18 | (43,338) | (23,114) |
| **Total shareholders' equity** | | **38,322** | **10,440** |
| | | | |
| **Non-current liabilities:** | | | |
| Pension liabilities | 24 | 2,181 | 606 |
| **Total non-current liabilities** | | **2,181** | **606** |
| | | | |
| **Current liabilities:** | | | |
| Trade payables | | 1,273 | 1,019 |
| Other payables | | – | 11 |
| Accrued expenses | 17 | 1,992 | 360 |
| Convertible loan, related parties | 16 | – | 160 |
| Convertible loan, third parties | 16 | – | 3,535 |
| Deferred income | | – | 58 |
| **Total current liabilities** | | **3,265** | **5,143** |
| **Total shareholders' equity and liabilities** | | **43,768** | **16,189** |

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

## Consolidated income statements

| in TCHF, IFRS, twelve months ended December 31 | Note | 2016 | 2015 |
|---|---|---|---|
| Revenue from collaborations | 7 | 1,061 | 144 |
| **Revenue** | | **1,061** | **144** |
| Research and development | 19 | (7,909) | (515) |
| General and administrative | 19/20 | (17,070) | (3,851) |
| Other income | 19 | 2,572 | – |
| **Net operating costs** | **19** | **(22,407)** | **(4,366)** |
| **Operating loss** | | **(21,346)** | **(4,222)** |
| Financial income | | 1,214 | 154 |
| Financial expense | | (145) | (1,762) |
| **Net financial result** | | **1,069** | **(1,608)** |
| **Loss before tax** | | **(20,277)** | **(5,830)** |
| Income taxes | 23 | 533 | 46 |
| **Net loss** | | **(19,744)** | **(5,784)** |
| Basic net loss per share (CHF) | 26 | (3.95) | (2.81) |
| Diluted net loss per share (CHF) | 26 | (3.95) | (2.81) |

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

## Consolidated statements of comprehensive income

| in TCHF, IFRS, twelve months ended December 31 | | 2016 | 2015 |
|---|---|---|---|
| **Net loss** | | **(19,744)** | **(5,784)** |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurements of post-employment benefit obligations | 24 | (690) | 281 |
| Tax effects | 23 | 151 | (24) |
| **Other comprehensive income /loss** | | **(539)** | **258** |
| **Total comprehensive loss** | | **(20,283)** | **(5,526)** |

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

## Consolidated statements of cash flows

| in TCHF, IFRS, twelve months ended December 31 | Note | 2016 | 2015 |
|---|---|---|---|
| **Cash flow from operating activities:** | | | |
| Loss before tax | | (20,277) | (5,830) |
| **Adjustments to reconcile loss before tax to net cash used in operating activities:** | | | |
| Depreciation and amortization | 19 | 820 | 4 |
| Impairment of assets | 15 | 3,147 | 50 |
| Financial result | | (1,069) | 1,608 |
| Share-based compensation | 25 | 8,470 | 546 |
| Changes in retirement benefit obligation | 24 | (75) | (20) |
| Other non-cash items | | 97 | (131) |
| **Changes in assets and liabilities:** | | | |
| Trade and other receivables | | 394 | (93) |
| Accrued income | | – | 28 |
| Current prepayments | | (174) | 39 |
| Current liabilities excluding convertible loan | | (181) | 1,204 |
| Non-current deferred income and accrued expenses | | – | (58) |
| Net cash used in operating activities | | (8,848) | (2,653) |
| Interest received | | 2 | 10 |
| Interest paid | | (41) | (9) |
| Income tax (paid)/refunded | | (6) | 46 |
| **Net cash flow from operating activities** | | **(8,893)** | **(2,606)** |
| **Cash flow from investing activities:** | | | |
| Cash acquired from reverse acquisition of Kuros Biosurgery Ltd | 4 | 1,865 | – |
| Purchase of plant and equipment | | (50) | – |
| **Net cash from investing activities** | | **1,815** | – |
| **Cash flow from financing activities:** | | | |
| Proceeds from issuance of shares | 18 | 3,654 | 16,837 |
| Transaction costs on issuance of shares | | (193) | – |
| Proceeds of issuance of convertible loan | 16 | – | 160 |
| Net proceeds from transactions with treasury shares | 18 | 3 | – |
| **Net cash from financing activities** | | **3,464** | **16,997** |
| Cash and cash equivalents, beginning of period | 10 | 15,940 | 1,586 |
| Net change in cash and cash equivalents | | (3,614) | 14,391 |
| Net effect of currency translation on cash | | 43 | (37) |
| **Cash and cash equivalents, end of period** | 10 | **12,369** | **15,940** |

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

## Consolidated statements of change in shareholders' equity

| in TCHF, IFRS | Share capital | Share premium | Treasury shares | Other reserves | Retained earnings/ accumulated loss | Total |
|---|---|---|---|---|---|---|
| **January 1, 2015** | **483** | **6,326** | **–** | **6,918** | **(17,587)** | **(3,860)** |
| Capital increase August 2015 | 602 | 13,658 | | | | 14,260 |
| Capital increase September 2015 | 127 | 2,873 | | | | 3,000 |
| Capital increase November 2015 | 93 | 2,121 | | | | 2,214 |
| Share capital issuance costs | | (193) | | | | (193) |
| Share based payment 2015 | | | | 546 | | 546 |
| Profit/(loss) for the period | | | | | (5,784) | (5,784) |
| Other comprehensive income | | | | | 258 | 258 |
| **December 31, 2015** | **1,305** | **24,785** | **–** | **7,464** | **(23,114)** | **10,440** |
| | | | | | | |
| **January 1, 2016** | **1,305** | **24,785** | **–** | **7,464** | **(23,114)** | **10,440** |
| Capital increase January 2016 | 242 | 5,965 | | | | 6,207 |
| Reverse acquisition | 3,537 | 30,158 | (210) | | | 33,485 |
| Share based payment 2016 | | | | 8,470 | | 8,470 |
| Treasury shares acquisition | | | (630) | | | (630) |
| Treasury shares sale | | | 574 | | 59 | 633 |
| Profit/(loss) for the period | | | | | (19,744) | (19,744) |
| Other comprehensive income | | | | | (539) | (539) |
| **December 31, 2016** | **5,084** | **60,908** | **(266)** | **15,934** | **(43,338)** | **38,322** |

# Notes

## 1. General information

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

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

As of December 31, 2016, the total headcount in the three companies amounted to 17 employees. The legal domicile of the Company is Wagistrasse 25, 8952 Schlieren, Switzerland.

The consolidated financial statements for the year ended 2016 have been approved for issuance by the Board of Directors ("Board") on April 25, 2017.

## 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 2016. The accounting policies set forth below have been consistently applied to all years presented.

The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3 "Critical accounting estimates and judgments".

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

**Uncertainties and ability to continue operations**

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

In the past years, the Group has financed its activities primarily by cash originating from (i) revenues from milestone payments, (ii) proceeds from non-dilutive financing, debt and equity financing as well as cash paid within collaborations. None of these cash sources can be considered recurring, in particular as the Group has not yet any products on the markets which could provide a more sustained source of cash. Current plans project sufficient cash resources to pursue a limited number of projects and programs. Additional projects and programs may be pursued subject to further cash being secured by any means as mentioned above. The Group has the ability to adjust spending according to available financial means.

As a result of the combination as described above, shareholders of former Cytos Biotechnology gained ownership in a biosciences company in the field of tissue repair and regeneration. The combination has attractive prospects based on a late-stage pipeline of products that are targeting a number of market opportunities. Kuros' product candidates have generated encouraging data in multiple clinical studies. The most advanced candidate is Neuroseal, formerly designated KUR-023, a novel biomaterial designed to seal the dura, the membrane covering the brain and spinal cord, after brain and spinal surgery. Neuroseal has successfully completed a European clinical study and has been filed for CE mark in preparation for commercial launch. KUR-111, KUR-112 and KUR-113, Kuros' most advanced orthobiologic products are progressing towards further clinical development after having been successfully tested in large, controlled Phase IIb clinical trials.

In addition to the clinical pipeline, the combined company has several product candidates in pre-clinical development. 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 program and VLP technology move forward with investment from the collaboration partner only and, if successful, Kuros will be eligible for significant development milestone payments and royalties on future sales.

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

**Group companies**

As of December 31, 2016, the Group comprises as follows:

| | | Ownership held | | Share Capital (in TCHF) | |
|---|---|---|---|---|---|
| **Name of entity** | **Place of business** | **2016** | **2015** | **2016** | **2015** |
| Kuros Biosurgery Holding Ltd | Zurich, Switzerland | 100% | – | 1,446 | n/a |
| Kuros Biosurgery Ltd | Zurich, Switzerland | 100% | – | 435 | n/a |
| Proteome Therapeutics Ltd* | Konstanz, Germany | 100% | 100% | 25 | 25 |

** Non-operative since May 2002*

**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, 2015 except for the adoption of new standards and interpretations noted below:

- Clarification of acceptable methods of depreciation and amortization (amendments to IAS 16 and IAS 38)

The adoption of these amendments did not have material impact on the current period or any prior period and is not likely to affect future periods.

As these amendments merely clarify the existing requirements, they do not affect the Group's accounting policies or any of the disclosures. Other standards, amendments and interpretations, which are effective for the financial year beginning on January 1, 2016, are not material to the Group.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except for the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplified the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred lost impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirement for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purpose. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is yet to assess the full impact of IFRS 9.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.
- IFRS 16, 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, specifically the customer (lessee) and supplier (lessor). The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term in 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. The standard is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted. The Group is assessing the impact of IFRS 16.

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

**Consolidation**

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

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

The Group applies the equity method of accounting for investments in companies that are considered associated companies and for which it has the ability to exercise significant influence, but not control. This generally exists when it owns between 20% and 50% of the voting rights of an associated company. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

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

**Changes in consolidation**

Reverse acquisition: On December 3, 2015, Kuros Biosurgery Holding entered into a Combination Agreement with Cytos Biotechnology pursuant to which the two companies agreed to effect a combination by way of a contribution in kind of all shares in Kuros Biosurgery Holding for newly issued shares in Cytos Biotechnology, subject to and in accordance with the terms and conditions set forth in the listing prospectus dated January 19, 2016. The combination was consummated on January 18, 2016, whereupon Kuros Biosurgery Holding (with its wholly owned subsidiary Kuros Biosurgery Ltd) became a direct wholly owned subsidiary of Cytos Biotechnology (subsequently renamed Kuros Biosciences). Consequently, January 18, 2016 is the date of acquisition as defined under IFRS 3.

**Segment reporting**

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

**Foreign currency translation and transactions**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss Francs ("CHF"), which is the Kuros Biosciences Ltd functional and presentation currency.

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

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

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

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

**Impairment of assets**

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

**Cash and cash equivalents**

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

**Trade and other receivables**

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

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities longer than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are shown separately in the balance sheet. Loans and receivables are measured at amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition minus principal repayments plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

**Property and equipment**

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

The applicable estimated useful lives are as follows:

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

Leasehold improvements are depreciated over the shorter of the estimated useful life or the lease term. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount.

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

**Intangible Assets**

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

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

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

The applicable estimated useful lives are as follows:

| | |
|---|---|
| Subleasing | 15 years |
| Checkmate agreement | 9 years |
| Arbutus agreement | 10 years |

**Trade and other payables**

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

**Compound financial instruments – Convertible loans**

The Group's compound financial instruments were categorized as financial liability at fair value through profit or loss (FVTPL). Compound financial instruments issued by the Group comprised convertible loans that (i) were convertible into share capital at the option of the holder whereby the number of shares to be issued varies depending on the share price during an equity or liquidation event or (ii) were to be converted mandatorily into share capital when certain events occur whereby the number of shares to be issued did vary depending on the event. The characteristics of the host instrument were those of a debt instrument and this liability was classified as a financial liability at FVTPL. The Group chose to designate the entire instrument as a FVTPL instrument.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss were measured at fair value, and changes therein were recognized in profit or loss.

**Income taxes**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.
Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The Group has only recognized a deferred tax asset arising from unused tax losses or tax credits to the extent that the Group has sufficient taxable temporary differences.

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

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

**Pension plan**

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

**Share-based compensation**

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

**Bonus plans**

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

**Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, where it is more likely than not that an outflow of resources will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as other operating expense.

**Shareholders' equity**

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

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

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

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

**Revenue recognition**

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

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

**Research and development expenses**

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

**Leases**

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

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

## 3. Critical accounting estimates and judgments

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

**Going concern (note 2)**
The Group considers liquidity and capital taking into account the Group's current plans, budgets and forecasts. The Group can continue as a going concern.

**Reverse acquisition and Purchase Price Allocation (note 4)**
The Group exercised significant judgment in the determination of the acquirer, the acquisition date and the purchase price allocation (PPA). Key judgments in the PPA included the identification of separately identifiable intangible assets and the determination of the fair value of acquired assets and liabilities.

**Carrying value of Goodwill (note 15)**
Goodwill is tested for impairment at least once a year. This involves estimating the value in use of the cash-generating unit (CGU) to which the goodwill is 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.

**Useful live of intangible assets subject to amortization (note 12)**
To determine the amortization charges the Group has to estimate the useful lives of the intangible assets subject to amortization. Judgment is exercised in determining the period over which an asset is expected to generate future economic benefits.

**Deferred taxes (note 23)**
Deferred tax assets are recognized only if their future realization is probable. The Group has therefore to exercise judgment in determining if it is probable that future taxable profit will be available against which the temporary difference can be utilized or whether there are sufficient suitable deferred tax liabilities available.

**Estimations of Employee Postemployment Benefits Obligations (note 24)**
The costs of the employee benefit plans and the related obligations recognized in the balance sheet, representing the present value of the defined benefit obligation, are calculated annually by independent actuaries. These actuarial valuations include assumptions such as discount rates, salary progression rates and mortality rates. These actuarial assumptions applicable to the Group vary according to the prevailing economic and social conditions.

## 4. Reverse acquisition

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

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

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

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

**Final purchase price allocation**

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

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

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

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

This purchase price allocation is deemed to be final as of December 31, 2016. No adjustments to the preliminary purchase price allocation have been identified or posted.

In 2015, the Group expensed a total of CHF 0.69 million through the income statement as acquisition-related costs. In 2016 CHF 0.08 million acquisition-related costs were incurred.

The revenue and net loss included in the consolidated statement of comprehensive income of the acquiree is TCHF 997 and TCHF 14,559, respectively.

## 5. Financial risk management

**Financial risk factors**

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

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

The Group is marginally exposed to market risks such as currency risk and interest rate risk. They are insignificant as Kuros has no convertible bond or convertible loan notes outstanding as of December 31, 2016.

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

**Liquidity risk**

The Group manages its liquidity by planning and closely monitoring cash burn and investments in fixed-term time deposits on an ongoing basis to ensure sufficient liquidity and appropriate interest income. The Group‘s financial status at December 31, 2016, provides funds to continue operations, not taking into account further revenue streams or material variations to the present financial plan.

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

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

The table below shows the maturities of the liquidity relevant financial liabilities and commitments as of December 31, 2015:

| in TCHF (undiscounted amounts) | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | Over 5 years |
|---|---|---|---|---|
| Trade accounts payables | 1,019 | – | – | – |
| Convertible loan notes | 3,695 | – | – | – |
| Other liabilities and accrued expenses | 371 | – | – | – |
| Rent and leasing | 13 | 59 | 13 | – |

**Foreign exchange risk**

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

As of December 31, 2016, 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 173 (2015: TCHF 30) 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, 2016** (in TCHF) | **Sensitivity** | **Effect on profit or loss** |
|---|---|---|
| EUR/CHF | 5% / (5%) | (98) / 98 |
| USD/CHF | 5% / (5%) | (63) / 63 |
| GBP/CHF | 5% / (5%) | (12) / 12 |

| **December 31, 2015** in TCHF | **Sensitivity** | **Effect on profit or loss** |
|---|---|---|
| EUR/CHF | 5% / (5%) | (7) / 7 |
| USD/CHF | 5% / (5%) | (19) / 19 |
| GBP/CHF | 5% / (5%) | (4) / 4 |

**Credit risk**

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

**Interest rate risk**

As of December 31, 2016, no convertible bonds or convertible bond notes were outstanding (see note 16). As a result, the Group is no longer exposed to changes in interest rate with the exception of rental adjustments, which can be passed on to the subleases. If interest rates on time deposits had been 50 basis points higher/lower with all other variables held constant, the net loss for the period would have been TCHF 0 (2015: TCHF 0) lower/higher, as a result of higher/lower interest income. Due to the current low interest rate of fixed deposits, Kuros has not made any investments in financial assets in 2015 or 2016.

**Capital risk management**

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

**Fair value estimation**

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

The convertible loans were carried at fair value through profit and loss (FVTPL). At initial recognition the fair value of the convertible loans have been determined as outlined in note 16. As of December 31, 2016, no convertible loans were outstanding as disclosed in note 16. As of December 31, 2015 convertible loans amounting to TCHF 3,695 were outstanding.

## 6. Seasonality

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

## 7. Segment and geographic information

**Segment reporting**

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

Analysis of revenues by country:

| in TCHF, twelve months ended December 31 | 2016 | 2015 |
|---|---|---|
| United States of America | 997 | – |
| Saudi Arabia | 58 | 144 |
| Other | 6 | – |
| **Total** | **1,061** | **144** |

Analysis of revenues by category:

| in TCHF, twelve months ended December 31 | 2016 | 2015 |
|---|---|---|
| Research and development | 58 | 144 |
| Milestone payments | 997 | – |
| Royalties, licenses and patent protection services | 6 | – |
| **Total** | **1,061** | **144** |

Analysis of revenues by customer:

| in TCHF, twelve months ended December 31 | 2016 | 2015 |
|---|---|---|
| SABIC Ventures | 58 | 144 |
| Checkmate | 997 | – |
| Other | 6 | – |
| **Total** | **1,061** | **144** |

As noted above, revenue is sourced from two customers, however as business is still in research and development status, this does not represent a significant risk in terms of exposure of revenue fluctuation.

**Geographical segments**

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

## 8. Licensing, research and development collaborations

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

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

On January 6, 2015, Kuros announced that it executed an exclusive license agreement granting Arbutus Biopharma ("Arbutus", former OnCore Biopharma, Inc.) access to Kuros' clinically validated virus like particle (VLP) platform for the use in the treatment and prevention of hepatitis B viral infections. Kuros also granted an option for the treatment of additional viral diseases other than influenza. On August 30, 2016, Arbutus informed Kuros about their decision to terminate the exclusive license. As a result, all licensed rights reverted back to Kuros. The VLP technology is a non-core program and was moved forward with investments from the collaboration partners only. Neither Cytos Biotechnology nor Kuros have invested into the program since 2014.

On March 25, 2015, Kuros announced that Novartis agreed to make a one-time payment of CHF 4 million to eliminate any further payment obligations under the collaborative research, option and license agreement for CAD106, which is under development by Novartis for the prevention of Alzheimer's disease.

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

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

## 9. Financial instruments by category

| **December 31, 2016** (in TCHF) | **Loans and receivables** |
|---|---|
| Cash and cash equivalents | 12,369 |
| Trade and other receivables | 665 |
| Prepayments | 362 |
| Financial assets | 15 |
| **Total** | **13,411** |

| **December 31, 2015** (in TCHF) | **Loans and receivables** |
|---|---|
| Cash and cash equivalents | 15,940 |
| Trade and other receivables | 169 |
| Prepayments | 62 |
| Financial assets | 15 |
| **Total** | **16,186** |

| **December 31, 2016** (in TCHF) | **Liabilities at fair value through profit or loss** | **Other financial liabilities** |
|---|---|---|
| Trade accounts payable | – | 1,273 |
| Other current liabilities | – | 1,993 |
| **Total** | **–** | **3,265** |

| **December 31, 2015** (in TCHF) | **Liabilities at fair value through profit or loss** | **Other financial liabilities** |
|---|---|---|
| Trade accounts payable | – | 1,019 |
| Other current liabilities | – | 428 |
| Convertible loan, related parties | 160 | – |
| Convertible loan, third parties | 3,535 | – |
| **Total** | **3,695** | **1,447** |

## 10. Cash and cash equivalents

| in TCHF | 2016 | 2015 |
|---|---|---|
| Cash at bank and on hand | 12,369 | 15,940 |
| **Balance as per December 31** | **12,369** | **15,940** |

In 2016, the Group recorded TCHF 0.5 interest income (2015: TCHF 9)

## 11. Financial assets

As of December 31, 2016 rental deposits amount to TCHF 15 (2015 TCHF 15) and are restricted until the termination of the lease.

Due to the current low interest rate of fixed deposits, the Group has not made any investments in financial assets in 2016 and 2015.

## 12. Intangible Assets

| | | Intangibles as of acquisition | | |
|---|---|---|---|---|
| in TCHF | Subleasing | Checkmate agreement | Arbutus agreement | Total |
| **Historical costs January 1, 2016** | **–** | **–** | **–** | **–** |
| Additions per acquisition | 2,526 | 4,730 | 3,295 | 10,551 |
| **December 31, 2016** | **2,526** | **4,730** | **3,295** | **10,551** |
| | | | | |
| **Accumulated amortization January 1, 2016** | **–** | **–** | **–** | **–** |
| Amortization charge | (160) | (501) | (148) | (809) |
| Impairment | **–** | **–** | (3,147) | (3,147) |
| **December 31, 2016** | **(160)** | **(501)** | **(3,295)** | **(3,956)** |
| | | | | |
| **Net book value on December 31, 2016** | **2,366** | **4,229** | **–** | **6,595** |

**Impairment of assets**

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

## 13. Trade and other receivables

| in TCHF | 2016 | 2015 |
|---|---|---|
| Trade receivables | 308 | 14 |
| Value added taxes (VAT) | 354 | 155 |
| Withholding tax | – | – |
| Other | 3 | – |
| **Balance as per December 31** | **665** | **169** |
| 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 512; 2015: TCHF 169), EUR (TCHF 7; 2015: TCHF 0), and USD (TCHF 146; 2015: TCHF 0) and are not considered impaired as they are fully performing and not past due. The maximum exposure to credit risk at the reporting date is the carrying amount of trade and other receivables mentioned above. The Group does not hold any collateral as security. The credit quality of the Group's debtors is high, since they are composed of tax authorities and leading pharmaceutical companies.

## 14. Prepayments and other assets

| in TCHF | 2016 | 2015 |
|---|---|---|
| Social insurances | 35 | – |
| Prepayments | 311 | 62 |
| Deferred income | 16 | – |
| Other | – | – |
| **Balance as per December 31** | **362** | **62** |

## 15. Impairment Test

Goodwill is allocated to the CGU or group of CGUs that is the principal economic beneficiary. Kuros' management determined that there is only one GCU unit, which is equal to the sole reportable segment. Management monitors the goodwill at the sole reportable segment level. Goodwill is subject to an impairment test once a year or more frequently if there are indications of impairment. The impairment tests are based on the discounted cash flow method.

The recoverable amount of the CGU is determined based on a value-in-use calculation, which requires the use of assumptions. Impairment test is based on a discounted cash flow model, which includes comprehensive data from 2017 through 2030 with no terminal value taken into consideration. This period of forecast was chosen as Kuros does to date not incur any revenues from product sales and therefore historical information is not existent. No terminal value was applied as the products being commercialized are IP protected and, after the maturity of such IP protection, a decline in revenues could be possible. The WACC is used to determine the applicable pre-tax discount rate.

**Key input parameters into the discounted cash flow model**
General key assumptions:

- WACC of 10% reflecting the advanced stage of the Company. Further, certain probabilities for revenues and costs are assumed.
- 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.
- Inflation rate of 1% reflecting the very low inflation environment in Switzerland and Europe.

Key input parameters – cash in:

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

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 50% and 80% have been applied to reflect certain uncertainty on market approvals.

Key input parameters – cash out:

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

According to the results of impairment test for 2016, no impairment charges are necessary. Kuros performed a sensitivity analysis taking into account reasonable changes in the assumptions used to calculate the discounted cash flows, such as higher discount rates and lower probabilities of future cash flows from commercialization crystalizing. The sensitivity analysis for 2016 did not reveal any indicators of impairment as at the reporting date.

## 16. Convertible loans (financial liabilities at fair value)

On September 9, 2011, a subordinated convertible loan of TCHF 1,827 was made available to the Group and was utilized on January 16, 2012. On July 10, 2013, the convertible loan agreement was replaced and a new lender (third party lender) granted a convertible loan up to a maximum amount of TCHF 2,000, which was subsequently utilized in 2014. The existing lenders agreed to transfer their previous loan balances into this new agreement (principal amount of TCHF 1,827 and accrued interest of TCHF 405). Interest (15% p.a.) is accrued up to the earlier of (i) the date on which the loan is converted or (ii) the maturity date. The maturity date of the loans was December 31, 2016, unless an equity financing or liquidation event were to occur prior to maturity date that would grant the lenders the right to convert their loan into Kuros shares. In addition, the loan agreement foresaw that if 75% of all outstanding loan amounts are being converted either at once or as a result of successive conversions, all remaining related party lenders to be required to convert their outstanding loan amounts at the conversion price that applies with respect to the conversion by which the 75% are being reached or exceeded. This clause of the agreement did not apply to the third party lender. In case of an equity financing, the conversion price would be 70% of the issue price of the shares or other instruments being issued. In case of a liquidation event, the conversion price to be paid by a lender would be 70% of the per-share price of the most senior class of preferred shares.

The convertible loan qualified as a level 3 financial instrument. The valuation of this financial liability at fair value through profit or loss requires management to make certain assumptions about the qualitative and quantitative valuation inputs related to the embedded conversion feature, such as probability or timing of conversion, and other input factors such as the effective interest rate. Since the conversion option residing with the lenders did not meet the fixed-for-fixed criteria, there was no equity component. At initial recognition in 2012 and 2014, respectively, the loans were measured at the amount of cash received. Subsequently, the loans were measured at fair value considering effective interest rate and value of conversion option.

Under the convertible loan agreement of 2013 (as amended), SABIC Ventures ("SABIC") elected to convert its loan and accrued interest in connection with the business combination. Subsequently SABIC agreed with Cytos Biotechnology and Kuros Biosurgery Holding to receive new shares upon closing of the transaction instead of an equivalent number of shares in Kuros Biosurgery Holding in consideration of the cancellation of the outstanding principal and interest of the convertible loan, which amounted to TCHF 2,407 as per December 31, 2015.

The original terms of the convertible loan were amended in the context of the reverse merger resulting in a non-recurring gain on conversion of TCHF 1,154, which was included in the financial income for the period ending December 31, 2016.

In the second half of 2015, Kuros Biosurgery Holding conducted a financing round in several tranches, in which it raised gross proceeds of a total of TCHF 23,274 including an investment of TCHF 160 by LSP Coöperatieve ("LSP") described below. The financing round was led by LifeCare Partners (Switzerland) and LSP Life Sciences Partners (Netherlands) as new investors with participation of family offices from Germany and Switzerland. Existing investors including VI Partners and Swiss Helvetia Fund supported the financing round. As part of the financing round, Omega Fund IV became a significant shareholder of Kuros Biosurgery Holding.

On January 11, 2016, LSP converted a convertible loan into shares of Kuros Biosurgery Holding. As a condition of the conversion, LSP made an investment in Kuros Biosurgery Holding in the amount of TCHF 3,640 (details as indicated above).

As of December 31, 2016 the group is free of external debt financing.

## 17. Accrued expenses

| in TCHF | 2016 | 2015 |
|---|---|---|
| Accrued payroll and bonuses | 1,004 | – |
| Accrued interest convertible bond/-loan notes | – | 360 |
| Other | 988 | – |
| **Balance as per December 31** | **1,992** | **360** |
| Thereof non-current | – | – |

## 18. Shareholders' equity

| | Shares (number) | Share capital (TCHF) | Treasury shares (TCHF) |
|---|---|---|---|
| **January 1, 2015** | 129,362,514 | 483 | – |
| Capital increases | 219,947,526 | 822 | – |
| **December 31, 2015** | **349,310,040** | **1,305** | **–** |
| | | | |
| **January 1, 2016** | 349,310,040 | 1,305 | – |
| Reverse acquisition | 108,015,276 | 3,537 | (210) |
| Capital increases | 42,919,863 | 160 | – |
| Convertible loan conversion | 8,187,121 | 82 | – |
| Treasury shares purchased | – | – | (630) |
| Treasury shares sold | – | – | 574 |
| **December 31, 2016 post stock split** | **5,084,323** | **5,084** | **(266)** |

| Number of shares at | Issued and fully paid shares | Treasury shares | Total shares |
|---|---|---|---|
| December 31, 2015 | 349,310,040 | – | 349,310,040 |
| **December 31, 2016** | **5,063,777** | **20,546** | **5,084,323** |

**Authorized and conditional capital**

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

| in TCHF (except share data) | 2016 | 2015 |
|---|---|---|
| Authorized capital as per December 31 | 2,542 | 220 |
| Conditional capital as per December 31 | 800 | 397 |
| Weighted average number of shares used in computing basic and diluted net loss per share (note 26) | 5,004,393 | 2,059,128 |

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

**Ordinary capital (art. 650 CO):**

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

**Authorized capital (art. 651 CO):**
Shareholders amend the articles of association to include authorized capital (up to 50% of existing share capital) to authorize board to issue a maximum amount of shares. Authorized capital is valid for two years from shareholders' resolution.

**Conditional capital (art. 653 CO):**
Shareholders create unissued share capital for equity-linked debt, bonds with warrants, or employee stock options by amending the articles of association. New share capital will be created by operation of law upon conversion/exercise of options.

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

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

**Treasury shares**
The treasury shares held by the Group as per December 31, 2016 at nominal value were created on May 14, 2012. Currently, there are 20,546 shares held in treasury.

| | Number of shares | Weighted average purchase price | in TCHF |
|---|---|---|---|
| **Balance as of January 1, 2015** | – | – | – |
| Purchase | – | – | – |
| Sale | – | – | – |
| **Balance as of December 31, 2015** | – | – | – |
| | | | |
| **Balance as of January 1, 2016** | – | – | – |
| Reverse acquisition | 2,104,648 | 0.10 | 210 |
| Stock split 100:1 | 21,046 | 10 | 210 |
| **Total after stock split** | **21,046** | **10** | **210** |
| Purchase | 34,625 | 18.19 | 630 |
| Sale* | (35,125) | 16.35 | (574) |
| **Balance as of December 31, 2016** | **20,546** | **12.94** | **266** |

** Weighted average sales price in 2016 CHF 18.03.*

**Options**
In 2016, 56 options with an exercise price of CHF 0.25 were exercised. No options were exercised in 2015.

**Change in capital structure**
On the eve of the reverse merger, the nominal share capital of Kuros Biosurgery Holding amounted to CHF 1,285,666.60 and was divided into 5,167,248 registered common shares with a par value of CHF 0.10 each (the "Common Shares") and 7,689,418 registered preferred series A shares with a par value of CHF 0.10 each (the "Preferred A Shares"). In addition, Kuros Biosurgery Holding had a participation capital of CHF 19,267.00, divided into 192,670 participation certificates with a par value of CHF 0.10 each.

The conditional share capital was up to CHF 160,337.50 for the issuance of up to 1,603,375 fully paid in Preferred A Shares. Its allocation was exclusively reserved for LSP through the exercise of a conversion right in connection with the equity financing in 2015 against a total investment of CHF 3,800,000. Immediately prior to the closing of the reverse merger, LSP fully exercised its conversion rights. As a result, the nominal share capital of Kuros Biosurgery Holding increased to CHF 1,446,004.10 divided into 5,167,248 Common Shares and 9,292,793 Preferred A Shares.

In addition, Kuros Biosurgery Holding had 654,959 options outstanding, each of which was convertible into one Common Share. These options were granted under existing stock option plans to members of the management team, the Board, the scientific advisory board and employees. An additional 952,708 outstanding options were granted to members of the management team. All outstanding options were exchanged into options of Cytos Biotechnology on January 18, 2016.

Kuros Biosurgery Holding had also an outstanding convertible loan with SABIC in the amount of CHF 2,407,014 including accrued interest until December 31, 2015. Immediately after the closing of the reverse merger, SABIC converted the aggregate amount of the outstanding loan into Preferred A Shares. The conversion was into shares of Cytos Biotechnology.

Prior to the reverse merger, the nominal share capital of Cytos amounted to CHF 3,240,458.28, divided into 108,015,276 fully paid-in registered shares with a nominal value of CHF 0.03 each. In connection with the reverse merger, the share capital was increased to CHF 5,084,323.00, divided into 508,432,300 registered shares with a nominal value of CHF 0.01 each.

In conjunction with the reverse merger, 100% of the shares of Kuros Biosurgery Holding were exchanged for shares of Cytos.

On June 16, 2016, the General Meeting of Kuros voted in favor of a reverse stock split at the ratio of 100 to 1. Consequently, 100 existing registered shares with a nominal value of CHF 0.01 each were exchange into one new (merged) registered share with a nominal value of CHF 1.00. The first trading day of the new shares was June 23, 2016.

## 19. Costs by nature

| in TCHF | 2016 | 2015 |
|---|---|---|
| Depreciation and impairment of assets | (3,966) | (54) |
| Employee benefits (note 20) | (12,450) | (1,847) |
| Materials, consumables, services | (3,952) | (515) |
| Rental expenses | (1,483) | (75) |
| Legal, Accounting and Consulting Fees | (1,782) | (1,325) |
| Other expenses | (1,346) | (550) |
| Other income | 2,572 | - |
| **Total year ended December 31** | **(22,407)** | **(4,366)** |

In 2016, the amounts of "Other income" are primarily related to rental payments and pass through costs recovered from subtenants. In 2016, proceeds from the sale of impaired property and equipment were fully accounted for as income and amounted to TCHF 0. (2015: TCHF 0).

## 20. Employee benefits

| in TCHF | 2016 | 2015 |
|---|---|---|
| Salaries | (3,410) | (1,134) |
| Social security costs | (205) | (90) |
| Pension costs, defined benefit plan (note 24) | (117) | (42) |
| Share-based compensation | (8,470) | (546) |
| Other costs related to employees | (248) | (35) |
| **Total year ended December 31** | **(12,450)** | **(1,847)** |

## 21. Operating leases

The Group has several operating leases principally for its offices and development facilities, which can be cancelled annually as of March with a 12 months' notice period. As the fair value of land and building components at inception of the lease has not been determined and lease is defined as operating rent, expenses for the components are combined. The leasing renewal terms correlate to current standard market terms. Lease expenses incurred for the year ended December 31, 2016 were CHF 1.1 million (2015: CHF 0.075 million). The future minimum lease payments under non-cancelable operating leases as lessee at December 31, 2016 are as follows:

| in TCHF | 2016 | 2015 |
|---|---|---|
| 2016 | – | (72) |
| 2017 | (1,063) | (13) |
| 2018 | (262) | – |
| **Total year ended December 31** | **(1,325)** | **(85)** |

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

| in TCHF | 2016 | 2015 |
|---|---|---|
| No later than one year | 1,828 | – |
| Later than one year and no later than five years | 2,089 | – |
| Later than five years | – | – |
| **Total** | **3,917** | **–** |

## 22. Related party transactions

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

| in TCHF | 2016 | 2015 |
|---|---|---|
| Short-term employee benefits | (2,255) | (934) |
| Share-based compensation | (6,343) | (500) |
| Post-employment benefits | (111) | (52) |
| **Total** | **(8,709)** | **(1,486)** |

No further compensation has been paid to the key management in the year 2016 and 2015.

As disclosed in note 16, the convertible loans due to related parties have been converted into shares within 2016. As per December 31, 2015 convertible loans due to related parties amounted to TCHF 160.

## 23. Income taxes

Income tax expense:

| in TCHF | 2016 | 2015 |
|---|---|---|
| Current income tax credit/(charge) | (27) | 22 |
| Deferred tax credit | 560 | 24 |
| **Total income tax income** | **533** | **46** |

Capital tax expenses amounted to TCHF 26 and TCHF 8 for the years ended December 31, 2016 and 2015, respectively, and are included in the net operating costs.

Composition of deferred tax assets and liabilities:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| in TCHF | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Intangible Assets | – | – | (1,451) | – | (1,451) | – |
| Retirement benefit obligation | 480 | – | – | – | 480 | – |
| Tax losses | 971 | – | – | – | 971 | – |
| **Deferred tax assets / (liabilities) prior to offset** | **1,451** | **–** | **(1,451)** | **–** | **–** | **–** |
| Offset of deferred tax assets and liabilities | (1,451) | – | 1,451 | – | – | – |
| **Deferred tax assets/(liabilities)** | **–** | **–** | **–** | **–** | **–** | **–** |

Movements in deferred taxes:

| in TCHF | Retirement benefit obligation | Tax losses | Intangible Assets | Deferred Income | Convertible Loans | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2016** | **–** | **–** | **–** | **–** | **–** | **–** |
| Reverse acquisition (see Note 4) | 211 | 1,399 | (2,321) | – | – | **(711)** |
| Deferred tax credit/(charge) in the income statement | 118 | (428) | 870 | – | – | **560** |
| Deferred tax credit/(charge) in other comprehensive income | 151 | – | – | – | – | **151** |
| **Balance at December 31, 2016** | **480** | **971** | **(1,451)** | **–** | **–** | **–** |
| | | | | | | |
| **Balance at January 1, 2015** | **162** | **–** | **–** | **(109)** | **(53)** | **–** |
| Deferred tax credit/(charge) in the income statement | (138) | – | – | 109 | 53 | **24** |
| Deferred tax credit/(charge) in other comprehensive income | (24) | – | – | – | – | **(24)** |
| **Balance at December 31, 2015** | **–** | **–** | **–** | **–** | **–** | **–** |

The deferred tax credit of TCHF 151 (2015: a charge of TCHF 24) in the statement of other comprehensive income relates to actuarial gains and losses on defined benefit schemes.

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

| in TCHF | 2016 | 2015 |
|---|---|---|
| Loss before tax | (20,277) | (5,830) |
| Expected income tax rate (%) | 22% | 22% |
| **Expected income tax credit** | **4,461** | **1,283** |
| | | |
| Expenses not deductible for tax purposes | (1,863) | (120) |
| Income not subject to tax | 254 | 23 |
| Effect of deferred tax assets not recognized in the current year | (3,455) | (1,361) |
| Effect of utilization of prior year unrecognized tax losses or deductible temporary differences | 1,110 | 222 |
| Other | 26 | (1) |
| **Income tax income** | **533** | **46** |

The Group's expected tax rate is 22% for the year 2016 (2015: 22%), which is the expected statutory tax rate of the holding company.

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

**Tax Loss carry forwards**

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

| in TCHF | 2016 | 2015 |
|---|---|---|
| 2016 | – | 6,599 |
| 2017 | 8,050 | 7,557 |
| 2018 | 46,020 | 5,445 |
| 2019 | 16,299 | 1,340 |
| 2020 | 57,604 | 13,832 |
| 2021 | 37,721 | 14,335 |
| 2022 | 6,154 | 6,154 |
| 2023 | 14,369 | – |
| No expiry | 4,100 | – |
| **Total** | **190,317** | **55,262** |

As of December 31, 2016, the Group had total gross operating loss carry forwards amounting to CHF 190 million (2015: CHF 55 million) of which CHF 186 million (2015: CHF 55 million) relate to Switzerland with an expected income tax rate of 22% for the year 2016 (2015: 22%). CHF 4.1 million related to Germany, which has an expected income tax rate of 28% for the year 2016 (2015: 28%).

The unrecognized tax loss carry-forwards and deductible temporary differences would have given rise to deferred tax assets of CHF 42.2 million and CHF 12.5 million in 2016 and 2015, respectively.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The Group did partially recognize deferred tax assets relating to tax loss carry-forwards and deductible temporary differences in 2016 to the extent there are suitable taxable temporary differences. No tax loss carry-forwards or deductible temporary differences were recognized in 2015.

## 24. Benefit plans

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

During 2016 Kuros was affiliated with two collective foundations to meet its obligations under Switzerland’s mandatory company provided pension:

**Swiss Life Collective BVG Foundation**
This pension solution fully reinsures the risks of disability, death and longevity with Swiss Life. Swiss Life invests the vested pension capital and provides a 100% capital and interest guarantee. In 2016 the guaranteed interest was 1.25% for mandatory retirement savings and 0.75% for supplementary retirement savings. The pension plan is entitled to an annual bonus from Swiss Life comprising the effective savings, risk and cost results.

Swiss Life guarantees the technical administration and management of the savings account on behalf of the collective foundation. Swiss Life also pays insurance benefits due directly to the entitled persons in the name of and for the account of the collective foundation. Kuros has committed itself to pay the annual contributions and costs due under the pension fund regulations.

Either side can terminate the contract of affiliation between Kuros and the collective foundation. In the event of a termination recipients of retirement and survivors' benefits would remain with the collective foundation. In such an event Kuros would commit itself to transfer its active insured members and recipients of disability benefits to the new employee benefits institution, thus releasing the collective foundation from all obligations.

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

**Plan amendment (PKG and change from Swiss Life to PKG)**
During 2016 Kuros entered into a constructive obligation, which lead to the following plan amendments, accounted for as per December 31, 2016:

As of January 1, 2017 a new pension plans for the employees and for the management have been set up. The main changes are higher savings contributions and higher risk benefits. The insured salary remains unchanged. Due to the higher savings contribution less future benefits are accrued. This leads to a plan amendment gain of TCHF 92, which has been recognized in the past service costs recognized in 2016. Due to the future higher contributions and benefits the pension expense will increase going forward.

As of January 1, 2017 the employees of Kuros Biosciences (formerly Cytos) who were insured with Swiss Life changed to PKG. The transfer has been considered as plan amendment because the conversion rate was split between the mandatory and excess part before and is now set at a standard rate for the whole savings capital. The impact is an expense of TCHF 38, which has been recognized in the past service, costs recognized in 2016.

**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 Asset Liability Management (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 individuals vis-à-vis the Foundation and the employer. In addition, it issues pension-specific provisions within the context of the pension plan.

**Special situations**
Pursuant to local law, in the case of excess coverage there are only limited possibilities for the highest corporate body and/or the pension fund commission to grant benefits to the beneficiaries from the "disposable assets". According to the regulations, however, if there is a cover shortage, additional contributions (re-financing contributions) can be requested from the insured and the employers until financial stability is once again restored. The Collective Foundations currently have excess coverage according to the prevailing local 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 plan 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 | 2016 | 2015 |
|---|---|---|
| **Benefit obligation at beginning of year** | **(2,150)** | **(2,315)** |
| Reverse acquisition (see Note 4) | (7,361) | – |
| Service cost | (157) | (103) |
| Employee contributions | (192) | (62) |
| Interest cost | (84) | (23) |
| Curtailment/settlements | – | 72 |
| Actuarial gain/(loss) on benefit obligation | (741) | 267 |
| Benefits paid | 1,996 | 14 |
| Past service cost | 54 | – |
| **Benefit obligation as per December 31** | **(8,635)** | **(2,150)** |

| in TCHF | 2016 | 2015 |
|---|---|---|
| Actuarial gains/(losses) arising from plan experience | (695) | 31 |
| Actuarial gains arising from demographic assumptions | 173 | – |
| Actuarial gains/(losses) arising from financial assumptions | (219) | 236 |
| **Total gains/(losses)** | **(741)** | **267** |

**Change in plan assets:**

| in TCHF | 2016 | 2015 |
|---|---|---|
| **Fair value at beginning of year** | **1,544** | **1,408** |
| Reverse acquisition (see Note 4) | 6,401 | – |
| Expected return on plan assets | 73 | 14 |
| Employer contributions | 192 | 62 |
| Employee contributions | 192 | 62 |
| Benefits paid | (1,996) | (14) |
| Admin expense | (3) | (2) |
| Actuarial gain on plan assets | 51 | 14 |
| **Pension assets as per December 31** | **6,454** | **1,544** |

| in TCHF | 2016 | 2015 |
|---|---|---|
| Actuarial gains/(losses) arising from financial assumptions | – | – |
| Actuarial gains/(losses) arising from plan experience | 51 | 14 |
| **Total gains/(losses)** | **51** | **14** |

**Asset breakdown:**

| as of December 31, 2015 | Quoted market price | Not quoted market price | Total |
|---|---|---|---|
| Cash | – | 1% | 1% |
| Bonds | 12% | – | 12% |
| Equities | 8% | – | 8% |
| Property | 5% | – | 5% |
| Insurance contracts | – | 73% | 73% |
| Other | – | 1% | 1% |
| **Total value of assets** | **25%** | **75%** | **100%** |

| as of December 31, 2015 | Quoted market price | Not quoted market price | Total |
|---|---|---|---|
| Cash | – | 3% | 3% |
| Bonds | 46% | – | 46% |
| Equities | 29% | – | 29% |
| Property | 19% | – | 19% |
| Other | – | 3% | 3% |
| **Total value of assets** | **94%** | **6%** | **100%** |

**Funded status:**

| in TCHF | 2016 | 2015 |
|---|---|---|
| (Un) funded status | (2,181) | (606) |
| **Net defined benefit liability recognized in the balance sheet** | **(2,181)** | **(606)** |

**Defined benefit costs:**

| in TCHF | 2016 | 2015 |
|---|---|---|
| Service cost | (157) | (103) |
| Interest cost | (84) | (23) |
| Admin expense | (3) | (2) |
| Expected return on plan assets | 73 | 14 |
| Past service cost recognized in year | 54 | – |
| Curtailment / settlement, gain/(loss) | – | 72 |
| **Defined benefit cost for the year recognized in Income statement** | **(117)** | **(42)** |

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

**Net defined benefit (liability)/asset:**

| in TCHF | 2016 | 2015 |
|---|---|---|
| Pension assets December 31 | 6,454 | 1,544 |
| Benefit obligation December 31 | (8,635) | (2,150) |
| **Net defined benefit liability recognized in balance sheet** | **(2,181)** | **(606)** |

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

**Assumptions:**

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 0.70% | 0.90% |
| Interest credit rate | 1.25% | 1.40% |
| Average future salary increases | 1.00% | 1.00% |
| Future pension increases | 0.0% | 0.00% |
| Mortality tables used | BVG 2015 GT | BVG 2010 GT |
| Average retirement age | 65/64 | 65/64 |
| Turn over | BVG 2015 | BVG 2010 |
| Capital option | 40% | 40% |
| Expected life experience at regular retirement age 65 / 64 | 22.38/25.42 | 21.53/24.98 |

**Sensitivity analysis**

The sensitivity analyses were performed by recalculating the defined benefit obligation (DBO) and the Service Cost with the following assumption, which was deemed to be the key assumptions used in the actuarial calculation:

| **as of December 31, 2016** (in TCHF (decrease)/increase) | DBO | Service Cost |
|---|---|---|
| Discount rate +0.25% | (398) | (34) |
| Discount rate –0.25% | 418 | 35 |

| **as of December 31, 2015** (in TCHF (decrease)/increase | DBO | Service Cost |
|---|---|---|
| Discount rate +0.25% | (140) | (12) |
| Discount rate –0.25% | 151 | 13 |

**Asset liability strategy**

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

**Future cash flows:**

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

| in TCHF | December 31, 2015 |
|---|---|
| Expected annual employee contribution in 2016 | 62 |
| Expected annual employer's contribution in 2016 | 62 |

## 25. Share options

The Group regularly grants share options to the members of the Board, the members of the Executive Committee, as well as to employees and consultants of the Company. The fair value of the options is determined at the grant date, based on the market price, by using the Black-Scholes model. Upon closing of the reverse merger, any outstanding stock options from Kuros Biosurgery Holding were exchanged for stock options issued by Kuros Biosciences Ltd. Throughout this report, the number of options as well as their exercise prices are shown with values taking into consideration the reverse stock split at the ratio of 100 to 1 as approved by the General Meeting on June 16, 2016.

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

(a) All 119'919 options from former Cytos remained in place whereas all non-vested options vested on an accelerated basis with effect pre January 18, 2016 ("legacy options Cytos Biotechnology AG") and have been considered as part of the net assets acquired through the reverse merger (see note 4).
(b) All outstanding 629'378 options issued by Kuros Biosurgery Holding were replaced with 168'713 options (post reverse-split; 40'243 of which expired on 6 July 2016) issued by Kuros Biosciences as a replacement of the regular options granted by Kuros Biosurgery Holding.
(c) 272'427 options were granted as a replacement of Kuros Biosurgery Holding options (which, in turn were granted in lieu cash payments – so called "phantom stock") as agreed within the reverse merger.
(d) 231'200 new options were granted in the first six months of 2016 to members of the Board and management.

Total expenses for the share-based compensation amounted to TCHF 8,470 (2015: TCHF 545) including expenses for share options granted in 2016 (TCHF 1,829; 2015: TCHF 0) and the impact of the replacement of options issued by Kuros Biosurgery Holding with options issued by Kuros Biosciences amounting to TCHF 6,641.

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

All options granted in 2016 still existed as of December 31, 2016 as no forfeitures and/or cancellations took place. In 2016, a total of 231,200 were granted and 441,104 were replaced. No options were granted in 2015 by Kuros Biosurgery Holding or by Kuros Biosurgery.

**Share options, conditions and assumptions:**

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

** 40,243 options expired; currently 128,470 options outstanding.*

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

| | Options (number) | Weighted average exercise price (CHF) |
|---|---|---|
| **Balance outstanding December 31, 2014** | 168,713 | 45.66 |
| Granted | – | – |
| Exchange of phantom stocks into share options | 272,427 | 2.00 |
| Exercised | – | – |
| Forfeited | – | – |
| Lapsed | – | – |
| **Balance outstanding December 31, 2015[1]** | **441,140** | **18.70** |
| **Balance outstanding January 1, 2016** | **441,140** | **18.70** |
| Exchanged against new options on 18 January 2016[2] | 441,140 | 18.70 |
| Of which lapsed in 2016 | (40,243) | 37.00 |
| Reverse Acquisition[3] | 119,920 | 155.00 |
| Granted in 2016 ("regular grant") | 231,200 | 28.93 |
| Exercised | (1)[4] | 0.14 |
| Forfeited | – | – |
| **Balance outstanding December 31, 2016** | **752,016** | **42.60** |

[1] *Kuros Biosurgery Holding Ltd options only*
[2] *Replacement of options granted by Kuros Biosurgery Holding Ltd with options of Kuros Biosciences Ltd*
[3] *Existing options from Cytos Biotechnology Ltd, now Kuros Biosciences Ltd*
[4] *56 options pre reverse-split of shares (i.e. 0.56 shares after reverse stock split) was exercised on June 13, 2016 to make the share count be a round number 100.*

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

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

** Includes all options granted within the Group*

The following table applies to all valid share options outstanding on December 31, 2015:

| **Exercise price** (CHF) | **Options*** (number) | **Remaining life** (years unless stated otherwise) | **Exercisable options** (number) |
|---|---|---|---|
| 2.00 | 272,427 | 9.9 | 145,214 |
| 37.00 | 58,971 | 1.3 | 58,971 |
| 45.00 | 49,702 | 1.3 to 5.7 | 49,702 |
| 52.00 | 19,453 | 3 to 6.5 | 19,453 |
| 56.00 | 40,587 | 4 to 4.9 | 40,587 |
| **Total** | **441,140** | | **313,927** |

** Represent options of Kuros Biosurgery Holding Ltd only. No options of former Cytos included*

## 26. Earnings per share

Basic and diluted net losses per share have been computed based upon the weighted average number of registered shares outstanding. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase, and convertible loans. Neither outstanding options to purchase registered shares nor shares resulting from conversion rights of the loan holders were included in the computation of the dilutive net loss per share as the effect would have been anti-dilutive.

On June 16, 2016, the General Meeting of Kuros voted in favor of a reverse stock split at the ratio of 100 to 1. Accordingly, the net loss per share for 2015 was adjusted retrospectively to allow for a proper comparison.

a) Basic loss per share:

| in CHF | 2016 | 2015 |
|---|---|---|
| Total basic loss attributable to the ordinary equity holders | (3.95) | (2.81) |

b) Diluted loss per share:

| in CHF | 2016 | 2015 |
|---|---|---|
| Total diluted loss attributable to the ordinary equity holders | (3.95) | (2.81) |

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

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

| in TCHF | 2016 | 2015 |
|---|---|---|
| Basic loss per share: | (3.95) | (2.81) |
| Loss attributable to the ordinary equity holders from continuing operations | (19,744) | (5,784) |
| Diluted loss per share: | (3.95) | (2.81) |
| Loss attributable to the ordinary equity holders | (19,744) | (5,784) |

d) Weighted average number of shares used as denominator:

| | 2016 | 2015 |
|---|---|---|
| Weighted average number of ordinary shares | 5,004,393 | 2,059,128 |
| Adjustments: options | – | – |
| Weighted average number and potential ordinary shares | 5,004,393 | 2,059,128 |

e) Information concerning the classification of securities

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

## 27. Contingencies

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

## 28. Events after balance sheet date

On December 19, 2016, 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 mark filed late 2016) and MagnetOs™ (CE mark approval obtained for Europe, 510k approval obtained for the U.S. for the granules formulation). The acquisition further provides Kuros with an EU operation in the Netherlands as well as with certified and GMP-controlled manufacturing capabilities.

Under the terms of the proposed combination, Kuros agreed to issue a total of up to 2.105 million shares for all outstanding Xpand shares. Upon closing of the transaction on January 23, 2017, 1.365 million of these shares were issued out of authorized share capital to the sellers whereas another 0.74 million shares to be issued upon achievement of two milestones associated with product approvals – namely CE mark approval and 510k approval for MagnetOs™ in a putty formulation. Following closing, the current shareholders of Kuros owned approximately 79% of the Company's issued share capital. Provided both milestones are achieved, current 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 will be accounted for as of January 23, 2017, being the effective date of the combination. The initial accounting for the acquisition of Xpand and it's wholly-owned subsidiary RevisiOs B.V. is not finalized at the time the Board's approval of the annual financial statements as Kuros is in the process of evaluating the fair value of the net assets acquired. As a result not all relevant disclosures are available including the preliminary purchase accounting of the identifiable assets acquired and liabilities assumed. However, Kuros expects that significant assets acquired will primarily consist of cash and cash equivalents, short-term receivables as well as intangible assets, and that significant liabilities assumed will include the short-term payables and deferred tax liabilities associated with the assets acquired.

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 of CHF 21.3 million
- The fair value of the contingent consideration for the 750,000 shares to be issued upon achievement of two milestones associated with product approvals amounts to CHF 9.3 million.

In 2016, the Group expensed a total of CHF 0.15 million through the income statement as acquisition-related costs. No acquisition-related costs were incurred in 2015 for this transaction.

On February 27, 2017, Kuros received the 510(k) clearance from the FDA for MagnetOs™, allowing the commercialization of the product in the US.

# 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 2016 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 44 to 89) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 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 330'000

We concluded full scope audit work at 3 reporting units in Switzerland. Our audit scope addressed over 100% of the Group's revenue and 99% of the Group's profit before taxes.

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

Acquisition accounting for Kuros Biosurgery

Carrying value of Goodwill

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pwc

### *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.

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

### *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 330'000 |
| *How we determined it* | 3.75% of the Group's net cash outflow from operating activities, rounded |
| *Rationale for the materiality benchmark applied* | We chose the Group's net cash outflow from operating activities as the benchmark because, in our view, it is the benchmark against which the performance of the Group, in its current research and development phase, is most commonly measured, and is a generally accepted benchmark. |

We agreed with the Audit Committee that we would report to them misstatements above CHF 33'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

### *Key audit matters*

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

**Acquisition accounting for Kuros Biosurgery**

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| Accounting for the business combination of Kuros Biosciences AG (previously Cytos Biotechnology AG) and Kuros Biosurgery Holding AG, with its subsidiary Kuros Biosurgery AG, resulted in fair | With regard to management's determination of the acquirer being Kuros Biosurgery Holding AG we have read and assessed the terms of the combination agreement, reviewed the exchange ratio |

value of the consideration transferred of TCHF 33'485, of which TCHF 9'768 have been allocated to separately identifiable net assets acquired and TCHF 23'717 have been allocated to goodwill.

Management exercised significant judgement in the determination of the acquirer, the acquisition date and the purchase price allocation (PPA). Key judgements in the PPA included the identification of separately identifiable intangible assets and the determination of the fair value of acquired assets and liabilities.

We focused on this area as the judgement exercised by management on the acquirer, the acquisition date and the identification and valuation of assets and liabilities acquired significantly impacts the current balance sheet and income statement.

*Refer to page 54 (Accounting policies), page 60 (Critical accounting estimates and judgements), and pages 61-62 (notes).*

and the composition of the post-merger Board of Directors and Executive Board. This allowed us to evaluate which party has factually obtained control and is thus to be seen as the accounting acquirer.

With regard to management's assessment of the acquisition date we have obtained the commercial register extract to corroborate the date when the shares issued in consideration for the acquisition were registered in the Commercial Register of the Canton of Zurich, which is the date on which the acquirer was able to exercise control over the acquiree.

With the support of our PwC valuation specialists we further performed detailed procedures over the PPA where we

- re-performed management's calculation of the fair value of the consideration transferred taking into account the market price of the listed share of Kuros Biosciences AG as at the effective date of the acquisition.
- assessed the adequacy of the model applied and the accuracy of the relating calculation
- assessed the completeness and the valuation of the separately identifiable intangible assets
- recalculated the fair value adjustments recognised to the acquired net assets related to 'favourable lease' and 'licensing' of intangible assets. This included challenging of the key assumptions made by management, such as the discount rates and lease rates applied and the probability of renewal of the contracts.

To assess the completeness and challenge the assumptions underpinning the valuations of the fair value of the identified assets and liabilities as well as to evaluate the adequacy of the disclosures in the Group's financial statements we examined the acquiree's financial records and reviewed meeting minutes, significant contracts and relevant agreements.

As a result of our procedures, as discussed with the Audit Committee and the Board of Directors, we determined that the conclusions reached by management with regard to the acquisition accounting and the related disclosures were reasonable and supportable.

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**Carrying value of Goodwill**

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| The support of the carrying value of Goodwill as per 31 December 2016 of TCHF 23'717 which resulted from the business combination transaction from January 2016 is a key audit matter based on the size of the balance and the inherent judgement in the respective model and assumptions used as part of the impairment assessment.<br><br>Specifically the assumptions related to timing and magnitude of future cash flows and the determination of the respective discount rate requires significant management judgement.<br><br>*Refer to page 55 (Accounting policies), page 60 (Critical accounting estimates and judgements), and page 71 (notes).* | We challenged management's determination of the sole cash-generating unit (CGU), representing the group's single reportable segment by evaluating management's impairment test memorandum and other internal documentation.<br><br>With involvement of PwC valuation specialists, we challenged and evaluated management's value in use calculation. This included a review of the adequacy 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.<br><br>• We tested the discount rate, by assessing the cost of capital for the company and comparable organisations, as well as considering territory specific factors.<br><br>• We challenged management's cash flow assumptions and probability-weightings applied to such cash flows by comparing them to economic and industry forecasts and by ensuring consistency with other internal forward-looking documentation available.<br><br>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.<br><br>We also assessed whether the market capitalisation of the Group is higher than its net assets as per 31 December 2016 and noted that this is the case.<br><br>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 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.

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

### *Responsibilities of the Board of Directors for the consolidated financial statements*

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

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

### *Auditor's responsibilities for the audit of the consolidated financial statements*

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

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

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

responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## *Report on other legal and regulatory requirements*

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

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

PricewaterhouseCoopers AG

Thomas Bruederlin

Audit expert
Auditor in charge

Thomas Ebinger

Audit expert

Basel, 25 April 2017

# Statutory financial statements 2016

## Balance sheet

| in TCHF | Note | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Cash and cash equivalents | 14 | 1,800 | 2,074 |
| Trade receivables – third parties | | 297 | 718 |
| Other current receivables – third parties | | 225 | 22 |
| Accrued income and prepaid expenses | | 305 | 345 |
| **Total current assets** | | **2,627** | **3,159** |
| | | | |
| Investments | 4 | 19,611 | 73 |
| Fixed Assets | | 45 | – |
| **Total non-current assets** | | **19,656** | **73** |
| **Total assets** | | **22,283** | **3,232** |
| | | | |
| Trade accounts payable – third parties | | 403 | 294 |
| Accounts payables to subsidiary | | 1,560 | – |
| Other accounts payable – third parties | | 408 | 333 |
| Accrued expenses and deferred income | | 850 | 1,064 |
| **Total current liabilities** | | **3,221** | **1,691** |
| | | | |
| Share capital | | 5,084 | 3,240 |
| Legal reserves: | | | |
| Capital contribution reserve | | 29,016 | 213,763 |
| Treasury shares from capital contribution | 3 | (266) | (210) |
| Other legal reserves | | 51,393 | 51,393 |
| Retained loss: | | | |
| Brought forward | | (61,665) | (275,902) |
| Profit/(loss) for the year | | (4,500) | 9,257 |
| **Total shareholders' equity** | | **19,062** | **1,541** |
| **Total liabilities and shareholders' equity** | | **22,283** | **3,232** |

## Income statement

| in TCHF; twelve months ended December 31 | Note | 2016 | 2015 |
|---|---|---|---|
| Revenue | 7 | 997 | 5,714 |
| Other income | 8 | 2,599 | 2,752 |
| Research expense | | (335) | (563) |
| Employee benefits | | (4,359) | (2,592) |
| Other operating expenses | 9 | (3,335) | (3,032) |
| **Total operating expenses** | | **(8,029)** | **(6,187)** |
| **Earnings before interest and taxes** | | **(4,433)** | **2,279** |
| Financial income | | 1 | 11,230 |
| Financial expense | | (72) | (4,246) |
| **Profit/(loss) before taxes and extraordinary items** | | **(4,504)** | **9,263** |
| Extraordinary income / expense | 10 | 8 | – |
| Direct taxes | | (4) | (6) |
| **Profit/(loss) for the year** | | **(4,500)** | **9,257** |

# Notes to the financial statements

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

These financial statements of Kuros Biosciences Ltd (the "Company"), Schlieren, have been prepared in accordance with the provisions of commercial accounting as set out in the Swiss Code of Obligations (Art. 957 to 963b "CO", effective since January 1, 2013).

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

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

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

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

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

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

**Research expense**

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

**Foreign currencies**

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

| | 2016 Income statement | Balance sheet as of December 31, 2016 | 2015 Income statement | Balance sheet as of December 31, 2015 |
|---|---|---|---|---|
| EUR | 1.102 | 1.072 | 1.0922 | 1.0826 |
| USD | 0.9932 | 1.016 | 0.9705 | 0.9908 |
| GBP | 1.3723 | 1.255 | 1.4901 | 1.4688 |
| JPY | 0.0091 | 0.0087 | 0.008 | 0.0082 |

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

## 2. Authorized and conditional capital

| in TCHF, as of December 31 | 2016 | 2015 |
|---|---|---|
| Authorized capital with a nominal value of | 2,542 | 1,620 |
| Conditional capital with a nominal value of | 800 | 722 |

## 3. Treasury shares

| | Number of shares | Weighted average purchase price | in TCHF |
|---|---|---|---|
| Balance as of January 1, 2015 | 2,104,648 | 0.10 | 210 |
| Purchase | – | – | – |
| Sale | – | – | – |
| **Balance as of December 31, 2015** | **2,104,648** | **0.10** | **210** |
| Balance as of January 1, 2016 | 2,104,648 | 0.10 | 210 |
| Stock split 100:1 | 21,046 | 10 | 210 |
| **Total after stock split** | **21,046** | **10** | **210** |
| Purchase | 34,625 | 18.19 | 630 |
| Sale* | (35,125) | 16.35 | (574) |
| **Balance as of December 31, 2016** | **20,546** | **12.94** | **266** |

** Weighted average sales price in 2016 was CHF 18.03.*

## 4. Investments

| as of December 31 | 2016 | 2015 |
|---|---|---|
| **Kuros Biosurgery Holding Ltd, Zurich, Switzerland** | | |
| Purpose: Intermediate Holding | | |
| Share capital (TCHF) | 1,446 | n/a |
| Shareholding (%) | 100 | – |
| | | |
| **Kuros Biosurgery AG, Zurich, Switzerland** | | |
| Purpose: Provider of research and development services | | |
| Share capital (TCHF) | 435 | n/a |
| Shareholding (%) | 100 | – |
| | | |
| **Proteome Therapeutics GmbH, Singen, Germany** | | |
| Non-operative since May 2002 | | |
| Paid-in capital (TEUR) | 25 | 25 |
| Shareholding (%) | 100 | 100 |
| | | |
| **BioSupport AG, Schlieren, Switzerland*** | | |
| Purpose: Provider of research services | | |
| Share capital (TCHF) | – | 100 |
| Shareholding (%) | – | 33 |

** Liquidated in 2016*

## 5. Lease commitments not recorded in the balance sheet

| in TCHF, as of December 31 | 2016 | 2015 |
|---|---|---|
| Rent and leasing | 1,312 | 1,312 |

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

## 6. Pension liabilities

On December 31, 2016, the liability to the pension scheme amounted to TCHF 0 (2015: TCHF 3) and is accounted as “Other accounts payable”.

## 7. Revenue

| in TCHF, twelve months ended December 31 | 2016 | 2015 |
|---|---|---|
| Revenue from royalties and licenses | 997 | 4,982 |
| Sale of goods* | – | 732 |
| **Total** | **997** | **5,714** |

** Sale of remaining stock, expensed in previous years under “Research expense”.*

## 8. Other income

| in TCHF, twelve months ended December 31 | 2016 | 2015 |
|---|---|---|
| Rent | 2,247 | 2,163 |
| Fees of collaboration agreements | 352 | 452 |
| Others | – | 137 |
| **Total** | **2,599** | **2,752** |

## 9. Other operating expenses

| in TCHF, twelve months ended December 31 | 2016 | 2015 |
|---|---|---|
| Rental expenses | (1,411) | (1,313) |
| Insurances, public charges | (51) | (70) |
| Energy expenses | (212) | (180) |
| Administration and legal fees | (1,503) | (1,353) |
| Other expenses | (158) | (116) |
| **Total year ended December 31** | **(3,335)** | **(3,032)** |

## 10. Extraordinary income / expense

The extraordinary income amounting to TCHF 8 relates to liquidation proceedings from the investment in BioSupport AG, Schlieren, which was liquidated in 2016.

## 11. Main shareholders

According to disclosure notifications filed with the Company and to the SIX, the following Shareholders hold more than 3% of the share capital of the Company as of December 31, 2016:

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

As far as can be ascertained from the information available, no Shareholders owned 3% or more of the Company's share capital as of December 31, 2015.

## 12. Other disclosures

**Employees**

As of December 31, 2016 the Company employed 16 fulltime employees (2015: 4).

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

*[1] 5,358 options expired in 2016*
*[2] 2,776 options expired in 2016*
*[3] 2,443 options expired in 2016*

On June 16, 2016 the General Meeting voted in favor of a reverse stock split at the ration of 100 to 1. Consequently, 100 existing registered shares with a nominal value of CHF 0.01 each were exchanged into one new (merged) registered share with a nominal value of CHF 1.00. The first trading day of the new shares was June 23, 2016. The number of shares and options owned have been amended to reflect this.

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

| | | | Options expiring | | |
|---|---|---|---|---|---|
| as of December 31, 2015 | Shares held | Options granted | 2016 | 2017 | 2018 or later |
| **Christian Itin**<br>Chairman of the Board, CEO | – | 3,320,000 | – | – | 3,320,000 |
| **John Berriman**<br>Vice-Chairman of the Board | – | 190,000 | – | – | 190,000 |
| **Joseph Anderson**<br>Board member | – | 180,000 | – | – | 180,000 |
| **Kurt von Emster**<br>Board member | – | 180,000 | – | – | 180,000 |
| **Frank Hennecke**<br>Member of the Executive Committe | – | 1,366,000 | 6,000 | – | 1,360,000 |
| **Harry Welten**<br>Chief Financial Officer | – | 2,022,000 | 12,000 | – | 2,010,000 |

The number of shares owned and options granted as of December 31, 2015, have not been updated for the reverse share split on June 16, 2016.

## 14. Pledged assets

| in TCHF, as of December 31 | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents[1] | 80 | – |

[1] *includes pledged assets as a security for credit card liabilities*

## 15. Events after balance sheet date

On December 19, 2016, Kuros announced the signing of a combination agreement with privately held Xpand Biotechnology B.V. ("Xpand") of Bilthoven, the Netherlands, with the intention to acquire Xpand by way of an exchange of all Xpand shares for up to 2.105 million new Kuros shares. On January 25, 2017, Kuros announced the closing of the all-share strategic acquisition of Xpand. Under the terms of the acquisition, Kuros issued a first tranche of 1.365 million shares upon closing of the transaction. The first trading day of these new shares on the SIX Swiss Exchange was January 25, 2017. A further 0.74 million shares will be issued upon achievement of milestones associated with product approvals. Xpand's novel orthobiologic MagnetOs in a granules formulation was approved for sale in the European Union ("EU") in July 2016 and was under regulatory review in the US. The strategic takeover accelerated Kuros' transition to commercial stage with two products expected to be ready for commercialization in the EU in 2017, one of which also in the US. In addition, the acquisition provided Kuros with a EU operation with certified and GMP-controlled manufacturing capabilities.

## Appropriation of the accumulated gain

The Board of Directors proposes that the net loss of the year 2016 in the amount of CHF 4,500,440.23 is applied against the loss brought forward of CHF 61,665,126.04 resulting in a new balance of the loss brought forward of CHF 66,165,566.27 to be carried forward to the new accounts.

# Report of the statutory auditor

## to the General Meeting of Kuros Biosciences AG Schlieren

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Kuros Biosciences AG, which comprise the balance sheet as at 31 December 2016, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 96 to 105) as at 31 December 2016 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 190'000

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

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

Valuation of Investments in subsidiaries

### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future

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events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### *Materiality*

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

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

| | |
|---|---|
| *Overall materiality* | CHF 190'000 |
| *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. |

We agreed with the Audit Committee that we would report to them misstatements above CHF 19'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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

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

**Valuation of Investments in Subsidiaries**

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| As of 31 December 2016, investments in subsidiaries of Kuros Biosciences AG amounted to TCHF 19'611 (about 88% of total assets).<br><br>Due to the significance of these assets in the financial statements and because of the judgement involved in the valuation of these investment, we consider the impairment assessment of the investments in subsidiaries as a key audit matter.<br><br>*Please refer to page 99 (Accounting principles) and page 11 (Note 4, Investments).* | We performed detailed procedures over the valuation of the investments in subsidiaries, which include the following:<br><br>With involvement of PwC valuation specialists, we challenged and evaluated management's value in use calculation which was the basis to support the carrying value of the investments as per December 31, 2016. This included a review of the adequacy 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 tested the discount rate, 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 comparing them to economic and industry forecasts and 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.

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

### *Responsibilities of the Board of Directors for the financial statements*

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

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

### *Auditor's responsibilities for the audit of the financial statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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

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

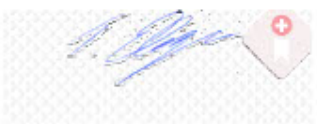
## *Report on other legal and regulatory requirements*

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

We further confirm that the proposed appropriation of available earnings (page 106) complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

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

PricewaterhouseCoopers AG



Thomas Bruederlin

Audit expert
Auditor in charge

Thomas Ebinger

Audit expert

Basel, 25 April 2017

## 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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