2015 Annual Report

"We endeavor to become a future leader in tissue repair and regeneration"

Kuros Biosciences

Table of content

Kuros Biosciences AG, formerly Cytos Biotechnology Ltd, is a Swiss-based company focused on the development of innovative products for tissue repair and regeneration. The Group is the result of a combination of Cytos and Kuros Biosurgery early 2016. The information contained in this Annual Report refers to the business of Cytos Biotechnology Ltd in 2015.

Dear Shareholders

2015 has been a year of significant change for the Company. Our focus was on completing the restructuring of the balance sheet and to identify and act on strategic opportunities and we are pleased to have ended the year with a strategic transaction that provides a new outlook for the Company.

Elimination of the debt burden was the single most important achievement of the last year paving the way for a brighter future. First, in January 2015, bondholders approved the conversion of their bonds into shares, which took place in May 2015. Second, loan notes in the amount of CHF 14.2 million were repaid at maturity in February 2015. Further, a settlement with the convertible loan note holders was reached eliminating all claims from the convertible loan notes. In exchange, loan notes holders received a final payment in cash supported by income from Novartis for the buy-out of the CAD106 license and payments from Arbutus in connection with the license agreement, respectively. Upon ompletion of the bond conversion and the settlement of the claims with the loan note holders, Kuros became debt-free and regained full flexibility in its search for a strategic partner.

After a thorough evaluation process, we identified Kuros Biosurgery Holding Ltd as an attractive target for a reverse merger. Kuros, a privately held spinoff from the Eidgenössische Technische Hochschule Zürich, had developed a pipeline of clinical stage products supporting tissue repair and bone regeneration based upon its proprietary technology platforms. On December 3, 2015, we announced our intention to acquire Kuros Biosurgery by way of a share exchange and on January 6, 2016 at an extraordinary shareholders meeting, Cytos shareholders approved the acquisition of Kuros Biosurgery and the name change to Kuros Biosciences Ltd. As a result of the combination, our existing shareholders received ownership in a leading biosciences company in the field of tissue repair and regeneration, while former Kuros Biosurgery shareholders became the majority shareholders of the SIX Swiss Exchange-listed Kuros Biosciences Ltd (SIX: KURN).

Kuros Biosciences focuses on unmet medical need in tissue repair and regeneration, which are large and growing markets. Our most advanced product candidates have met the respective primary endpoints in all the clinical trials in which they have been tested:

- KUR-023 is a novel biomaterial designed to seal the dura (membrane covering the brain and spinal cord) after surgery. The dural membrane is often cut or damaged when surgery is performed on the brain or spine. KUR-023 has successfully completed a European clinical trial and is being prepared to be CE marked ahead of commercial launch in the European Union. We are planning a second clinical study to support approval of the product in the United States of America.

- KUR-111 and KUR-113 are two novel orthobiologic product candidates designed to regenerate bone for various applications in the body. These product candidates have been successfully tested in large, controlled Phase IIb clinical trials and are now progressing towards Phase III clinical development. KUR-111 and KUR-113 share the same biologically active agent and have been tested in clinical trials involving nearly 400 patients to date.

In addition, we continue the collaborations for CYT003 (an immune modulator) and the virus-like particle (VLP) technology signed in 2015 with Checkmate Pharmaceuticals for the treatment of cancer and with Arbutus Biopharma (formerly OnCore Biopharma) for the treatment of hepatitis B infections. The CYT003 program and VLP technology will be moving forward with investment from the collaboration partners and, if successful, we will be eligible for significant development milestone payments and royalties on future sales. We, however, will no longer invest our own funds into these program or technology.

The combined company is led by directors and executives from both companies. Operationally, Didier Cowling took over the role of Chief Executive Officer, Alistair Irvine as Chief Business Officer, Jason Schense as Chief Technology Officer and Harry Welten as Chief Financial Officer. The new Board of Directors consists of Christian Itin as Chairman, Dominik Ellenrieder as Vice Chairman, Didier Cowling, Harry Welten, Arnd Kaltofen, Jörg Neermann, Gerhard Ries and Vincent Ossipow. We welcome our new colleagues and thank those who stepped down in connection with the merger, namely, John Berriman, Joseph Anderson and Kurt von Emster.

We want to thank our shareholders, former creditors, employees and partners for their support in turning Cytos around and are looking forward to make Kuros Biosciences a successful company.

Best regards

Dr. Christian Itin
Chairman

Dr. Didier Cowling
CEO

A Future Leader in the Field of Tissue Repair and Regeneration

Kuros Biosciences focuses on tissue repair and regeneration in a number of indications and applications. The Group has developed a pipeline of clinical and pre-clinical programs at various stages of development. The most advanced programs are targeting commercially attractive opportunities in surgical sealants and orthobiologics. 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.

Surgical sealants

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.

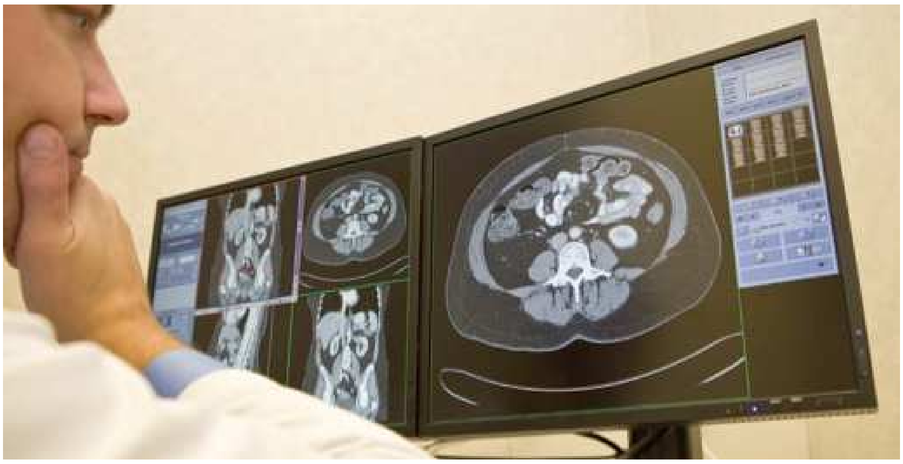
KUR-023 being prepared for CE mark submission

The most advanced sealant product candidate, 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.

KUR-023 is the most advanced sealant product candidate and addresses the dural sealant market: A liquid spray instantly forming a watertight gel upon contact.

	PRODUCT	INITIAL INDICATIONS	PRECLINICAL	PILOT	PIVOTAL	PATHWAY
Sealant	KUR-023 Europe	Dural Sealant	European Clinical Study Program Completed			CE Mark
	KUR-023 US	Dural Sealant	European Clinical Study intended to be Pilot for US approval			PMA

KUR-023 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. KUR-023's has a number of features, such as ease of administration, reliable and pressure resistant rapid closure of the damaged tissues and low swelling.



A recent clinical trial in the European Union demonstrated KUR-023's safety and utility when it rapidly sealed the leaking dura in all 40 cases after a single application. All clinical end-points were met with no safety issues observed. KUR-023 is currently prepared for CE marking submission prior to market launch. In the United States of America, KUR-023 is being prepared for a pivotal study prior to potential approval.

Orthobiologics

Standard treatment for complex fractures is first to manipulate the bone to its correct position, minimizing any gaps at the fracture site and then to fixate the bones in place either using plates, screws or nails inside the body, or external rods and pins. Any defects or voids may require filling with a bone graft substitute. Many of these procedures use a graft from a bone that is surgically transplanted from a healthy site of a patient's body (autograft). Bone graft substitutes promote the same healing process without the associated cost and risks of autograft bone harvesting.

KUR-111 and KUR-113 are the most advanced orthobiologics for the regeneration of bone. Both share the same biologically active agent.

KUR-111 and KUR-113 have met the primary endpoints in large Phase IIb clinical trials

Kuros' orhobiologics product candidates KUR-111 and KUR-113 are designed to promote bone formation. Such products are required in a number of clinical situations, including fracture repair and bone fusion. KUR-111 has been specifically designed as a bone graft substitute that safely and effectively regenerates bone without having to resort to an autograft, while 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.

KUR-111 incorporates three key components: a natural healing matrix (fibrin), with a potent targeted drug, 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.

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) combined with a targeted bone growth factor. 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.

KUR-113 is also 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.

Corporate Governance Report

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) 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. After the closing, former Kuros Biosurgery Holding Ltd shareholders own around 80% of the combined entity whereas Cytos Biotechnology Ltd shareholders who were shareholders prior to the combination hold about 20% of the combined entity.

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 in biotechnology, the board of directors ("Board of Directors") and the executive board ("Executive Board") review the financial performance on an aggregate basis and manage the operations of Kuros Biosciences Ltd (the "Company") as a single operating entity. Accordingly, the Company operates in one segment, which is the business of development and commercialization of products for human health care.

Kuros Biosciences Ltd (formerly Cytos Biotechnology Ltd), Schlieren, Switzerland, is listed according to the Main Standard on the SIX Swiss Exchange, Zurich, Switzerland.

Security number	1 102 521
ISIN	CH0011025217
Ticker symbol in 2015	CYTN*
Market capitalization on December 31, 2015	CHF 40 million

** Amended to "KURN" 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, 2015 the group consists of the parent company Kuros Biosciences Ltd and two non-listed companies:

Name	Share capital (in thousands)	Shareholding
Proteome Therapeutics GmbH, Singen, Germany	EUR 25	100%
BioSupport AG in Liquidation, Schlieren, Switzerland*	CHF 100	33%

** BioSupport AG was liquidated in 2016.*

Significant shareholders (DCG 1.2)

According to disclosure notifications filed with the Company to the SIX Swiss Exchange, no shareholder holds more than 3% of the share capital of the Company as of December 31, 2015.

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 Exchange platform on the following page:
https://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, 2015 (DCG 2)

Excerpts from the Articles of Association as of June 29, 2015:

Capital (DCG 2.1)

"Article 3a:
The share capital of the Company is CHF 3,240,458.28 and fully paid-in. It is divided into 108,015,276 registered shares with a nominal value of CHF 0.03 each."

Conditional capital (DCG 2.2)

"Article 3b:
The share capital may be increased by the maximum amount of CHF 391,515.96 by issuing up to 13,050,532 fully paid up registered shares with a nominal value of CHF 0.03 each. The issue of registered shares by exercising conversion and/or option rights and any other transfer of shares is subject to the transfer restrictions pursuant to Article 5 of the Articles of Association.

Up to 350,000 registered shares will be issued upon exercise of the option rights that were given to an investor pursuant to the Option Agreement dated March 20, 2012 as compensation for its expenses in connection with the placement of the majority of the shares issued as part of the capital increase resolved for at the General Meeting dated April 20, 2012. The options may be exercised until May 14, 2017 at an exercise price (subject to any adjustments within the scope of anti-dilution protection pursuant to the Option Agreement) of CHF 2.13 (hereinafter referred to as the "2012 OPTIONS").

Up to 12,700,532 registered shares will be issued upon exercise of "2012 WARRANTS". The 2012 WARRANTS are warrants that are issued pursuant to the Warrant Agreement dated March 20, 2012 and that entitle each warrant holder to subscribe to a new registered share of the Company. These warrants may be exercised until May 14, 2016 at an exercise price (subject to any adjustments within the scope of anti-dilution protection pursuant to the Warrant Agreement) of CHF 2.13 per warrant (hereinafter referred to as the "2012 WARRANTS").*

The Board of Directors shall determine the issue conditions for the 2012 OPTIONS and 2012 WARRANTS (provided that such is not already stipulated out in paragraphs 2 and 3 of the present Art. 3b). The subscription rights of shareholders with regard to the shares that are issued in connection with the exercise of the 2012 OPTIONS or the 2012 WARRANTS are excluded. The shareholders neither have a right to subscribe to the 2012 OPTIONS nor to the 2012 WARRANTS.

* *With effect as of November 6, 2015, venBio, the beneficial owner of 2012 OPTIONS irrevocably and unconditionally waived all rights to these options. Hence, these options do no longer exist.*

Article 3c:

The share capital of the Company increases in the nominal value of up to CHF 330,000 by issuance of up to 11,000,000 fully paid-in registered Shares with a nominal value of CHF 0.03 per share, subject to the exercise of options granted by the Company to employees of the Company or its subsidiaries, persons of a comparable position and Board members.

The pre-emptive rights of the shareholders shall be excluded. The conditions of the grant of the options, as the amount of the issue of the shares, the time of the entitlement for dividends as well as the kind of contribution, shall be determined by the Board of Directors in the form of special rules (Stock Option Plans).

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

Authorized capital (DCG 2.2)

"Article 3d:

The Board of Directors is authorized, at any time until March 12, 2017 to increase the share capital by a maximum of CHF 1,620,229.14 through the issuance of a maximum of 54,007,638 registered shares, to be fully paid up, with a nominal value of CHF 0.03 per share. Increases by underwriting as well as partial increases are permissible. The issue price, the time of dividend entitlement, and the type of contribution will be determined by the Board of Directors. Upon acquisition, the new shares will be subject to the transfer restrictions pursuant to Art. 4 of the Articles of Association.

The Board of Directors is authorized to exclude the pre-emptive right of shareholders if the newly issued registered shares (a) are at disposal as shares in the context of a 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) which probably could not be reached without the exclusion of the statutory pre-emptive right of the existing shareholders.

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

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

Changes in capital (DCG 2.3)

For further information on the changes in the capital structure in 2015, please see note 17 of the consolidated financial statements.

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

Consolidated Statement of Change in Shareholders' Equity[1]

in TCHF (except for share information)	Number of shares	Share capital	Additional paid-in capital	Other[2]	Total
January 1, 2013 restated	**22,411,431**	**2,241**	**238,299**	**(230,893)**	**9,647**
Total comprehensive loss	–	–	–	(30,943)	(30,943)
Convertible bond/loan notes: equity component	–	–	–	711	711
Issuance of share capital	8,113,845	812	23,530	–	24,342
Issuance of share capital from treasury shares	80,975	8	256	–	264
Use of treasury shares	(80,975)	(8)	–	8	–
Share capital issuance costs	–	–	(1,100)	–	(1,100)
Share-based compensation	–	–	1,309	–	1,309
Reclassification	–	–	134	(134)	–
December 31, 2013	**30,525,276**	**3,053**	**262,428**	**(261,251)**	**4,230**
Total comprehensive loss	–	–	–	(34,388)	(34,388)
Issuance of share capital from treasury shares	55,520	6	184	–	190
Use of treasury shares	(55,520)	(6)	–	6	–
Share based compensation	–	–	3,748	–	3,748
December 31, 2014	**30,525,276**	**3,053**	**266,360**	**(295,633)**	**(26,220)**
Total comprehensive income	–	–	–	5,265	5,265
Nominal value reduction of shares	–	(2,137)	2,137	–	–
Issuance of share capital	77,490,000	2,324	17,048	–	19,372
Reclassification of equity components	–	–	9,830	(9,830)	–
Share capital issuance costs	–	–	(281)	–	(281)
Share based compensation	–	–	2,533	–	2,533
December 31, 2015	**108,015,276**	**3,240**	**297,627**	**(300,198)**	**669**

[1] *For further details see "Consolidated statements of change in shareholders' equity" and note 17 "Shareholders' equity" to the consolidated financial statements.*

[2] *Including legal reserves, treasury shares, accumulated deficit, cumulative translation adjustment, equity component of the convertible bonds outstanding and cumulative pension adjustments.*

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 0.03 each. Each share is fully paid up 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.

Profit-sharing certificates (DCG 2.5)

The Company has not issued any profit-sharing 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 furthermore 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 as a Nominee for shareholders with voting rights only if the Nominee discloses the identity of those ultimate beneficial owners of shares claiming 0.5% or more of the Company's share capital.

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 shareholders' meeting would be required.

Convertible bonds and options (DCG 2.7)

In February 2007, the Company issued 2.875% p.a. convertible bonds with a nominal value of CHF 70 million. The convertible bond was initially due for repayment on February 20, 2012, and was convertible into the Company's shares at a conversion price of CHF 175. However, because Kuros did not have the financial means to fully repay the convertible bond at maturity, it proposed a bond restructuring to the bondholders on November 10, 2011. In summary, Kuros proposed to repay half of the outstanding nominal value at par and to postpone the repayment for the remaining half and to defer the payment of any interest to February 20, 2015. The repayment was at 150% of par value. Also, the coupon was increased from 2.875% p.a. to 5.75% p.a. Furthermore, the conversion price was reduced to CHF 7.71 and later to CHF 7.32 per share due to the anti-dilution clause. This restructuring became legally binding on March 13, 2012. In the course of the second, third and fourth quarter of 2012, Kuros bought back convertible bonds on the market with a nominal value of CHF 2.97 million. Kuros did not buy any convertible bonds on the market in 2014.

As Kuros still did not have the financial means to repay the restructured convertible bonds on February 20, 2015, it proposed another restructuring to the bondholders on January 26, 2015. Along this proposal, which became final and legally binding on May 4, 2015, all outstanding convertible bonds were converted into equity at a conversion price per share of CHF 0.25 plus an incentive fee (CHF 25.00 per bond), i.e. each convertible bond of nominal CHF 2,500 was converted into 10,000 Kuros shares. In total, convertible bonds with a nominal value of CHF 19,372,500 were exchanged into 77.49 million shares.

In January 2015, Kuros exchanged a nominal of CHF 4 million convertible bonds (out of treasury) against claims of CHF 2 million with a convertible loan note holder. Furthermore, Kuros sold a nominal of CHF 2,205,000 convertible bonds (out of treasury) to a third party for 56%, i.e. CHF 1,234,800.

Convertible loan notes

Four investors granted Kuros convertible loan notes, payable in two equal tranches at a total amount of CHF 13.25 million. The convertible loan notes (capital and interest) could have been converted into shares of the Company, whereby the conversion price was CHF 2.244. The conversion price was further reduced to CHF 2.13 per share due to the anti-dilution clause.
The first tranche of TCHF 6,625 was due for payment upon completion of the capital increase and was paid on May 15, 2012. Upon completion of enrollment in the ongoing Phase IIb clinical trial with CYT003 in allergic asthma, the Company called the second tranche of CHF 6.625 million on October 21, 2013. The second tranche of the convertible loan notes of CHF 6.625 million was paid in four installments between October 29, and December 10, 2013. As security for the convertible loan notes, the Company agreed to pledge certain patents and associated know-how (primary patents and know-how concerning CYT003) and to conclude a license agreement, which allows the use of the pledged intellectual property rights in case the Company does not meet its obligations as per the convertible loan note agreement. The convertible loan notes carried an interest rate of 9% p.a. and were due for repayment at 150% of the nominal value on February 10, 2015. In the event of a change in controlling interest, the investors could demand the repayment of the convertible loan notes at 190% of the original amount of the convertible loan notes.

At maturity, i.e. on February 10, 2015, CHF 14,238,125 (which is the non-subordinated part of the loan notes) was repaid. With effect as of May 4, 2015, a settlement with the convertible loan note holders was reached eliminating all claims from the convertible loan notes immediately after the conversion of the bonds into equity. In exchange, Kuros made a final payment of CHF 4.36 million on July 28, 2015 to the loan notes holders after the receipt of CHF 4 million from Novartis for the buy-out of CAD106 on July 15, 2015 and some payments from OnCore (now: Arbutus).

Overview of outstanding options[1] on December 31, 2015, options granted to the Board of Directors (BoD) are marked accordingly (each option entitles the option holder to purchase one share):

Year of grant	Number of options outstanding	Exercise price (CHF)	Exercise period (years)
2011	72,912	12.53	5
2012	565,180[2]	2.57	6
2012	80,000 BoD	2.57	6
2012	960,000[2]	2.54	6
2013	522,300	3.63	6
2013	60,000 BoD	3.63	6
2013	200,000	3.84	6
2013	380,000	3.85	6
2013	240,000	4.09	6
2013	60,000	4.04	6
2013[3]	1,464,150[2]	3.49	6
2013[3]	20,000 BoD	3.05	6
2014	2,040,000[2]	0.25	6
2015	4,950,000[2]	0.60	5
2015	450,000BoD	0.60	5
Total	**12,064,542**		

[1] For further details please see note 24 “Share options” to the consolidated financial statements.
[2] Options allocated to employees: options of individuals acting simultaneously as members of the Board of Directors and of the Executive Board are subsumed under “options allocated to employees”.
[3] The option plan “SOP 2014” was approved and granted by the Board of Directors in 2013.

The total 12,064,542 outstanding options represent CHF 361,936.26 of nominal capital.

Board of directors (DCG 3)

Members of the Board of Directors (DCG 3.1)

Name Position, nationality	Year of birth	First elected	Elected until	Compensation Committee	Nomination & Corporate Governance Committee	Audit Committee
Christian Itin, PhD Chairman & CEO, Switzerland	1964	2012	2016		⊙	⊙
John Berriman*, MBA Vice Chairman, UK	1948	2012	2016	✉		⊙
Joseph Anderson*, PhD Member, UK	1959	2012	2016	⊙	✉	
Kurt von Emster*, CFA Member, USA	1967	2012	2016	⊙	⊙	✉

* *John Berriman, Joseph Anderson and Kurt von Emster resigned as members of the Board of Directors with effect as of the date of the closing of the acquisition by shares of Kuros Biosurgery Holding AG by Cytos Biotechnology AG (now: Kuros Biosciences AG), i.e. as per January 18, 2016.*

✉ Chairman ⊙ Member

Christian Itin

Christian Itin, PhD, served from November 2012 until the merger with Kuros Biosurgery in January 2016 as Cytos' Chief Executive Officer and Chairman of the Board of Directors. With the completion of the merger to form Kuros Biosciences in January 2016 Christian Itin stepped down as CEO and continues to serve as Chairman of the Board. Before joining Cytos, Dr. Itin was President and Chief Executive Officer of Micromet Inc., a former NASDAQ-listed biopharmaceutical company, with its headquarters in Rockville, MD, USA, and an R&D center in Munich, Germany, which was acquired in March 2012 by Amgen, Inc. for USD 1.16 billion. He spent 13 years with Micromet in a number of senior management roles, becoming CEO in 2004. Before joining Micromet in 1999, Dr. Itin co-founded Zyomyx, Inc., a protein chip company based in Hayward, CA, USA. He received a Diploma in biology and a PhD in cell biology from Basel University, Switzerland. In addition, he also performed post-doctoral research at the Biocenter of Basel University and at Stanford University School of Medicine, CA, USA. Dr. Itin serves as Chairman and as of March 2016 also as CEO of Autolus Ltd. (London, UK) and as non-executive director of Kymab Ltd (Cambridge, UK). Christian Itin is a Swiss citizen and resident of Germany.

John Berriman

John Berriman, MBA, has been a member of the Board of Directors since May 2012 and was elected as its Vice Chairman in May 2012. He is the Chairman of the board of AIM-listed ReNeuron Group plc, Autifony Therapeutics Ltd and Picoseq SAS; and a non-executive director of Autolus Ltd. He is a past Chairman of Heptares Therapeutics Ltd (sold to Sosei in February 2015) and Algeta ASA (sold to Bayer AG in 2014 and previously listed on the Oslo stock exchange). He was a member of the Board of Directors of NASDAQ-listed Micromet Inc. until its sale to Amgen in 2012. Previously he was a Director of Abingworth Management Ltd, an international investment group dedicated exclusively to the life sciences and healthcare sectors, where he was involved in founding, financing and serving as a director of several biotechnology companies in Europe and the USA, many of which obtained listings on public stock exchanges. Before that, Mr. Berriman spent 14 years with Celltech Group plc and was an executive director on its Board when it listed on the London Stock Exchange in 1994. He has a degree in chemical engineering from the University of Cambridge, UK, and a Masters degree from the London Business School. He is a British citizen and a resident of the UK.

Joseph Anderson

Joseph Anderson, PhD, has been a member of the Board of Directors since May 2012. He is CEO of Perceptive Bioscience Investments Ltd. Dr. Anderson has more than 25 years' experience as a portfolio manager and analyst in the pharmaceutical and bioscience sectors and he has founded and managed two healthcare funds, has been a Special Adviser to the UK Government and published more than 50 papers on research management. Before joining Perceptive Bioscience Investments in 2016, Dr. Anderson was a Partner at Abingworth LLP and before that was Head of Global Healthcare Equities at First State Investments in London, part of the Commonwealth Bank of Australia. Prior to this, he was a pharmaceuticals analyst at Dresdner Kleinwort Benson, an investment bank. From 1990 to 1998, Dr. Anderson established and was Head of the Strategy Unit at The Wellcome Trust, one of the world's largest medical foundations. He has been a Non-executive Director of Algeta ASA (acquired by Bayer), Amarin Corp. (NASDAQ) and Epigenomics AG (Frankfurt). Dr. Anderson has a BSc (First Class Hons.) and a PhD in Biochemistry. He is a British citizen and resident of the UK.

Kurt von Emster

Kurt von Emster, CFA has been a member of the Board of Directors since May 2012. He is a Managing Partner at Abingworth LLP, an international investment group dedicated to the life sciences and healthcare sectors. He has been an institutional biotechnology and health care analyst and portfolio manager for over 25 years. Mr. von Emster's investment career started in 1989 at Franklin Templeton where he founded and managed several health and biotechnology funds in the 1990s, each achieving a 5-star Morningstar ranking. In 2001, Mr. von Emster became a General Partner at MPM Capital, a leading biotechnology private equity firm, and launched the MPM BioEquities Fund, a cross over public and private biotechnology hedge fund. He was the portfolio manager of this fund from inception in 2001 until his departure in 2009. In 2009, he co-founded venBio, a strategic life science investment firm and departed in January 2015. He is a member of the Board of Directors of Crispr Therapeutics, Kesios and CymaBay Therapeutics Inc., chairman of the board of Sutrovax, and a former member of the Board of Aurinia Pharmaceuticals, Somaxon Pharmaceuticals Inc. and Facet Biotech Corporation and a former Board observer of Acceleron Pharma. Mr. von Emster holds a BA from the University of California, Santa Barbara, and is a certified chartered financial analyst (CFA). He is a US citizen and resident of the USA.

As CEO, Christian Itin is also a member of the Executive Board. 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)

Other than as described above, none of the members of the Board of Directors 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.

Elections and terms of office (DCG 3.3)

The Articles of Association provide that the Board of Directors must consist of three to nine board members. On December 31, 2015, it consisted of four members.

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

Internal organizational structure (DCG 3.4)

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

- Preparing, calling, and chairing the meeting of the Board of Directors and the shareholders' meetings
- Supervision of the implementation of resolutions passed by the Board of Directors or the shareholders' meeting
- Representation of the Board of Directors to the public, public authorities and the shareholders.

Since November 20, 2012 the Chief Executive Officer holds the additional office of the Chairman of the Board and thus presides over the Executive Board and the Board of Directors.

The Board of Directors constitutes itself and appoints its chairman, vice-chairman and secretary.

The Board of Directors 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 of Directors. The members of the committees are appointed by the Board of Directors. Members of the committees were all non-executive directors in 2015 with the exception of Christian Itin, Chairman and CEO.

The Board of Directors convened in person or by phone 10 times in 2015. In addition, there is contact between meetings as required. Members of senior management regularly attend board meetings in order to report on areas of the business within their responsibility and to respond to questions from board members. One part of the meetings always takes place with the members of the Board of Directors only. No consultants, with the exception of the Company's lawyer, participated in board meetings in 2015.

Attendance at the Board of Directors and committee meetings in 2015:

Name	Board of Directors*	Compensation Committee**	Nomination & Corporate Governance Committee**	Audit Committee
Christian Itin, PhD	10	–	–	1
John Berriman*, MBA	10	–	–	1
Joseph Anderson*, PhD	10	–	–	–
Kurt von Emster*, CFA	10	–	–	1

** Including telephone conferences*
*** These committee meetings were held within the board meetings due to the small site of the board.*

Compensation Committee
The Compensation Committee meets as often as business requires and has the following duties (excerpt from the Compensation Committee Charter of former Cytos Biotechnology Ltd approved by the Board of Directors on November 18, 2013):

"4. Duties
The Committee has the following duties, and such other duties as may be assigned to the Committee by the Board from time to time:

4.1 Compensation Policies
The Committee shall:
- *prepare and recommend to the Board for approval a compensation policy for the Board (the "Director Compensation Policy") and for the executive board, and thereafter annually review such policies and recommend changes, if any, for approval by the Board; such compensation policies shall provide for near-term and long-term compensation, including variable compensation for the executive board, which (1) is designed to attract, motivate and retain persons with the necessary skills and character, (2) is consistent with market conditions, and in the case of variable compensation, consistent with the Company's and the individual's performance, and (3) aligns the interests of the members of the Board and the executive board with the interests of the Company;*
- *periodically review the Company's compensation policies for its employees who are not members of the executive board.*

4.2 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.

4.3 Executive Board Compensation and Contracts

The Committee shall:

- *evaluate annually the performance of 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;*
- *review and discuss the annual performance evaluation of the members of the executive board presented by the CEO to the Committee;*
- *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;*
- *review and approve any employment contracts, severance contracts, or other agreements that the Company proposes to enter into with any present, future or former members of the executive board; provided that the key terms of such contracts shall be submitted for approval by the Board.*

4.4 Incentive, Equity Compensation and Perquisite Benefits Plans

The Committee shall:

- *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;*
- *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;*
- *develop and periodically review equity compensation plans, and submit such plans and any changes to such plans to the Board for approval;*
- *review and approve any perquisite benefits plans proposed by the CEO for the members of the executive board.*

4.5 Corporate Goals

The Committee shall:

- *review the annual corporate goals proposed by the CEO, and recommend such goals as approved by the Committee for approval by the Board;*
- *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.*

4.6 Compensation Disclosures

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

4.7 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.

4.8 Committee Charter

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

The chairperson of the Committee shall report to the chairperson 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 chairperson of the Board without delay.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee meets as often as business requires, but at least twice per year and has the following duties (excerpt from the Nomination and Corporate Governance Committee Charter of former Cytos Biotechnology Ltd approved by the Board of Directors on November 18, 2013):

"4. Duties

The Committee has the following duties, and such other duties as may be assigned to the Committee by the Board from time to time:

4.1 Director Qualifications and Nomination

The Committee shall:

- *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;*
- *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:

- *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;*
- *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

- *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;*
- *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:

- *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;*
- *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 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.

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

The chairperson of the Committee shall report to the chairperson 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 chairperson of the Board without delay.

Audit Committee
The Audit Committee meets (by person or by telephone) as often as business requires and has the following duties (excerpt from the Audit Committee Charter of former Cytos Biotechnology Ltd approved by the Board of Directors on September 3, 2013):

"4. Duties
The Committee has the following duties, and such other duties as may be assigned to the Committee by the Board from time to time:

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 of its assessment of the financial statements and decide whether to recommend the statutory and consolidated financial statements to the Board for approval and presentation to the general shareholders' meeting;*
- *review in cooperation with the Auditor and the management whether the accounting principles applied by the Company and its subsidiaries are appropriate in view of the size and complexity of the Company.*

4.2 Interaction with the Company's External Auditor (the "Auditor")
The Committee shall:

- *review and assess the qualifications, independence, performance and effectiveness of the Auditor, and recommend to the Board the nomination of the Auditor for 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 that 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."

The chairperson of the Committee shall report to the chairperson 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, including, without limitation any discussions or decisions relating to the quality or integrity of the financial statements, compliance with legal or regulatory requirements, and performance and independence of Auditor. Urgent matters shall be communicated to the chairperson of the Board without delay. The AC met once times in 2015.

Definitions of areas of responsibility (DCG 3.5)
All executive functions within the Company not reserved for the Board of Directors or the Chairman as stated in the Articles or the internal regulations ("Internal Regulations") are delegated to the Chairman (CEO) and the Executive Board. The Chairman (CEO) chairs the Executive Board and is responsible for its organization.

In accordance with article 716a of the Swiss Code of Obligations (CO) and Article 23 of the Articles of Association, the Board of Directors has the following non-assignable and non-withdrawable duties:

"3.2. Duties of the Board
3.2.1. General
The Board has the power to make decisions on all matters not vested in the General Meeting or delegated to any other corporate body or person by statute, the Articles or the Regulations.

3.2.2. Ultimate Leadership and Supervision

The Board has the ultimate responsibility for the success of the Company, and has the authority and obligation to resolve on the following matters:

- *(a) the ultimate direction of the business of the Company and the issuance of the necessary directives, including, by way of example:*
  - *(i) determination of the business strategy taking into account the information, proposals and alternatives presented by the Chairman & CEO;*
  - *(ii) setting of annual operational and financial goals and approval of the annual business plan and budget (and any material deviations therefrom), based on proposals presented by the Chairman & CEO;*
  - *(iii) reviewing the Company's risk assessment and risk management processes, and monitoring the risks that may affect the Company's success and long-term growth;*
  - *(iv) entry into new areas of activity and withdrawal from existing areas of the business;*
  - *(v) approving all matters and business decisions where such decisions exceed the authority delegated by the Board to the committees or the Chairman & CEO.*
- *(b) the determination of its organization and ultimate supervision of the organization and the persons entrusted with the management of the Company, including, by way of example:*
  - *(i) appointment and dismissal of the Chairman & CEO and the other members of the Executive Board, and development of a plan for their succession;*
  - *(ii) establishment of a reporting and compliance framework for the Company to ensure compliance with the law, the Articles, the Regulations, and the directives of the Board; and*
  - *(iii) approval of the compensation policy of the Company, conduct of an annual review of the performance of the CEO and the members of the Executive Board, and approval of their compensation and severance packages;*
  - *(iv) adoption from time to time of further regulations and instructions regarding the organization of the business and the duties and responsibilities of the executive bodies.*
- *(c) the organization of the accounting, financial and risk control and financial planning systems as required for management of the Company, including:*
  - *(i) approval of accounting principles and changes thereto;*
  - *(ii) review and approval of the framework for the Company's internal control systems; and*
  - *(iii) establishment of the Company's finance and investment policy;*
  - *(iv) review and approval of the annual financial statements and the annual report of the Company prior to its submission to the General Meeting.*

3.2.3. Additional Duties

The Board has additional duties assigned to it by statute and in the Articles, including:

- *(a) convening of the General Meetings, approval of proposals to be made to the General Meeting, and implementation of any lawful resolutions of the General Meeting;*
- *(b) notification of the court in the event that the Company is over indebted;*
- *(c) adoption of any resolutions and reports concerning an increase or decrease of the share capital to the extent that such power is vested in the Board, including resolutions concerning confirmation of capital increases or decreases and related amendments to the Articles (in particular but not limited to decisions and acts to be taken in accordance with Articles 651a, 652e, 652g, 653g, 653i or also 634a of the Swiss Code of Obligations).*

3.2.4. Resolution on Certain Business Matters and Transactions

The Board has reserved the right to resolve on the following business matters and transactions:

- *(a) execution of loan or lease agreements with a principal amount borrowed by the Company in excess of CHF 1 million;*
- *(b) granting of a loan or taking on contingent liabilities in respect of independent third parties with an exposure of more than CHF 250,000;*
- *(c) opening and closing of offices or other sites from which the Company operates its business;*
- *(d) merger and acquisitions of any kind, divestments of companies, participations in companies or businesses, or incorporations or liquidations of companies or businesses as well as any reorganization;*
- *(e) initiation and settlement of legal proceedings of material significance in terms of financial exposure of the Company or impact on the Company's business;*
- *(f) all transactions between the Company and Board members or members of the Executive Board;*
- *(g) contracts with third parties outside the ordinary course of business of the Company;*
- *(h) any other matters for which the Chairman & CEO requests a resolution of the Board."*

Information and control instruments versus the Executive Board (DCG 3.6)

The members of the Board of Directors receive comprehensive management reports from time to time designed to provide them with an update about business activities in general and developments in clinical trials, finance and any other matters of importance. These reports are discussed during board meetings together with the members of the Executive Board. In addition, strategic discussions are held. A condensed financial statement, drafted on the same financial principles (IFRS) as the annual report, was distributed in 2015 to the members of the Board of Directors on a half-year basis.

Insider Trading Policy

In order to prevent insider trading an Insider Trading Policy was created, which is periodically reviewed and updated by the Board of Directors. The goal of the policy is to regulate any inappropriate trading by insiders based on confidential information. Specifically, any insider who has knowledge of insider information shall not trade in securities of the company to which such information pertains, 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, up to and 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 on or passing on insider information.

Code of Conduct

The Company also has a Code of Conduct. Kuros is committed to, and expect its employees, officers and directors ("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 we engage in business. All Associates are responsible and accountable for complying with the provisions of this Code as well as with all applicable law and regulations.

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

In 2015, none of the members of the Board of Directors, except the Chairman who is also CEO, participated in any meeting of the Executive Board.

In 2015, the CFO of the Company was present at all Audit Committee meetings. If deemed appropriate by any member of the Audit Committee, part of the committee meetings takes place without the presence of members of management.

Executive board (DCG 4)

Members of the Executive Board (DCG 4.1)

Name	Year of birth	Nationality	Position
Christian Itin*, PhD	1964	Swiss	Chairman and Chief Executive Officer (CEO)
Frank Hennecke*, PhD	1963	Swiss/German	EVP Product Development
Harry Welten, MBA	1965	Swiss	EVP and Chief Financial Officer (CFO)

* *Christian Itin and Frank Hennecke resigned as members of the Executive Board with effect as of the date of the closing of the acquisition by shares of Kuros Biosurgery Holding AG by Cytos Biotechnology AG (now: Kuros Biosciences AG), i.e. as per January 18, 2016. Christian Itin remained Chairman of the Board of Directors.*

Christian Itin

Christian Itin, PhD, served from November 2012 until the merger with Kuros Biosurgery in January 2016 as Cytos' Chief Executive Officer and Chairman of the Board of Directors. With the completion of the merger to form Kuros Biosciences in January 2016 Christian Itin stepped down as CEO and continues to serve as Chairman. Before joining Cytos, Dr. Itin was President and Chief Executive Officer of Micromet Inc., a former NASDAQ-listed biopharmaceutical company, with its headquarters in Rockville, MD, USA, and an R&D center in Munich, Germany, which was acquired in March 2012 by Amgen, Inc. for USD 1.16 billion. He spent 13 years with Micromet in a number of senior management roles, becoming CEO in 2004. Before joining Micromet in 1999, Dr. Itin co-founded Zyomyx, Inc., a protein chip company based in Hayward, CA, USA. He received a Diploma in biology and a PhD in cell biology from Basel University, Switzerland. In addition, he also performed post-doctoral research at the Biocenter of Basel University and at Stanford University School of Medicine, CA, USA. Dr. Itin serves as Chairman and as of March 2016 also as CEO of Autolus Ltd. (London, UK) and as non-executive director of Kymab Ltd (Cambridge, UK). Christian Itin is a Swiss citizen and resident of Germany.

Frank Hennecke

Frank Hennecke, PhD, serves as Executive Vice President Product Development of Cytos since April 2001. Dr. Hennecke is responsible for process sciences and pioneered the manufacturing process for Qbeta-derived virus-like particles, the foundation of Cytos class of product candidates. He trained in biology and received a PhD in molecular biology from the University of Göttingen, Germany, in 1996. Dr. Hennecke joined Cytos in 1998 after a postdoctoral fellowship with Prof. Andreas Plückthun at the University of Zurich.

Harry Welten

Harry Welten, MBA, serves as Executive Vice President and Chief Financial Officer of Cytos since August 2010. He has more than 20 years of international executive experience, more than 15 of which as a CFO in the biotech industry. Prior to joining Cytos, Mr. Welten was CFO at Nitec Pharma AG in Reinach, Switzerland, which merged with US-based Horizon Pharma Inc. and was listed on NASDAQ in 2011. From 2001 to 2009, he was CFO at Arpida AG, Basel, Switzerland, taking the company public in 2005 on the SIX Swiss Exchange and raising more than CHF 250 million in private and public offerings. Prior to joining Arpida, he held various senior management positions at UBS group including Director at UBS Warburg in New York. Before joining UBS,

Mr. Welten was with ABB and DaimlerChrysler. He is a Chairman of the Board of Directors of BiognoSYS AG and member of the Board of Directors of Horizon Pharma Switzerland GmbH, Anokion SA, ProteoMedix AG and BioSupport AG, and 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, NY, USA.

Other activities and vested interests (DCG 4.2)

Other than as described above, none of the members of the Executive 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.

Management contracts (DCG 4.3)

There are no management contracts.

Other members of the Company's management team

In addition to the members of the Executive Board, the following member of the Company's extended management team provides senior leadership to key functions:

Philippe Saudan

Philippe Saudan, PhD, serves as Vice President and Chief Scientific Officer of Cytos from March 2014 (before that, he served as Vice President Research & Preclinical Development). He has been leading key research and development programs at Cytos and has been managing collaborations with corporate partners. Dr. Saudan joined Cytos' Research Department in 2000. Dr. Saudan graduated in biology at the University of Zurich and conducted research in Virology at the Swiss Institute for Experimental Cancer Research, receiving his PhD in Virology from the University of Lausanne, Switzerland.

Compensation, shareholdings and loans (DCG 5)

Content and method of determining compensation and the share-ownership programs (DCG 5.1)

The compensation of the Board of Directors and the Executive Board is defined and reviewed by the Board of Directors 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 will be subject to shareholders' approval.

No compensation was paid to former members of Board of Directors or of the Executive Board.

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

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

Not applicable, as the Company is domiciled in Switzerland.

Shareholders’ participation (DCG 6)

Voting rights and representation restrictions (DCG 6.1)

All shares have the same voting rights and voting rights may be exercised only after the Board of Directors 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 shareholders’ meetings, but will still be entitled to dividends and other rights with a financial value.

At shareholders’ meetings, 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.

Statutory quorums (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 shareholders’ meeting (DCG 6.3)

There are no provisions in the Articles regarding the convocation of the shareholders’ meeting that deviate from the rules of the Swiss Code of Obligations.

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 a shareholders’ 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).

Entry into the share register (DCG 6.5)

Those shareholders eligible to vote and entered in the share register as of June 8, 2015, automatically received the invitation to the 2015 Annual Shareholders’ Meeting. Shareholders who were not registered on June 8, 2015, but who purchased shares at a later date received the invitation to the shareholders’ meeting later, provided the request for registration as shareholder was received at the share register no later than June 22, 2015. At the Annual Shareholders’ Meeting held on June 29, 2015, shareholders registered with voting rights in the share register on June 22,2015, were entitled to vote their shares.

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 restructuring of the Company in April 2014 following negative clinical results from its lead compound CYT003, the Executive Board agreed to gradually reduce the termination notice period from twelve to one month, which was reached in February 2015.

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 for the first time at the shareholders' meeting in June 2002. The appointment is made on an annual basis. Thomas Brüderlin became the auditor in charge of the mandate in the 2015 financial year. The rotation of the auditor in charge was due after seven years of duty.

Auditing fees (DCG 8.2)

In 2015, PwC earned in total TCHF 101 for reviewing the capital increase report, the statutory interim balance sheet as of May 11, 2015 and the statutory interim balance sheet as of July 19, 2015 as well as for reviewing the half-year statements, auditing statutory and consolidated financial statements and reviewing the internal control system.

Additional fees (DCG 8.3)

In 2015, PwC earned additional fees from the group in the amount of TCHF 30 for services in conjunction with the business combination with Kuros Biotechnology Ltd, as closed on January 18, 2016.

Information tools pertaining to the external audit (DCG 8.4)

In the meeting of the Audit Committee, the auditors were present. They presented the detailed report to the Audit Committee and Board of Directors and also commented on the significant results of the year-end audit 2015. Furthermore, the audit scope, audit and review procedures, independence of auditors, and audit fees were discussed. The Board of Directors assesses the performance of the auditors by its adherences to deadlines and agreed budgets as well as quality of reporting to the Board of Directors and Executive Board. The Company strives to safeguard and support the independence of the auditor by avoiding conflicts of interest, and carefully examines conflict of interest considerations before engaging its auditor for other consulting services in order not to endanger the independence of its auditor.

Information policy (DCG 9)

Upon request of shareholders entered in the share register, the Company will provide them with regular information such as Annual Reports, Half-year Reports and press announcements.

Kuros Biosciences' website provides additional information such as an overview of the Company's organization, science and technology, product pipeline, archived and latest press releases, publication dates of financial reports and the date of the annual shareholders' meeting. Quarterly and Annual Reports as well as the Articles were also available on the website.

Ad-hoc press releases of available on the website of Kuros Biosciences at:
http://www.kuros.ch/news-events/press-releases.html

Members of the Executive Board 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 2015

Overview of the Compensation Report

This Compensation Report provides the information required by the federal Ordinance against excessive compensation in listed companies (OeEC, effective as of January 1, 2014), 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 (effective date October 1, 2014) and the Swiss Code of Best Practice for Corporate Governance (status August 28, 2014).

On December 3, 2015, Kuros Biosurgery Holding Ltd and Cytos Biotechnology Ltd (which was renamed Kuros Biosciences Ltd on January 18, 2016) 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. After the closing, former Kuros Biosurgery Holding Ltd shareholders own around 80% of the combined entity whereas Cytos Biotechnology Ltd shareholders who were shareholders prior to the combination hold about 20% of the combined entity.

The Board of Directors will submit the Compensation Report to a consultative vote at the annual shareholders' meeting 2016 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 of Directors followed by details for the Executive Board.

General remark

In light of the major setback with its lead product CYT003 and the subsequent major reduction in operational activities in 2014 including a reduction in workforce, the Board of Directors as well as the Executive Board were substantially reduced. As per year-end 2015, the Board of Directors consists of four people and the composition of the subcommittees has been amended accordingly as shown in the Corporate Governance report. Due to the low number of Board members, three Board members hold positions in two committees (out of three) and one member holds a position in each of the three committees. The Compensation Committee is comprised of three members of the Board of Directors whereby the CEO and Chairman of the Board, Dr. Christian Itin, is not member of that committee.

Compensation policy and philosophy

The compensation of the members of the Board of Directors and of the Executive Board has to be reviewed annually by the Compensation Committee which in turn suggests to the Board of Directors any changes to such compensation. In light of the corporate restructuring as mentioned above, the Compensation Committee suggested and the Board of Directors approved such changes to the compensation outside the annual review schedule to address the substantial changes in the business operation.

Any discussion among the compensation committee takes place in absence of members of the Executive Board. Any discussion within the Board of Directors takes place in presence of the Chairman and CEO unless his own compensation is being discussed in which case he is absent from such session.

Compensation elements for the Board of Directors and Executive Board

Board of Directors

In light of the failed Phase IIb study of the Company's lead product CYT003, the Board agreed to change the compensation as of June 1, 2014, with Mr. Berriman receiving 85% of the amounts due and Dr. Anderson and Mr. von Emster waiving their right to such compensation. For the first half of 2015, Mr. Berriman waived his right to receive a lump sum of TCHF 10 per quarter. With effect as of July 1, 2015, the annual cash compensation for the Board was TCHF 40 for John Berriman and TCHF 30 each, for Joseph Anderson and Kurt von Emster.

As the Chairman of the Board is also the CEO of the Company, he is not entitled to compensation under the Director Compensation Policy and has not received any compensation relating to his service as a member or Chairman of the Board.

Kuros reimburses all board members' out-of-pocket expenses incurred in relation to their service on the board on an on-going basis upon presentation of the corresponding receipts.

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

Name	Cash (TCHF)	Options (TCHF)	Variable bonus (TCHF)	Car leasing (TCHF)	Employer Social Security (TCHF)	Total (TCHF)	Options (number)
Christian Itin Chairman of the Board and CEO	424.0	462.0	264.0	–	117.1	1,267.1	1,650,000
John Berriman Vice Chairman of the Board	20.0	42.0	–	–	0.2	62.2	150,000
Joseph Anderson Member of the Board	15.0	42.0	–	–	1.1	58.1	150,000
Kurt von Emster Member of the Board	15.0	42.0	–	–	1.1	58.1	150,000
Total Board of Directors	**474.0**	**588.0**	**264.0**	**0.0**	**119.5**	**1,445.5**	**2,100,000**

All amounts are gross amounts.

The Company regularly grants share options to the members of the Board of Directors, the members of the Executive Board and the employees of the Company. The options granted 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. Expiry date on July 1, 2020*. The fair value at grant date amounted to CHF 0.28 and the exercise price is CHF 0.60. Number of options granted 5,400,000. 100% vesting.

Grant date	**July 1, 2015**
Exercise price	CHF 0.60
Fair value (Black-Scholes)	CHF 0.28
Expiry date	July 1, 2020*
Christian Itin	1,650,000
John Berriman	150,000
Joseph Anderson	150,000
Kurt von Emster	150,000

* *100% vesting upon change of control effective as per January 18, 2016.*

Compensation for Board of Directors for the year 2014 (audited)

Name	**Cash** (TCHF)	**Options** (TCHF)	**Variable bonus** (TCHF)	**Car leasing** (TCHF)	**Employer Social Security** (TCHF)	**Total** (TCHF)	**Options** (number)
Christian Itin Chairman of the Board and CEO	480.0	45.0	66.0	–	112.6	703.6	450,000
John Berriman Vice Chairman of the Board	51.4	–	–	–	2.2	53.6	–
Arthur Krieg Vice Chairman of the Board	39.0	–	–	–	2.9	41.9	–
Joseph Anderson Member of the Board	35.0	–	–	–	2.6	37.6	–
Paul Brooke Member of the Board	45.0	–	–	–	2.3	47.3	–
Yamo Deniz Member of the Board	33.0	–	–	–	2.5	35.5	–
Kurt von Emster Member of the Board	39.0	–	–	–	2.9	41.9	–
Total Board of Directors	**722.4**	**45.0**	**66.0**	**0.0**	**128.0**	**961.4**	**450,000**

All amounts are gross amounts.

The Company regularly grants share options to the members of the Board of Directors, the members of the Executive Board and the employees of the Company. The options granted mentioned above to Christian Itin were allocated in 2014, 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 11, 2014**
Exercise price	CHF 0.25
Fair value (Black-Scholes)	CHF 0.10
Expiry date	July 12, 2018
Christian Itin	450,000

Executive Board

The compensation of the members of the Executive Board includes a base salary, performance-related bonus, stock options, pension plan contributions, and certain insurance for death and invalidity. The amount of the base salary depends on the position, responsibilities, experience and skills. The base salaries are reviewed periodically by the Compensation Committee. The bonus and the stock options vary and are based on company performance. The potential bonus is determined as a lump sum dependent on certain goals having achieved and takes into account the performance of the entire Executive Board.

In April 2014, in light of the restructuring of the Company, the Board of Directors had resolved to eliminate the bonus scheme in place and to gradually reduce the termination periods of the members of the Executive Board from 12 months down to one month with one month being reached in February 2015. The termination period was increased from one month to three months for all executives for the period of June 2015 to September 2015. As of October 2015, the termination periods were again reduced by one month each month to reach one month by December 2015. As with regards to bonus for 2015, corporate goals tied to specific milestones in the further restructuring of the Company were resolved. Specifically, there were three corporate goals for 2015: (i) remove all debt and maintain going concern (weight of 40%),

(ii) propose a strategic transaction to the board that ensures continued going concern for the combined entity (40% weight) and (iii) leverage Kuros' technology and product candidates in at least one license agreement (20% weight).

in CHF	**Frank Hennecke**	**Christian Itin**	**Harry Welten**
Total bonus	**99,540**	**264,000**	**156,540**

Members of the Executive Board are subject to the Standard Terms and Conditions for Kuros employees. Kuros has no contractual termination payment obligations to members of the Board of Directors or the Executive Board.

Compensation for Executive Board 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 Board)	304.4	364.0	156.5	79.8	904.7	1,300,000
Total Executive Board	**510.6**	**560.0**	**256.1**	**134.5**	**1,461.2**	**2,000,000**

Explanations:

- Individuals acting simultaneously as member of the Board of Directors and of the Executive Board are reported under Board of Directors.
- 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.
- The group regularly grants share options to the members of the Board of Directors, the members of the Executive Board 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 with an exercise price mentioned below:
  Option plan 2015: granted on July 1, 2015. Expiry date on July 1, 2020*, the fair value at grant date amounted to CHF 0.28 and the exercise price is CHF 0.60. Number of options granted 5,400,000.
  ** 100% vesting upon a change of control effective as per January 18, 2016.*
- No loans or credits were granted to members of Board of Directors or Executive Board.

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

Compensation for Executive Board for the year 2014 (audited)

Name	Cash (TCHF)	Options (TCHF)	Variable bonus (TCHF)	Employer Social Security (TCHF)	Total (TCHF)	Options (number)
Matthias Alder, EVP Corporate Development and Legal Affairs (highest compensated member of Executive Board)*	443.2	30.0	–	119.8	593.0	300,000
Total Executive Board	**1,032.1**	**90.0**	**77.0**	**241.4**	**1,440.5**	**900,000**

** Resigned from his function effective as of October 27, 2014.*

Explanations:

- Individuals acting simultaneously as member of the Board of Directors and of the Executive Board are reported under Board of Directors.
- Since 2012 the bonus year is equal to the calendar year. Therefore the bonus amount is composed of the annual bonus of 2014, which is accrued.
- The group regularly grants share options to the members of the Board of Directors, the members of the Executive Board and the employees. One option plan was allocated in 2014; the fair values were calculated using Black-Scholes method. Each option entitles the holder to buy one share of the Company with an exercise price mentioned below:
  Option plan 2014: granted on July 11, 2014. Expiry date on July 12, 2018*, the fair value at grant date amounted to CHF 0.10 and the exercise price is CHF 0.25. Number of options granted 2,040,000.
  ** 100% vesting upon a change of control.*
- No loans or credits were granted to members of Board of Directors or Executive Board.
- No severance payments were made to former members of Board of Directors or Executive Board.

Stock option program

The purpose of the stock option program is to provide the Executive Board, other management members and certain employees with an opportunity to obtain stock 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 stock option program is wholly discretionary. Key factors considered by the Board of Directors in the stock option grant are the amount of shareholder approved conditional capital and the dilution of Kuros shares. Any value, income or other benefit derived from any stock 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 of Directors and is based on the closing price of the Kuros shares on the SIX Swiss Exchange on the grant date. The strike price of the options granted in the business year 2015 was CHF 0.60 (2014: CHF 0.25).

Indirect benefits

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

Loans and credits (audited)

The Company has not granted any loans, credits or guarantees to current or past members of the Board of Directors, of the Executive Board, or to related persons in 2015 or 2014. No consulting fee for services rendered by former members of the Executive Board has been paid (2014: TCHF 96).

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

We have audited the compensation report of Kuros Biosciences AG for the year ended 31 December 2015. 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 31 to 32 and pages 34 to 35 of the compensation report.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the compensation report of Kuros Biosciences AG for the year ended 31 December 2015 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Thomas Bruederlin	Thomas Ebinger
Audit expert Auditor in charge	Audit expert

Basel, 25 April 2016

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

Financial Statements 2015

Consolidated Financial Statements 2015

Financial performance and results of operations (IFRS)

Debt-free balance sheet and significantly lower cash burn

Funds available for financing the operations of Kuros Biosciences Ltd (formerly Cytos Biotechnology Ltd; henceforth called "Kuros") amount to CHF 2.83 million as per December 31, 2015, and include cash and cash equivalents, financial assets and trade and other receivables. This is CHF 14.22 million lower than on December 31, 2014 (CHF 17.06 million) and is primarily driven by the repayment of the non-subordinated part of the loan notes of CHF 14.2 million on February 10, 2015 as well as the settlement of all remaining claims of the loan note holders in the amount of CHF 4.36 million on July 28, 2015.

Revenues consist of license fees and buy-out of CAD106

In 2015, revenue comprising deferred income from license fees paid by Novartis of CHF 0.64 million has been recognized for the period from January 1, to August 20, 2015. In March 2015, Novartis has bought out the collaboration and license contract for CAD106 for a lump-sum payment of CHF 4 million (plus VAT) and is therefore not required going forward to make any further payments under the collaboration and license agreement. Kuros had pre-assigned the amount to the holders of the loan notes as part of the final settlement of all outstanding loan notes. In addition, Kuros received revenues from Checkmate (license fee of CHF 0.98 million) and from Arbutus (CHF 0.73 million for material relating to the VLP particle).

Significant reduction in net operating costs due to discontinuation of development

Net operating costs amounted to CHF 5.70 million, compared to CHF 19.94 million in the previous year. In 2015, research and development costs decreased by CHF 16.39 million to CHF 1.09 million as a result of the discontinuation of the Phase IIb clinical study in asthma in the first half-year of 2014 and a substantial reduction of work force primarily in development and regulatory. General and administrative and sales and marketing expenditures combined amounted to CHF 7.37 million (2014: CHF 5.48 million). The increase in expenses reflected higher workload as a result of the discontinuation of the research and development department. Other income consisted of proceeds from sub-lease agreements reaching CHF 2.75 million, a reduction of CHF 0.26 million compared to 2014 (CHF 3.01 million). In 2014, other income included the final release of accruals for Asklia (CHF 0.49 million).

Mandatory conversion lead to positive net financial income

With CHF 11.23 million, the financial income was significantly higher compared to 2014 (TCHF 88) as a result of the mandatory conversion of all convertible bonds into equity and the partial waiver of claims by the loan note holders with effects of CHF 9.61 million and CHF 1.62 million, respectively. These are one-time effects and will not occur in the future as all debt has been eliminated as of December 31, 2015. Financial expenses amounted to CHF 5.66 million and were significantly lower than in 2014 (CHF 15.19 million) due to the conversion of the convertible bonds and the repayment of the non-subordinated part of the convertible loans in February 2015 as well as the repayment of the remainder of claims by loan note holders on July 2015.

Positive result for 2015 thanks to three extraordinary effects

Significantly lower operating costs, a much higher financial income and much lower financial expenses resulted in a net income of CHF 6.23 million for 2015 compared to a net loss of CHF 34.03 million in the previous year.

Significantly lower cash burn

The gross cash burn for operating activities, as calculated on the cash flow statement, was a monthly average of CHF 0.21 million compared to CHF 2.06 million in 2014.

Consolidated balance sheets as of

in TCHF, IFRS	Note	December 31, 2015	December 31, 2014
Non-current assets:			
Property and equipment, net	12	–	–
Investment in associates	13	80	80
Total non-current assets		**80**	**80**
Current assets:			
Pension assets	23	–	83
Prepayments and other assets	11	345	413
Trade and other receivables	10	741	120
Cash and cash equivalents	8	2,093	16,935
Total current assets		**3,179**	**17,551**
Total assets		**3,259**	**17,631**
Shareholders' equity:			
Share capital	17	3,240	3,053
Legal reserves	17	2	2
Additional paid-in capital	17	297,627	266,360
Convertible bond/loan notes: equity component		–	9,830
Treasury shares	17	(210)	(210)
Accumulated deficit		(299,990)	(305,255)
Total shareholders' equity		**669**	**(26,220)**
Non-current liabilities:			
Convertible bond/loan notes: liability component	14	–	–
Convertible bond/loan notes: accrued interest	14/15	–	–
Pension liabilities	23	894	–
Provisions	16	–	–
Total non-current liabilities		**894**	**–**
Current liabilities:			
Trade accounts payable		315	152
Other current liabilities		315	110
Accrued expenses	15	883	424
Convertible bond/loan notes: liability component	14	–	37,592
Convertible bond/loan notes: accrued interest	14/15	–	4,931
Deferred income		183	642
Provisions	16	–	–
Total current liabilities		**1,696**	**43,851**
Total shareholders' equity and liabilities		**3,259**	**17,631**

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

Consolidated income statements

in TCHF, IFRS	Note	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Revenue	5/6	6,355	1,000
Revenue		**6,355**	**1,000**
Research and development		(1,085)	(17,473)
Sales and marketing		(46)	(202)
General and administrative		(7,323)	(5,276)
Other income		2,753	3,014
Net operating costs	18	**(5,701)**	**(19,937)**
Operating income/(loss)		**654**	**(18,937)**
Financial income		11,230	88
Financial expense		(5,657)	(15,185)
Share of gain of associates	13	–	8
Income/(loss) before tax		**6,227**	**(34,026)**
Tax expenses	22	–	–
Net income/(loss)		**6,227**	**(34,026)**
Basic net income/(loss) per share (CHF)	25	0.08	(1.20)
Diluted net income/(loss) per share (CHF)	25	0.08	(1.20)

Consolidated statements of comprehensive Income

in TCHF, IFRS	**Note**	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Net income (loss)		6,227	(34,026)
Items that will not be reclassified to profit or loss:			
Remeasurement of pension liabilities		(961)	(360)
Items that that may be reclassified subsequently to profit or loss:			
Cumulative translation difference		(1)	(2)
Other comprehensive income/(loss)		**(962)**	**(362)**
Total comprehensive income/(loss)		**5,265**	**(34,388)**

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

Consolidated statements of cash flows

in TCHF, IFRS	Note	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Cash flow from operating activities:			
Net income/(loss)		6,227	(34,026)
Adjustments to reconcile net income/(loss) to net cash used in operating activities:			
Depreciation	12	–	9
Impairment of assets	12	–	104
Change of provisions	16	–	(2,498)
Financial income		(15,589)	(88)
Financial expense		4,471	15,065
Gain on associates	13	–	(8)
Share-based compensation	24	2,533	3,748
Gain on sale of property and equipment		–	(575)
Changes in assets and liabilities:			
Trade and other receivables	10	(538)	34
Pension assets/liabilities	23	(67)	(905)
Prepayments and other assets	11	68	(160)
Trade accounts payable		163	(1,340)
Other current liabilities and accrued expenses		218	(3,118)
Net cash used in operating activities		**(2,514)**	**(23,758)**
Cash flow from investing activities:			
Purchase of property and equipment	12	–	(20)
Sale of property and equipment	12	–	575
Interest received		–	16
Net cash provided by investing activities		**–**	**571**
Cash flow from financing activities:			
Repayment from convertible loan notes	14	(14,238)	–
Sale of treasury bonds to third parties	14	2,205	–
Use of treasury shares	17	–	190
Share issuance-/convertible bond/loan notes costs		(281)	–
Net cash (used in)/provided by financing activities		**(12,314)**	**190**
Net effect of currency translation on cash		(14)	85
(Decrease)/increase in cash and cash equivalents		(14,828)	(22,997)
Cash and cash equivalents, beginning of period	8	16,935	39,847
Cash and cash equivalents, end of period	8	**2,093**	**16,935**

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

in TCHF, IFRS	Number of shares	Share capital	Legal reserves	Additi-onal paid-in capital	Convertible bond/ loan notes: equity component	Treasury shares	Accumulated comprehen-sive loss	Cumulative translation adjustments	Total
January 1, 2014	**30,525,276**	**3,053**	**2**	**262,428**	**9,830**	**(216)**	**(270,658)**	**(209)**	**4,230**
Net loss	–	–	–	–	–	–	(34,026)	–	(34,026)
Other comprehensive loss	–	–	–	–	–	–	(360)	(2)	(362)
Total comprehensive loss	**–**	**–**	**–**	**–**	**–**	**–**	**(34,386)**	**(2)**	**(34,388)**
Issuance of share capital from treasury shares	55,520	6	–	184	–	–	–	–	190
Use of treasury shares	(55,520)	(6)	–	–	–	6	–	–	–
Share-based compensation	–	–	–	3,748	–	–	–	–	3,748
December 31, 2014	**30,525,276**	**3,053**	**2**	**266,360**	**9,830**	**(210)**	**(305,044)**	**(211)**	**(26,220)**
January 1, 2015	**30,525,276**	**3,053**	**2**	**266,360**	**9,830**	**(210)**	**(305,044)**	**(211)**	**(26,220)**
Net income	–	–	–	–	–	–	6,227	–	6,227
Other comprehensive loss	–	–	–	–	–	–	(961)	(1)	(962)
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**5,266**	**(1)**	**5,265**
Nominal value reduction of shares	–	(2,137)	–	2,137	–	–	–	–	–
Issuance of share capital	77,490,000	2,324	–	17,048	–	–	–	–	19,372
Reclassifications of equity components	–	–	–	9,830	(9,830)	–	–	–	–
Share capital issuance costs	–	–	–	(281)	–	–	–	–	(281)
Share-based compensation	–	–	–	2,533	–	–	–	–	2,533
December 31, 2015	**108,015,276**	**3,240**	**2**	**297,627**	**–**	**(210)**	**(299,778)**	**(212)**	**669**

1. General information

Kuros Biosciences Ltd (formerly Cytos Biotechnology Ltd; henceforth called “Kuros” or the “Group”) is a public biopharmaceutical company domiciled in Schlieren, Switzerland and is listed according to the Main Standard on the SIX Swiss Exchange Ltd under the symbol KURN. Kuros was founded in 1995 as a spin-off from the Swiss Federal Institute of Technology (ETH) in Zurich.

The consolidated financial statements for the year ended 2015 have been approved for issuance by the Board of Directors on April 21, 2016.

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 2015. 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 4 “Critical accounting estimates and judgments”.

For better readability the amounts in the Group’s financial statements and notes are presented in thousand Swiss francs (TCHF) unless stated otherwise.

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.

On December 3, 2015, Kuros Biosurgery Holding Ltd and Cytos Biotechnology Ltd (which was renamed Kuros Biosciences Ltd on January 18, 2016) 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. After the closing, former Kuros Biosurgery Holding Ltd shareholders own around 80% of the combined entity whereas Cytos Biotechnology Ltd shareholders who were shareholders prior to the combination hold about 20% of the combined entity.

In addition, the extraordinary shareholders' meeting on January 6, 2016 resolved to change the name from Cytos Biotechnology Ltd to Kuros Biosciences Ltd and to elect new members of the Board of Directors and members of the compensation committee. These decisions were subject to closing of the merger, which occurred on January 18, 2016.

As a result of the combination, shareholders of former Cytos 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' late-stage pipeline already generated encouraging data in multiple clinical studies. Kuros' most advanced product candidate is KUR-023, a novel biomaterial designed to seal the dura (membrane covering the brain and spinal cord) after brain and spinal surgery that has successfully completed a European clinical study and is being prepared to be CE Marked in preparation for commercial launch. KUR-111 and KUR-113, Kuros' most advanced orthobiologic products are progressing towards Phase III 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 Biosciences continue all existing partnerships, in particular the two collaborations for CYT003 and the VLP technology with Checkmate Pharmaceuticals in Cambridge, MA, USA, for the treatment of cancer and with Arbutus Biopharma in Burnaby, British Columbia, Canada, for the treatment of hepatitis B infections. With those two collaborations, the CYT003 program and VLP technology move forward with investment from the collaboration partners and, if successful, Kuros will be eligible for significant development milestone payments and royalties on future sales.

The Board of Directors and the Executive Board 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 27).

New accounting standards and IFRIC interpretations

The Group has adopted the following standards for the first time for the financial year beginning on or after January 1, 2015:

- Annual improvements to IFRSs – 2010-2012 Cycle and 2011-2013 Cycle

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

The Group also elected to adopt the following two amendments early:

- Annual improvements to IFRSs 2012-2014 Cycle, and
- Disclosure Initiative: Amendments to IAS 1

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, 2015, 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, 2015, 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 IFRS 9's full impact.
- 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, 2017 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 IFRSs 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 purchase method of accounting is used to account for the acquisition of a subsidiary by the Group. 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.

The consolidated financial statements include the accounts of Kuros Biosciences Ltd, Schlieren, Switzerland, and its wholly-owned subsidiary Proteome Therapeutics GmbH, Singen, Germany, non-operative (partner's capital: EUR 25,000).

Segment reporting

The Group operates in one segment, focusing on the 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 CEO who 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 Group's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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. An impairment loss is recognized for this difference. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. 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.

Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are measured at their fair value plus initial transaction costs. Fair value changes on financial assets at fair value through profit or loss are included in financial income or expense for the period in which they arise. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. As per year end the Group held no investments in this category.

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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. Assets under this category that have a fixed maturity are valued at amortized cost using the effective interest rate method. As per year end the Group held no investments in this category.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are measured at their fair value. Fair value movements are recorded in OCI (other comprehensive income). Gains or losses are included in net profit or loss for the period in which the asset has been sold. As per year end the Group held no investments in this category. Purchases and sales of all above-mentioned categories of investments are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair values of listed investments are based on current market prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the Group's specific circumstances.

The Group assesses at the end of each period whether there is objective evidence that a financial asset or a group of financial assets has to be impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognized in profit or loss – is removed from OCI (other comprehensive income) and recognized in the income statement. Impairment losses on equity instruments recognized in the income statement are not reversed through the income statement.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Gains or losses from remeasured derivatives are recognized immediately in the income statement if the derivatives are not designated as hedging instruments. The Group did not designate any derivative as a hedging instrument and did not hold any derivatives at the end of the reporting period.

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.

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 bonds and loan notes

Convertible bonds and loan notes are classified as non-current liabilities unless they are due within 12 months after the balance sheet date.

Compound financial instruments issued by the Group comprise convertible bonds and loan notes that can be converted to share capital at the option of the holder at the fixed conversion ratio.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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 by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. 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 23 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. 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 (PoC).
- Other revenues include small licensing fees of collaboration agreements, success and milestone payments for example.

Research and development expenses

Research and development expenses consist primarily of compensation and other expenses related to research and development 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 research and development at research institutions, and relevant facility expenses. Research and development expenses are fully charged to the income statement as incurred. Cytos Biotechnology 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) how 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 US Food and Drug Administration or comparable regulatory body approval, 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. 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.

The Group was focusing on the development of its lead product candidate CYT003 in allergic asthma, which was not generating a constant revenue stream, resulting in a negative cash flow from operating activities. At present the lack of positive operating cash flow may expose the Group to financing risks in the medium-term; see note 4, “Critical accounting estimates and judgments”.

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 for the Group as it had loans (convertible bond and convertible loan notes) with a fixed interest rate and asset and liabilities in small amounts in foreign currencies. The Group is not exposed to market price development, as it has no saleable products.

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, 2015, provides funds for 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 as of December 31, 2015:

Maturity table

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	315	–	–	–
Other liabilities and accrued expenses	1,198	–	–	–
Rent and leasing	262	787	262	–

The table below shows the maturities of the liquidity relevant financial liabilities as of December 31, 2014:

in TCHF (undiscounted amounts)	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years
Convertible bond 5.75% (2.875%) – interest	3,029	–	–	–
Convertible bond 2/20/2015 – principal	19,751	–	–	–
Convertible loan notes 9.00% – interest*	2,344	–	–	–
Convertible loan notes 2/10/2015 – principal*	19,876	–	–	–
Trade accounts payables	152	–	–	–
Other liabilities and accrued expenses	534	–	–	–
Rent and leasing	262	787	262	–

** This position includes the first and second tranche of the Convertible loan notes. For further details, see note 14.*

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 not subject to significant foreign currency transactions.

As of December 31, 2015, if the Swiss Franc had weakened/strengthened by 5% against the Euro and USD with all other variables held constant, the net loss for the period would have been TCHF 30 (2014: TCHF 12) 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.

Credit risk

Out-licensing agreements for Immunodrugs™ have only been entered into with industry leading companies, which limits the credit risk relating 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 60.5% of the cash and cash equivalents and financial assets. As per December 31, 2015 the outstanding trade receivables are considered to be not at risk due to specific agreements.

Investment risk

Fixed-term time deposits and money market investments are made only with highly rated counterparties. The Group is not exposed to equity securities price risks and to commodity price risks.

Interest rate risk

As of December 31, 2015, no convertible bonds or convertible bond notes were outstanding (see note 14). 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 sublessees. 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 (2014: 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 2014 or 2015.

Capital risk management

The Group is not regulated and not subject to specific capital requirements. It aims to maintain the specific needs of the Code of Obligations (Swiss law). 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 Annual Shareholders' Meeting or an Extraordinary Shareholders' Meeting to ensure the necessary capital remains intact.

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 bond and the convertible loan notes were carried at amortized cost and are accounted for using the effective interest rate method. At initial recognition the fair value of the convertible loan notes and convertible bond have been determined as outlined in note 14. As of December 31, 2015, no convertible bonds or convertible bond notes were outstanding.

4. Critical accounting estimates and judgments

The Groups accounts are prepared on a going concern basis. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities identified by the Group relate to going concern and revenue and are discussed below:

- Going concern: Considering cash and financial assets (including trade receivables from partners) and the Group's current plans and budgets, the Group can continue as a going concern (refer also to "Uncertainties and ability to continue operations" in note 2).
- Revenue: Fluctuation in revenues is not uncommon to biotech companies as the revenues are often linked to up-front fees, milestones or license payments as well as income for delivery of drug substance, which occur sporadically.

5. Segment information

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 CEO reviews the profit or loss of the Group on an aggregated basis. The operations of the Group are managed as a single operating segment. The Group derives its research and collaboration revenues from research and development collaborations with third parties.

All research and collaboration revenues as well as all operating costs including research and development, sales and marketing, general and administrative, other operating income and expense are materially generated in Switzerland.

The Group's segment information is as follows:

in TCHF	**December 31, 2015**	**December 31, 2014**
Total non-current assets*	80	80
Total liabilities	2,590	43,851

in TCHF	**Twelve months ended December 31, 2015**	**Twelve months ended December 31, 2014**
Capital expenditure for property and equipment	–	20
Depreciation and amortization	–	9
Impairment of property and equipment	–	104

** No adjustments to non-current assets required as in line with definition of IFRS 8.*

Analysis of revenue by category:

in TCHF	**Twelve months ended December 31, 2015**	**Twelve months ended December 31, 2014**
Revenue from royalties and licenses	5,623	1,000
Sale of goods*	732	–
Total	**6,355**	**1,000**

** Sale of remaining stock, expensed in previous years under "costs for materials".*

Analysis of revenue by customer:

in TCHF	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Novartis*	4,641	1,000
Checkmate	982	–
Arbutus (OnCore)	732	–
Total	**6,355**	**1,000**

** One-time payment of CHF 4 million to eliminate any further payment obligations under the collaborative research, option and license agreement for CAD106. See note 6 "Licensing, research and development collaborations".*

As noted above our revenue is sourced from three customers, however as business is in R&D phase, this does not represent a significant risk in terms of exposure of revenue fluctuation.

6. Licensing, research and development collaborations

Events over the last three years (for previous years please refer to prior financial reports):

On January 23, 2013, Kuros announced that Novartis terminated the license agreement under which it had been developing NIC002, a therapeutic vaccine candidate for the treatment of nicotine addiction and returned the licensed rights to Kuros pursuant to the provisions of the license agreement. In this context, it was decided that the non-current accrued expenses of TCHF 645 and the current accrued expenses of TCHF 101 as per December 31, 2012, were considered unnecessary and therefore have been reversed in the first quarter 2013 to the income statement.

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, which is being developed under a license agreement between both parties. Pfizer's anti-IgE vaccine is based on Kuros' VLP ("virus-like-particle") vaccine platform. Pfizer acquired worldwide exclusive rights to develop, manufacture and commercialize certain specified vaccines based on Kuros' VLP platform in 2009. According to clinicaltrials.gov, the study has been completed in June 2015.

In May 2013, Singapore's Agency for Science, Technology and Research (A*STAR) and Kuros announced that the first healthy volunteer has 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 will be 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. Meanwhile the IP estate covering Kuros' influenza vaccine has been abandoned and no further clinical activities are planned with this product.

On January 29, 2014, Singapore's Agency for Science, Technology and Research (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 ").

On January 6, 2015, Kuros announced that it executed an exclusive license agreement granting Arbutus Biopharma (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. For the first product in each of six possible product categories in the field of Hepatitis B that may be developed under the agreement, Kuros may receive up to USD 67 million in development milestones, or a maximum of USD 402 million if one product in each product category is developed. In addition, Kuros is eligible to receive commercial milestone payments of up to USD 110 million upon achievement of certain sales levels, and up to double-digit royalties on net sales from any successfully developed product.

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 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.

7. Financial instruments by category

December 31, 2015

in TCHF	Loans and receivables	Assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale
Cash and cash equivalents	2,093[1]	–	–	–
Trade and other receivables	741[2]	–	–	–
Total	**2,834**	**–**	**–**	**–**

December 31, 2014

in TCHF	Loans and receivables	Assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale
Cash and cash equivalents	16,935[1]	–	–	–
Trade and other receivables	120[2]	–	–	–
Total	**17,055**	**–**	**–**	**–**

[1] *The above mentioned amounts are held, with one exception in 2014 and 2015, with financial institutions with at least an "A" rating (Standard & Poor's), equivalent or better. The exception in 2014 and 2015 is related to a private bank without any rating, which held 0.2% of the amounts mentioned above in 2014 and 60.5% of the amounts mentioned above in 2015.*

[2] *The above-mentioned amounts were neither past due nor impaired and contain only existing customers with no defaults in the past.*

December 31, 2015

in TCHF	Liabilities at fair value through profit or loss	Other financial liabilities
Trade accounts payable	–	315
Other current liabilities	–	315
Convertible bond – liability component	–	–
Convertible loan notes - liability component (First and second tranche)	–	–
Total	**–**	**630**

December 31, 2014

in TCHF	Liabilities at fair value through profit or loss	Other financial liabilities
Trade accounts payable	–	152
Other current liabilities	–	110
Convertible bond – liability component	–	18,895
Convertible loan notes – liability component (first and second tranche)	–	18,697
Total	**–**	**37,854**

8. Cash and cash equivalents

in TCHF	2015	2014
Cash at bank and on hand	2,093	16,935
Balance as per December 31	**2,093**	**16,935**

In 2015, the Group recorded TCHF 0.3 interest income (2014: TCHF 25).

9. Financial assets

Due to the current low interest rate of fixed deposits, the Group has not made any investments in financial assets in 2014 and 2015.

10. Trade and other receivables

in TCHF	2015	2014
Trade receivables	718	99
Value added taxes (VAT)	21	12
Withholding tax	0	9
Other	2	–
Balance as per December 31	**741**	**120**
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 197) and in USD (TCHF 521) 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.

11. Prepayments and other assets

in TCHF	2015	2014
Social insurances	0	144
Prepayments	331	268
Deferred income	14	0
Other	0	1
Balance as per December 31	**345**	**413**

12. Property and equipment, net

in TCHF	Leasehold improvements	Machinery and equipment	Office equipment, furniture and others	Total
Gross value as per January 1, 2014	13,059	4,930	1,273	19,262
Additions	–	–	20	20
Gross value as per December 31, 2014	**13,059**	**4,930**	**1,293**	**19,682**
Accumulated depreciation as per January 1, 2014	(13,059)	(4,918)	(1,192)	(19,169)
Depreciation charge	–	–	(9)	(9)
Impairment charge	–	(12)	(92)	(104)
Closing net book amount as per December 31, 2014	**(13,059)**	**(4,930)**	**(1,293)**	**(19,282)**
Net book amount as per December 31, 2014	**–**	**–**	**–**	**–**
Gross value as per January 1, 2015	13,059	4,930	1,293	19,682
Additions	–	–	–	–
Gross value as per December 31, 2015	**13,059**	**4,930**	**1,293**	**19,682**
Accumulated depreciation as per January 1, 2015	(13,059)	(4,930)	(1,293)	(19,282)
Depreciation charge	–	–	–	–
Disposals	–	–	–	–
Closing net book amount as per December 31, 2015	**(13,059)**	**(4,930)**	**(1,293)**	**(19,282)**
Net book amount as per December 31, 2015	**–**	**–**	**–**	**–**

Sales of impaired property and equipment were fully accounted for as income in the income statement and amounted to TCHF 0 for 2015 (2014: TCHF 575).

In 2015 and 2014, the Group invested TCHF 0 and TCHF 20 respectively. The Group invested in 2014 mostly in IT equipment.

Depreciation and impairment expense has been charged to:

in TCHF	2015	2014
Research and development	–	86
Sales and marketing	–	1
General and administrative	–	26
Total year ended December 31	**–**	**113**

13. Investment in associates

in TCHF	2015	2014
Balance at January 1	80	72
Share of gain	–	8
Balance as per December 31	**80**[1]	**80**[1]

[1] *The Group owns 33% of BioSupport AG shares. As the Group has significant influence, it accounts for BioSupport AG under the equity based method of accounting. BioSupport AG was liquidated in 2016 since its services are no longer required by Kuros. Preliminary excess cash of TCHF 80 has been paid to Kuros in 2014 and is accounted as "accrued expenses".*

BioSupport AG[1]

in TCHF	2015	2014
Interest held	33%	33%
Assets[2]	251	255
Liabilities[2]	4	8
Revenues[2]	0	247
Profit/(loss)[2]	0	15

[1] *BioSupport AG was liquidated in 2016 since its services are no longer required by Kuros. Preliminary excess cash of TCHF 80 has been paid to Kuros in 2014 and is accounted as "accrued expenses".*
[2] *100%*

14. Convertible bond and convertible loan notes

"Original" convertible bond (see on next page "Restructured convertible bond")
In February 2007, Kuros issued 2.875% p.a. convertible bonds with a nominal value of CHF 70.00 million which are listed on the SIX Swiss Exchange under the symbol CYT07 (security number 2 906 073). The convertible bond was initially due for repayment on February 20, 2012, and was convertible into shares of Kuros Biosciences Ltd at a conversion price of CHF 175.

The values of the liability component and the equity conversion component were determined upon issuing the convertible bond.

The fair value of the liability component, included in "non-current liabilities", was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity.

Transaction costs associated with the issuance have been allocated proportionately to the liability and equity components.

The “original” convertible bond recognized in the balance sheet is calculated as follows:

	TCHF
Nominal value of convertible bond issued in February 2007	70,000
Equity component	(11,788)
Transaction costs allocated to liability component	(1,811)
Liability component on initial recognition	**56,401**
Interest expense	19,111
Partial repurchase of convertible bonds	(38,601)
Gain on partial repurchase of liability component of convertible bonds	(15,425)
Partial repurchase of equity component	2,385
Interest paid	(6,703)
Liability component as per February 20, 2012	**17,168**
Thereof interest as per February 20, 2012 due on February 20, 2015	1,033

Due to the restructuring of the convertible bond, the accrued interest as per February 20, 2012, of TCHF 1,033 was due on February 20, 2015.

Restructured convertible bond

The convertible bond issued in 2007 was due for repayment on February 20, 2012. However, because Kuros did not have enough financial means to fully repay the convertible bond at maturity, it proposed a bond restructuring to the bondholders on November 10, 2011 (“first restructuring”). In summary, Kuros proposed to repay half of the outstanding nominal value at par and to postpone the repayment for the remaining half as well as to defer the payment of any interest to February 20, 2015. The repayment was set to be at 150% of par value. In addition, the coupon had been increased from 2.875% p.a. to 5.75% p.a. Furthermore the conversion price had been reduced to CHF 7.71 (this price was reduced later on due to the anti-dilution clause).

The value of the liability component of the restructured convertible bond was determined based on a discount rate of 47.86%. The remaining value has been allocated to the equity component.

As Kuros still did not have the financial means to repay the restructured convertible bonds on February 20, 2015, it proposed another restructuring to the bondholders on January 26, 2015 (“second restructuring”). Along this proposal, which became final and legally binding on May 4, 2015, all outstanding convertible bonds were converted into equity at a conversion price per share of CHF 0.25 plus an incentive fee (CHF 25.00 per bond), i.e. each convertible bond of nominal CHF 2,500 was converted into 10,000 Cytos shares. In total, convertible bonds with a nominal value of CHF 19,372,500 were exchanged into 77.49 million shares.

In January 2015, Kuros exchanged a nominal of CHF 4 million convertible bonds (out of treasury) against claims of CHF 2 million with a convertible loan note holder. Furthermore, Kuros sold a nominal of CHF 2,205,000 convertible bonds (out of treasury) to a third party for 56%, i.e. CHF 1,234,800.

The restructured convertible bond recognized in the balance sheet is calculated as follows:

in TCHF	**2015**	**2014**
Nominal value of the restructured convertible bond	16,135	16,135
Adjustment to fair value as per February 20, 2012*	(7,100)	(7,100)
Equity component	(688)	(688)
Transaction costs allocated to liability component	(115)	(115)
Liability component on initial recognition as per February 20, 2012	**8,232**	**8,232**
Interest expense	13,033	12,176
Partial repurchase of convertible bonds	(1,880)	(1,880)
Loss on partial repurchase of liability component of convertible bonds	240	240
Partial repurchase of equity component	127	127
Sales to third parties	1,234	–
Exchange bonds to loan swap	2,000	–
Liability component before settlement as per May, 6 2015	**22,986**	**18,895**
Accrued interest	3,028	2,831
Bond conversion into equity, share capital	(2,324)	–
Bond conversion into equity, additional paid-in capital	(17,048)	–
Gain on restructuring **	(6,642)	–

* *The adjustment to fair value has been recorded as financial income in 2012.*
** *The gain on restructuring has been recognized as "financial income" (TCHF 9,612) and as "financial expenses" (TCHF 2,970).*

The total interest expense amounted to CHF 1.05 million and has been recognized as "financial expense" for the period from January 1 to February 20, of 2015 (2014: CHF 7.13 million).

First tranche of the convertible loan notes

Four investors granted Kuros convertible loan notes, payable in two equal tranches with a total amount of CHF 13.25 million. The convertible loan notes (capital and interest) could have been converted into shares of Kuros Biosciences Ltd, whereby the conversion price was CHF 2.13 for the capital. The first tranche of CHF 6.625 million was due for payment upon completion of the capital increase and was paid on May 15, 2012. For the second tranche of the convertible loan notes of CHF 6.625 million we refer to the next page, "second tranche of the convertible loan notes". The convertible loan notes carried an interest rate of 9% p.a. and were due for repayment at 150% of the nominal value on February 10, 2015.

The value of the liability component of the first tranche of the convertible loan notes was determined based on a discount rate of 61.19%. The remaining value has been allocated to the equity component.

The convertible loan notes recognized in the balance sheet are calculated as follows:

in TCHF	**2015**	**2014**
Nominal value of the convertible loan notes issued in May 2012*	6,625	6,625
Equity component	(3,572)	(3,572)
Transaction costs allocated to liability component	(102)	(102)
Liability component on initial recognition as per May 15, 2012	**2,951**	**2,951**
Exchange bonds to loan note swap	(1,000)	–
Interest expense	8,620	6,387
Liability component as per February 10, 2015	**10,571**	**9,338**
Repayments of non-subordinated portion of loan note	(7,581)	–
Cancellation of debt as of may 11, 2015**	(2,990)	–
Accrued interest (deferred until February 10, 2015)	–	1,493

* *Granted by:*
- venBio Global Strategic Fund L.P., Grand Cayman (Cayman Islands)
- Amgen Investments Ltd., Hamilton (Bermuda)
- Abingworth Bioventures V L.P., London (UK)
- Aisling Capital III L.P., New York, NY (USA)

** The elimination has been recognized as “financial income” (Total TCHF 5,977 including the second tranche of the loan note).

The total interest expense amounted to CHF 0.74 million and has been recognized for January 1 to February 10, 2015 as “financial expense” (2014: CHF 4.16 million).

Second tranche of the convertible loan notes

Upon completion of enrollment in the ongoing Phase 2b clinical trial with CYT003 in allergic asthma, Kuros Biosciences Ltd called the second tranche of CHF 6.625 million on October 21, 2013. The second tranche of the convertible loan notes of CHF 6.625 million was paid in four different installments between October 29, 2013 and December 10, 2013. The convertible loan notes carried an interest rate of 9% p.a. and were due for repayment at 150% of the nominal value on February 10, 2015.

The value of the liability component of the second tranche of the convertible loan notes was determined based on a discount rate of 61.19%. The remaining value has been allocated to the equity component.

The convertible loan notes recognized in the balance sheet are calculated as follows:

in TCHF	**2015**	**2014**
Nominal value of the convertible loan notes issued in October and December 2013*	6,625	6,625
Equity component	(711)	(711)
Liability component on initial recognition in October and December 2013	**5,914**	**5,914**
Exchange bonds to loan note swap	(1,000)	–
Interest expense	4,730	3,445
Liability component as per February 10, 2015	**9,644**	**9,359**
Repayments of non-subordinated portion of loan note	(6,657)	–
Cancellation of debt as of May 11, 2015**	(2,987)	–
Accrued interest (deferred until February 10, 2015)	–	607

* *Granted by:*
- venBio Global Strategic Fund L.P., Grand Cayman (Cayman Islands)
- Amgen Investments Ltd., Hamilton (Bermuda)
- Abingworth Bioventures V L.P., London (UK)
- Aisling Capital III L.P., New York, NY (USA)

** The elimination has been recognized as “financial income” (Total TCHF 5,977 including the first tranche of the loan note).

The total interest expense amounted to CHF 0.68 million and has been recognized for the period from January 1 to February 10, of 2015 as “financial expense” (2014: CHF 3.77 million).

Summary for both tranches of the convertible loan notes

As of May 2, 2014 a total amount of CHF 7.00 million was subordinated. This amount includes CHF 6.625 million of the principle amount of the first and second tranche of the convertible loan note and accrued interests in the amount of TCHF 375. In addition to this, any interest due for the convertible loan notes accruing after April 14, 2014 was subordinated as well.

At maturity, i.e. on February 10, 2015, CHF 14,238,125 (which was the non-subordinated part of the loan notes) was repaid. With effect as of May 4, 2015, a settlement with the convertible loan note holders was reached eliminating all claims from the convertible loan notes immediately after the conversion of the bonds into equity. In exchange, Kuros made a final payment of CHF 4.36 million on July 28, 2015 to the loan notes holders after the receipt of CHF 4 million from Novartis for the buy-out of CAD106 on July 15, 2015 and some payments from OnCore (now: Arbutus).

15. Accrued expenses

in TCHF	2015	2014
Accrued payroll and bonuses	662	213
Accrued interest convertible bond/-loan notes	–	4,931
Other	221	211
Balance as per December 31	**883**	**5,355**
Thereof non-current	–	–

16. Provisions

in TCHF	Other	Legal claims	Total
Balance as per December 31, 2013	**48**	**2,450**	**2,498**
Additions	–	43	43
Utilization	(14)	(2,000)	(2,014)
Reversed	(34)	(493)	(527)
Balance as per December 31, 2014	**–**	**–**	**–**
Additions	–	–	–
Utilization	–	–	–
Balance as per December 31, 2015	**–**	**–**	**–**

Explanation of provisions concerning the "Asklia" litigation

As a consequence of the merger with Asklia Holding AG ("Asklia") in 2002, Kuros assumed a number of provisions for legal claims as well as costs for lawyers, accounting and liquidation of companies. Since the acquisition of and merger with Asklia, most of the provisions have been claimed or reversed to the income statement.

Asklia was involved in (i) various litigations and lawsuits arising in the ordinary daily business and (ii) claims regarding representations, warranties and covenants given by Asklia when divesting its business. Some of these Asklia claims and lawsuits were settled. Other cases of legal disputes, involving subsidiaries of Asklia that were divested prior to the acquisition were transferred as part of the divested business. In two of such lawsuits, in which the plaintiffs claimed CHF 1.3 million and CHF 0.6 million, Asklia agreed to indemnify the acquirer of the divested business for all costs the divested company or the acquirer will incur in connection with these proceedings.

As a consequence of the acquisition of Asklia these liabilities and lawsuits as well as the other pending and threatened lawsuits and claims of Asklia were taken over by Kuros. Kuros had the opinion that the adequate provisions of CHF 2.5 million that were made as per December 31, 2013 would cover the risks associated with these various claims and pending or threatened lawsuits.

On May 1, 2014, a settlement was reached between Kuros and the legal entity that is one of the counterparties of this lawsuit for which Kuros assumed the liability as mentioned above. Against a payment of CHF 2 million, any liability of or claim against Kuros is settled in full. As a result, the remaining provisions of CHF 0.5 million were reversed and credited to other income.

17. Shareholders' equity

	Shares (number)	Share capital (TCHF)	Treasury shares (TCHF)
December 31, 2013	**30,525,276**	**3,053**	**(216)**
New Shares issued	–	–	–
Treasury shares sold	(55,520)	(6)	6
Shares and employee option shares*	55,520	6	–
December 31, 2014	**30,525,276**	**3,053**	**(210)**
Nominal value reduction of shares	–	(2,137)	–
New shares issued	77,490,000	2,324	–
Treasury shares sold	–	–	–
Shares and employee option shares*	–	–	–
December 31, 2015	**108,015,276**	**3,240**	**(210)**

* *Issued from treasury shares*

Number of shares at	Issued and fully paid shares	Treasury shares	Total shares
December 31, 2014	28,420,628	2,104,648	30,525,276
December 31, 2015	105,910,628	2,104,648	108,015,276

Summary of authorized and conditional capital

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

in TCHF (except share data)	2015	2014
Authorized capital as per December 31	1,620	1,526
Conditional capital as per December 31	722	1,526
Weighted average number of shares used in computing basic and diluted net gain/loss per share	79,653,686	28,420,628

Under the Swiss Code of Obligations (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.

Options
In the year of 2015, no options have been exercised.

In the year of 2014, 55,520 options have been exercised with an exercise price of CHF 3.41. The shares needed for this exercise were taken from the Treasury Shares (TCHF 5.55). From the exercise of these options a cash inflow of TCHF 189.18 has been accounted for (agio: TCHF 183.77).

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, 2015 at nominal value were created as part of the ordinary capital increase in 2012 and should allow the Group to use these treasury shares as underlying for exercised conversion and option rights, which are not completely covered by conditional or authorized share capital.

Capital reduction and capital increase
On May 5, 2015, the share capital of Kuros Biosciences Ltd was reduced by decreasing the nominal value of Kuros' 30,525,276 shares from CHF 0.10 to CHF 0.03 whereby the nominal value was reduced by CHF 2.14 million to CHF 0.92 million.

At the same time, the ordinary capital was increased by CHF 2.32 million to CHF 3.24 million by issuing 77,490,000 fully paid-in registered shares of CHF 0.03 nominal value. The capital increase was used to settle claims of CHF 19.37 million.

In 2014, no capital increase took place.

18. Costs by nature

in TCHF	**2015**	**2014**
Depreciation and impairment of assets	–	(113)
Employee benefits	(5,057)	(8,510)
Materials, consumables, services	(563)	(10,101)
Rental expenses	(1,313)	(1,356)
Other expenses	(1,521)	(2,871)
Other income	2,753	3,014
Total year ended December 31	**(5,701)**	**(19,937)**

In 2015 and 2014, the amounts of "Other income" are primarily related to rental payments and pass through costs recovered from sub-tenants. In 2015 and 2014, proceeds from the sale of impaired property and equipment were fully accounted for as income and amounted to TCHF 0 and TCHF 575 respectively.

19. Employee benefits

in TCHF	2015	2014
Salaries	(2,195)	(4,666)
Social security costs	(206)	(445)
Pension costs, defined benefit plan (note 23)	(144)	606
Share-based compensation	(2,533)	(3,748)*
Other costs related to employees	21**	(257)
Total year ended December 31	**(5,057)**	**(8,510)**

* *A substantial portion of this expense relates to the options from dismissed employees who were allowed to keep their options; i.e. where accelerated vesting applied.*

** *Includes TCHF 67 positive "reversal PY" for benefit plans (see note 23) since these employees remain employed.*

20. 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. Lease expenses incurred for the year ended December 31, 2015 and 2014 were CHF 1.1 million. The future minimum lease payments under non-cancelable operating leases as lessee at December 31, 2015 are as follows:

Year ending December 31

in TCHF	2015	2014
2015	–	(1,050)
2016	(1,050)	(262)
2017	(262)	–
Total year ended December 31	**(1,312)**	**(1,312)**

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	2015	2014
No later than one year	1,802	1,675
Later than one year and no later than five years	3,065	4,521
Later than five years	0	443
Total	**4,867**	**6,639**

21. Related party transactions

BioSupport AG, a provider of research related services to the Group and to its other shareholders, was liquidated in 2016 since its services were no longer required. Preliminary excess cash of TCHF 80 was paid to Kuros and accounted as "accrued expenses" in 2014.

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

in TCHF	**2015**	**2014**
Short-term employee benefits	1,505	1,897
Share-based compensation	1,807	1,048
Post-employment benefits	254	328
Total	**3,566**	**3,273**

No further compensation has been paid to the key management in the year 2015 and 2014.

22. Income taxes

As of December 31, 2015, the Group had total gross operating loss carry forwards amounting to CHF 137.2 million of which CHF 132.6 million related to Kuros Biosciences Ltd, CHF 4.1 million related to Proteome Therapeutics GmbH which has an expected income tax rate of 28% for the year 2015 (2014: 28%), and CHF 0.5 million related to the merger of the Group's subsidiary Cytos Biotherapeutics Ltd in 2010 (2014: CHF 156.0 million, of which CHF 151.4 million is related to Kuros Biosciences Ltd, CHF 4.1 million is related to Proteome Therapeutics GmbH, and CHF 0.5 million is related to the merger of the Group's subsidiary Cytos Biotherapeutics Ltd in 2010).

The gross operating loss carry forwards of the Group expire as follows:

- CHF 6.6 million expiring on December 31, 2016
- CHF 1.0 million expiring on December 31, 2017
- CHF 41.3 million expiring on December 31, 2018
- CHF 15.7 million expiring on December 31, 2019
- CHF 44.5 million expiring on December 31, 2020
- CHF 24.1 million expiring on December 31, 2021 and
- CHF 4.1 million can be set off against future profit indefinitely.

It is management's best estimate that this loss carry-forward will not be used in the foreseeable future.

As of December 31, 2015, the Group had deductible temporary differences (including pension) of CHF 0.9 million (2014: negative CHF 0.8 million).

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 not recognize deferred tax assets relating to tax loss carry-forwards and deductible temporary differences since the criteria for recognition were not met.

The unrecognized tax loss carry-forwards and deductible temporary differences would have given rise to deferred tax assets of CHF 30.4 million in 2015 and deferred tax assets of CHF 34.1 million in 2014.

The Group has neither recorded any provisions for income taxes payable nor for current or deferred income taxes for the years ended December 31, 2015 due to the utilization of tax losses carried forwards from previous years and 2014 due to taxable losses.

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	**2015**	**2014**
Income/(loss) before tax	6,227	(34,026)
Expected income tax rate (%)	22	22
Expected income tax	**(1,370)**	**7,486**
Expenses not deductible for tax purposes	(869)	(2,148)
Effect of deferred tax assets not recognized in the current year	203	(5,339)
Effect of utilization of prior year unrecognized tax losses	2,036	–
Other	–	1
Income tax	**–**	**–**

The Group calculates its taxes at 22% for the year 2015 (2014: 22%).

Capital tax expenses amounted to TCHF 6 and TCHF (41) for the years ended December 31, 2015 and 2014 respectively, and are included in the net operating costs.

23. Benefit plans

In April 2014, CYT003 missed the primary endpoint in a Phase 2b clinical study. As a result, the Group decided to wind down all operational activities. The procedure for a mass dismissal of the employees has been concluded and the Board of Directors was reduced to four directors. The Group focused on activities aimed at remain a going concern. The dismissals involved all active employees as at April 30, 2014. Some employees left the Group in the following months with seven persons remaining insured at year-end 2014. Two of them left the Group by the end of January 2015 and another by the end of March 2015. Their defined benefit obligation (DBO) as of December 31, 2014 corresponds to their surrender value. As of December 31, 2015 the management re-assessed the average expected years of service for the active employees based on the facts and circumstances described in note 27. This change is reflected in the present value of the DBO at the end of the period.

The Group maintains a retirement plan (the "Plan") covering all its employees, including some members of the Executive Board. In addition to retirement benefits, the Plan provides death or long-term disability benefit to its employees. Benefits under the Plan are principally based on contributions, computed as a percentage of salary, adjusted for the age of the employee. Under the agreement, 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 a term agreement with a third-party insurance company. In fact, Kuros is affiliated with the Swiss Life Collective BVG Foundation, based in Zurich for the provision of occupational benefits.

All benefits in accordance with the regulations are reinsured in their entirety with Swiss Life Ltd within the framework of the corresponding contract. 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 2015 the guaranteed interest was 1.75% for mandatory retirement savings and 1.25% for supplementary retirement savings. The pension plan is entitled to an annual bonus from Swiss Life comprising the effective savings, risk and cost results.

The technical administration and management of the savings account are guaranteed by Swiss Life on behalf of the collective foundation. Insurance benefits due are paid directly to the entitled persons by Swiss Life 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.

The contract of affiliation between Kuros and the collective foundation can be terminated by either side. In the event of a termination, recipients of retirement and survivors' benefits would remain with the collective foundation. Kuros hereby commits 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.

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	2015	2014
Benefit obligation at beginning of year	6,275	8,614
Service cost	145	452
Ordinary contributions paid by employees	145	365
Interest cost	110	172
Remeasurements	930	420
Benefits paid	(797)	(3,166)
Past service cost	–	(1,069)*
Contributions paid by plan participants	677	487
Benefit obligation as per December 31	**7,485**	**6,275**

** Reason for this high „Past service cost" is the mass dismissal of the employees which has been decided from the Board of Directors in April 2014.*

in TCHF	2015	2014
Actuarial (gains)/losses arising from changes in financial assumptions	–	306
Experience adjustments (gains)/losses	929	114
Total	**929**	**420**

Change in plan assets

in TCHF	2015	2014
Fair value at beginning of year	6,342	8,069
Interest income on plan assets	111	161
Return on plan assets excl. interest income	(32)	61
Employer contributions	145	365
Plan participant contributions	145	365
Benefits paid	(797)	(3,166)
Contributions paid by plan participants	677	487
Pension assets as per December 31	**6,591**	**6,342**

Asset breakdown

IAS19 requires a breakdown of the assets into categories that distinguish the risk and liquidity characteristics and whether or not they have a quoted market price in an active market. Accordingly, as of December 31, 2015, it follows:

in TCHF	Quoted market price	Not quoted market price
Insurance contract	–	6,595
Cash	(4)	–
Total value of assets	**(4)**	**6,595**

Funded status

in TCHF	2015	2014
(Un)funded status	(894)	83
Net amount recognized in the balance sheet	**(894)**	**83**

The investment portfolio of Swiss Life in occupational pension plans in detail comprised 71% fixed term deposits and cash, 7% mortgages and receivables and 14% real estate properties.

Defined benefit costs

in TCHF	2015	2014
Service cost	145	452
Past service cost	–	(1,069)*
Interest cost, net	(1)	11
Defined benefit cost for the year recognized in profit and loss statement	**144**	**(606)**

** The reason for this high „Past service cost" is the mass dismissal of the employees which has been decided by the Board of Directors in April 2014.*

The pension expense for 2015 is included in the income statement in research and development at TCHF 18 (2014: TCHF 462), in sales and marketing at TCHF 1 (2014: TCHF 5) and in general and administrative at TCHF 125 (2014: TCHF 139).

Net defined benefit (liability)/asset

in TCHF	2015	2014
Pension assets December 31	6,591	6,358
Benefit obligation December 31	7,485	6,275
Net defined benefit (liability) recognized in balance sheet	**(894)**	**83**

The table below provides the weighted average assumptions (as of December, 2015) used to develop net periodic benefit cost and the actuarial present value of projected benefit obligations:

Assumptions

	2015	2014	2013
Price inflation	1.00%	1.00%	1.00%
Discount rate	0.90%	1.75%	2.00%
Interest rate on the savings accounts	1.40%	1.75%	2.00%
Salary increase	1.00%	1.00%	1.00%
Social security increase	1.00%	1.00%	1.00%
Pension increase	0.00%	0.00%	0.00%

Sensitivity analysis

The sensitivity analysis was performed by recalculating the DBO and the Service Cost with the following parameters (all other parameters were not modified):

in TCHF	31.12.2015 DBO	31.12.2015 Service Cost
Discount rate +0.5%	7,068	123
Discount rate -0.5%	7,964	150
Salary increase +0.5%	7,501	138
Salary increase -0.5%	7,469	133
Life expectancy +1year	7,596	138
Life expectancy +1year	7,385	133

Asset liability strategy

Kuros outsources the asset liability management strategy and asset allocation to Swiss Life Ltd. The risks of disability, death and longevity are reinsured in their entirety with Swiss Life Ltd.

Future cash flows

in TCHF	December 31, 2015
Expected annual employee contribution in 2016	67
Expected annual employer's contribution in 2016	67
Projected benefits expected to be paid:	
2016	2,975
2017	175
2018	170
2019	165
2020	160
2021–2025	768
Macaulay duration in years	19.1

Mortality rate

	2015	2014
Average life expectancy in years of a pensioner retiring at age 65 male and 64 female is as follows:		
Male	21.49	21.39
Female	24.94	24.84

24. Share options

The Group regularly grants share options to the members of the Board of Directors, the members of the Executive Board, employees and consultants. All share options are equity-settled. The fair value of the options is determined at the grant date based on the market price using the Black-Scholes model. The vesting period can be seen in the footnote*. The Group applies IFRS 2 for recognizing the share option expense.

In 2014, the Board of Directors approved a share option plan ("SOP2014") according to which a total of 2,040,000 options were granted on July 11, 2014. This was the only option plan granted in 2014.

In 2015, the Board of Directors approved a share option plan ("SOP2015") according to which a total of 5,400,000 options were granted on July 1, 2015. This was the only option plan granted in 2015.

The table below shows the conditions as well as the assumptions applied to the share-based payment arrangement for 2015. All the granted options in 2015 are as per December 31, 2015 existing.

Share options, conditions and assumptions:

Nature of arrangement	Grant of share options
Grant date	July 1, 2015
Number of options granted	5,400,000
Exercise price (CHF)	0.60
Share price at date of grant (CHF)	0.60
Contractual life (years)	5.0
Vesting period (years)	2.5*
Settlement	Shares
Expected volatility (%)	55.8
Expected option life at grant date (years)	3.04
Risk-free interest rate p.a. (%)	-0.57
Expected dividend	Zero
Estimated fair value of option at grant date (CHF)	0.28
Expiry date	July 1, 2020
Valuation model	Black-Scholes

** 100% vesting upon a change of control effective as per January 18, 2016.*

The exercise price of the granted options 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.

The table below shows the range of conditions as well as the range of assumptions applied to the share-based payment arrangements for 2014. All the granted options in 2014 are as per December 31, 2014 existing. In 2014, the Board of Directors approved a share option plan (“SOP2014”), according to which a total of 2,040,000 options were granted on July 11, 2014. The following table includes this option plan (“SOP2014”):

Share options, conditions and assumptions:

Nature of arrangement	Grant of share options
Grant date	July 11, 2014
Number of options granted	2,040,00
Exercise price (CHF)	0.25
Share price at date of grant (CHF)	0.25
Contractual life (years)	4.0
Vesting period (years)	1.5*
Settlement	Shares
Expected volatility (%)	75
Expected option life at grant date (years)	3.0
Risk-free interest rate p.a. (%)	0.03
Expected dividend	Zero
Estimated fair value of option at grant date (CHF)	0.10
Expiry date	January 18, 2019
Valuation model	Black-Scholes

** 100% vesting upon a change of control effective as of January 18, 2016.*

The exercise price of the granted options 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.

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

Share option movements	Options (number)	Weighted average exercise price (CHF)
Balance outstanding December 31, 2013	**5,491,676***	**4.14**
Granted	2,040,000	0.25
Exercised**	(55.520)	3.41
Forfeited	(480)	13.29
Lapsed	(193,965)	21.22
Balance outstanding December 31, 2014	**7,281,711***	**2.60**
Granted	5,400,000	0.60
Exercised	–	–
Forfeited	(237,169)	7.68
Lapsed	(380,000)	2.30
Balance outstanding December 31, 2015	**12,064,542**	1.62

* *Balance includes 350,000 options granted for venBio Global Strategic Fund L.P., see note 17 "Shareholders' equity".*

** *Weighted average share price at time of exercise was CHF 3.56 (2014).*

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

Exercise price (CHF)	Options (number)	Remaining life (years)	Exercisable options (number)
0.25	2,040,000	4.5*	0
0.60	5,400,000	4.5*	0
2.54	960,000	2.8	720,000
2.57	540,180	2.7	438,896
2.57	105,000	2.7	105,000
3.05	20,000	4.0	13,333
3.49	1,464,150	3.9	732,075
3.63	522,300	3.2	359,081
3.63	60,000	3.2	60,000
3.84	200,000	3.2	137,500
3.85	380,000	3.2	261,250
4.04	60,000	3.4	37,500
4.09	240,000	3.4	150,000
12.53	72,912	0.0	72,912
Total	**12,064,542**		**3,087,547**

* *100% vesting upon a change of control (18.01.2016).*

The following table applies to all valid share options outstanding on December 31, 2014:

Exercise price (CHF)	**Options** (number)	**Remaining life** (years)	**Exercisable options** (number)
0.25	2,040,000	3.5**	0
2.24	350,000	2.5	350,000
2.54	960,000	3.8	480,000
2.57	650,180	3.7	389,163
2.57	15,000	3.7	8,437
3.05	20,000	5	6,666
3.41	140,000	0.2	140,000
3.49	1,464,150	4.9	366,037
3.63	522,300	4.2	228,506
3.63	70,000	4.2	70,000
3.84	200,000	4.2	87,500
3.85	380,000	4.2	166,250
4.04	60,000	4.4	22,500
4.09	240,000	4.4	90,000
12.30	12,000	0.5	12,000
12.53	72,912	1.0	72,912
14.05	85,169	0.1	85,169
Total	**7,281,711***		**2,575,140**

* *Balance includes 350,000 options granted for venBio Global Strategic Fund L.P., (see note 17 "Shareholders' equity").*

** *100% vesting upon a change of control. For the option plan 2014 following assumption was made: July 12, 2015. The exercise period is three years from vesting period.*

The expense for the share-based payments recognized in the income statement according to IFRS 2 can be summarized as follows:

in TCHF	**2015**	**2014**
Research and development	325	2,853
Sales and marketing	14	33
General and administrative	2,194	862
Total year ended December 31	**2,533**	**3,748***

* *A substantial portion of this expense relates to the options from dismissed employees who were allowed to keep their options; i.e. where accelerated vesting applied.*

25. Earnings per share

a) Basic earnings per share:

in CHF	2015	2014
Total basic earnings attributable to the ordinary equity holders	0.08	(1.20)

b) Diluted earnings per share:

in CHF	2015	2014
Total dilutes earnings attributable to the ordinary equity holders	0.08	(1.20)

Basic and diluted earnings per share have been computed based upon the weighted average number of common shares outstanding. Basic earnings per share exclude any dilutive effects of options, shares subject to repurchase, warrants, and convertible securities. In 2014, neither outstanding options to purchase shares of common stock nor shares resulting from the conversion right of the bond holders were included in the computation of the dilutive earnings per share as the effect would have been anti-dilutive.

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

in TCHF	2015	2014
Basic earnings per share:		
Profit attributable to the ordinary equity holders from continuing operations	6,227	(34,026)
Diluted earnings per share:		
Profit attributable to the ordinary equity holders	6,227	(34,026)

d) Weighted average number of shares used as denominator:

	2015	2014
Weighted average number of ordinary shares	79,653,686	28,420,628
Adjustments: options	1,948,929	–
Weighted average number and potential ordinary shares	81,602,614	28,420,628

e) Information concerning the classification of securities

Options granted to employees under the Company 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. Details relating to the options are set out in note 24.

The 10,024,542 options granted from 2011 to 2013 and in 2015 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended December 31, 2015. These options could potentially dilute basic earnings per share in the future.

26. 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.

27. Events after balance sheet date

On December 3, 2015, Kuros Biosurgery Holding Ltd and Cytos Biotechnology Ltd (which was renamed Kuros Biosciences Ltd on January 18, 2016) 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. After the closing, former Kuros Biosurgery Holding Ltd shareholders own around 80% of the combined entity whereas Cytos Biotechnology Ltd shareholders who were shareholders prior to the combination hold about 20% of the combined entity.

The business combination will be accounted for as of January 18, 2016, being the effective date of the combination.

The initial accounting for Kuros Biosurgery Holding Ltd acquisition is not finalized at the time the financial statements were authorized for issue as Kuros Biosiences Ltd is in the process of evaluating the fair value of the net assets acquired. As a result not all relevant disclosure are available including the preliminary purchase accounting of the identifiable assets acquired and liabilities assumed. However, Kuros Biosciences Ltd expects that significant assets acquired will primarily consist of cash and cash equivalents as well as intangible assets, and that significant liabilities assumed will include the existing loans from related parties and deferred tax liabilities associated with the assets acquired.

The fair value of the consideration transferred of CHF 33.5 million for the business combination has mainly been determined on the basis of:

- the number of Kuros Biosurgery Holding Ltd shares acquired in the contribution in kind on January 18, 2016, representing 100% percent of the share capital of Kuros Biosurgery Holding Ltd;
- the Cytos Biotechnology Holding Ltd closing share price as at January 18, 2016;
- the exchange ratio of 26.79 Cytos Biotechnology Holding Ltd shares for every one Kuros Biosurgery Ltd shares exchanged;

The incurred merger-related costs are included in administration expenses and amount to approximately CHF 0,14 million for 2015, all of which relate to the twelve months period ended December 31, 2015.

On April 20, 2016, Kuros announced that it was informed by Checkmate Pharmaceuticals of the dosing of the first melanoma patient with CMP-001, formerly known as CYT003, in a Phase 1b clinical trial. As a result, Kuros was to receive a milestone payment of USD 1 million from Checkmate under an exclusive license agreement signed in August 2015 (see note 6).

pwc

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

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Kuros Biosciences AG, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 39 to 83), for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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 2016

Statutory financial statements 2015

Balance sheet as of:

in TCHF	Note	December 31, 2015	December 31,2014
Cash and cash equivalents		2,074	16,912
Trade receivables – third parties		718	99
Other current receivables – third parties		22	21
Convertible bond	6	–	306
Convertible loan notes	6	–	449
Accrued income and prepaid expenses		345	496
Total current assets		**3,159**	**18,283**
Investments	4	73	73
Total non-current assets		**73**	**73**
Total assets		**3,232**	**18,356**
Trade accounts payable – third parties		294	140
Convertible bond (subordinated)	6	–	19,751
Convertible loan notes	6	–	13,251
Convertible loan notes (subordinated)	6	–	6,625
Convertible bond: accrued interest (subordinated)	6	–	2,923
Convertible loan notes: accrued interest	6	–	986
Convertible loan notes: accrued interest	6	–	1,226
Other accounts payable – third parties		333	122
Accrued expenses and deferred income		1,064	421
Total current liabilities		**1,691**	**45,445**
Share capital		3,240	3,053
Legal reserves:			
– Capital contribution reserve*		213,763	213,763
– Treasury shares from capital contribution	3	(210)	(210)
– Other legal reserves		51,393	32,208
Retained loss:			
– Brought forward		(275,902)	(251,823)
– Profit/(loss) for the year		9,257	(24,080)
Total shareholders' equity		**1,541**	**(27,089)**
Total liabilities and shareholders' equity		**3,232**	**18,356**

* *TCHF 4,288 of the total capital contribution reserves amounting to TCHF 213,763 disclosed in the shareholders´ equity as per December 31, 2015 have not been confirmed by the Federal Tax Administration yet.*

Income statement

in TCHF	Note	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Revenue	8	5,714	1,000
Other income	9	2,752	2,439
Research expense		(563)	(10,101)
Employee benefits		(2,592)	(5,667)
Other operating expenses	10	(3,032)	(4,263)
Depreciation of property and equipment		–	(114)
Total operating expenses		**(6,187)**	**(20,145)**
Earnings before interest and taxes		**2,279**	**(16,706)**
Financial income		11,230	272
Financial expense		(4,246)	(8,262)
Earnings before taxes		**9,263**	**(24,696)**
Income from disposal of fixed assets		–	575
Profit/(loss) before taxes		**9,263**	**(24,121)**
Direct taxes		(6)	41
Profit/(loss) for the year		**9,257**	**(24,080)**

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”, formerly Cytos Biotechnology Ltd), 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 1 January 2013). Significant balance sheet and income statement items are accounted for as follows:

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.

On December 3, 2015, Kuros Biosurgery Holding Ltd and Cytos Biotechnology Ltd (which was renamed Kuros Biosciences Ltd on January 18, 2016) 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. After the closing, former Kuros Biosurgery Holding Ltd shareholders own around 80% of the combined entity whereas Cytos Biotechnology Ltd shareholders who were shareholders prior to the combination hold about 20% of the combined entity.

In addition, the extraordinary shareholders' meeting on January 6, 2016 resolved to change the Company's name from Cytos Biotechnology Ltd to Kuros Biosciences Ltd and to elect new members of the Board of Directors and members of the compensation committee.

As a result of the combination, shareholders of former Cytos 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’ late-stage pipeline already generated encouraging data in multiple clinical studies. Kuros’ most advanced product candidate is KUR-023, a novel biomaterial designed to seal the dura (membrane covering the brain and spinal cord) after brain and spinal surgery that has successfully completed a European clinical study and is being prepared to be CE Marked in preparation for commercial launch. KUR-111 and KUR-113, Kuros’ most advanced orthobiologic products are progressing towards Phase III 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 all existing partnerships, in particular the two collaborations for CYT003 and the VLP technology with Checkmate Pharmaceuticals in Cambridge, MA, USA, for the treatment of cancer and with Arbutus Biopharma in Burnaby, British Columbia, Canada, for the treatment of hepatitis B infections. With those two collaborations, the CYT003 program and VLP technology move forward with investment from the collaboration partners and, if successful, Kuros will be eligible for significant development milestone payments and royalties on future sales.

The Board of Directors and the Executive Board 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 14).

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 through profit and loss. 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.

Foreign currencies

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

	2015 profit and loss statement	Balance sheet as at December 31, 2015
EUR	1.0922	1.08261
USD	0.9705	0.99081
GBP	1.4901	1.4688
JPY	0.8037	0.8220

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 profit and loss statement are average rates for the 2015 financial year.

2. Authorized and conditional capital

in TCHF	December 31, 2015	December 31, 2014
Authorized capital with a nominal value of	1,620	1,526
Conditional capital with a nominal value of	722	1,526

3. Treasury shares

	Number of shares	Purchase price	in TCHF
Balance as of January 1, 2014	2,160,168	0.10	216
Purchase	–	–	–
Sale	55,520	3.56*	(6)
Balance as of December 31, 2014	**2,104,648**	**0.10**	**210**
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**

* *Average sale price*

4. Investments

	December 31, 2015	December 31, 2014
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	100
Shareholding (%)	33	33

* *BioSupport AG was liquidated in 2016 since its services are no longer required by Kuros. Preliminary excess cash of TCHF 80 has been paid to Kuros in 2014 and is accounted as a "accrued expenses".*

5. Lease commitments not recorded in the balance sheet

in TCHF	December 31, 2015	December 31, 2014
Rent and leasing	1,312	1,312

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

6. Convertible bond and convertible loans notes

Convertible bond

In February 2007, the Company issued 2.875% p.a. convertible bonds with a nominal value of CHF 70 million. The convertible bond was initially due for repayment on February 20, 2012, and was convertible into the Company's shares at a conversion price of CHF 175. However, because Kuros did not have the financial means to fully repay the convertible bond at maturity, it proposed a bond restructuring to the bondholders on November 10, 2011. In summary, Kuros proposed to repay half of the outstanding nominal value at par and to postpone the repayment for the remaining half and to defer the payment of any interest to February 20, 2015. The repayment was at 150% of par value. Also, the coupon was increased from 2.875% p.a. to 5.75% p.a. Furthermore, the conversion price was reduced to CHF 7.71 and later to CHF 7.32 per share due to the anti-dilution clause. This restructuring became legally binding on March 13, 2012. In the course of the second, third and fourth quarter of 2012, Kuros bought back convertible bonds on the market with a nominal value of CHF 2.97 million. Kuros did not buy any convertible bonds on the market in 2014.

As Kuros still did not have the financial means to repay the restructured convertible bonds on February 20, 2015, it proposed another restructuring to the bondholders on January 26, 2015. Along this proposal, which became final and legally binding on May 4, 2015, all outstanding convertible bonds were converted into equity at a conversion price per share of CHF 0.25 plus an incentive fee (CHF 25.00 per bond), i.e. each convertible bond of nominal CHF 2,500 was converted into 10,000 Kuros shares. In total, convertible bonds with a nominal value of CHF 19,372,500 were exchanged into 77.49 million shares.

In January 2015, Kuros exchanged a nominal of CHF 4 million convertible bonds (out of treasury) against claims of CHF 2 million with a convertible loan note holder. Furthermore, Kuros sold a nominal of CHF 2,205,000 convertible bonds (out of treasury) to a third party for 56%, i.e. CHF 1,234,800.

Convertible loan notes

Four investors granted Kuros convertible loan notes, payable in two equal tranches at a total amount of CHF 13.25 million. The convertible loan notes (capital and interest) could have been converted into shares of the Company, whereby the conversion price was CHF 2.244. The conversion price was further reduced to CHF 2.13 per share due to the anti-dilution clause.

The first tranche of TCHF 6,625 was due for payment upon completion of the capital increase and was paid on May 15, 2012. Upon completion of enrollment in the ongoing Phase 2 b clinical trial with CYT003 in allergic asthma, the Company called the second tranche of CHF 6.625 million on October 21, 2013. The second tranche of the convertible loan notes of CHF 6.625 million was paid in four installments between October 29, and December 10, 2013. As security for the convertible loan notes, the Company agreed to pledge certain patents and associated know-how (primary patents and know-how concerning CYT003) and to conclude a license agreement, which allows the use of the pledged intellectual property rights in case the Company does not meet its obligations as per the convertible loan note agreement. The convertible loan notes carried an interest rate of 9% p.a. and were due for repayment at 150% of the nominal value on February 10, 2015. In the event of a change in controlling interest, the investors could demand the repayment of the convertible loan notes at 190% of the original amount of the convertible loan notes.

At maturity, i.e. on February 10, 2015, CHF 14,238,125 (which is the non-subordinated part of the loan notes) was repaid. With effect as of May 4, 2015, a settlement with the convertible loan note holders was reached eliminating all claims from the convertible loan notes immediately after the conversion of the bonds into equity. In exchange, Kuros made a final payment of CHF 4.36 million on July 28, 2015 to the loan notes holders after the receipt of CHF 4 million from Novartis for the buy-out of CAD106 on July 15, 2015 and some payments from OnCore (now: Arbutus).

7. Pension liabilities

On December 31, 2015, the liability to the pension scheme amounted to TCHF 3 and is accounted as "other accounts payable".

8. Revenue

in TCHF	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Revenue from royalties and licenses	4,982	1,000
Sale of goods*	732	–
Total	**5,714**	**1,000**

** Sale of remaining stock, expensed in previous years under "research expense".*

9. Other income

in TCHF	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Rent	2,163	1,669
Fees of collaboration agreements	452	237
Others	137	533
Total	**2,752**	**2,439**

10. Other operating expenses

in TCHF	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Rental expenses	(1,313)	(1,356)
Insurances, public charges	(70)	(124)
Energy expenses	(180)	(182)
Administration and legal fees	(1,353)	(2,010)
Other expenses	(116)	(591)
Total year ended December 31	**(3,032)**	**(4,263)**

11. Main shareholders

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 and 2014, respectively.

12. Other disclosures

Employees

In 2015, the Company employed on average 4 fulltime employees (2014: 23).

13. Shares and options owned by Board of Directors and Executive Board

Participations as of December 31, 2015

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

Name	Shares	Options	Options expiring: 2016	2017	2018 or later
Christian Itin Chairman of the Board and CEO	–	3,320,000	–	–	3,320,000
John Berriman Vice-Chairman	–	190,000	–	–	190,000
Joseph Anderson Member of the Board	–	180,000	–	–	180,000
Kurt von Emster Member of the Board	–	180,000	–	–	180,000
Frank Hennecke Member of the Executive Board	–	1,366,000	6,000	–	1,360,000
Harry Welten Member of the Executive Board	–	2,022,000	12,000	–	2,010,000

Participations as of December 31, 2014

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

Name	Shares	Options	Options expiring: 2015	2016	2017 or later
Christian Itin Chairman of the Board and CEO	–	1,670,000	–	–	1,670,000
John Berriman Vice-Chairman	–	40,000	–	–	40,000
Joseph Anderson Member of the Board	–	30,000	–	–	30,000
Kurt von Emster Member of the Board	–	30,000	–	–	30,000
Frank Hennecke Member of the Executive Board	–	712,000	46,000	6,000	660,000
Harry Welten Member of the Executive Board	–	800,000	78,000	12,000	710,000

14. Events after balance sheet date

On December 3, 2015, Kuros Biosurgery Holding Ltd and Cytos Biotechnology Ltd (which was renamed Kuros Biosciences Ltd on January 18, 2016) 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. After the closing, former Kuros Biosurgery Holding Ltd shareholders own around 80% of the combined entity whereas Cytos Biotechnology Ltd shareholders who were shareholders prior to the combination hold about 20% of the combined entity.

The acquisition will be accounted for as of January 18, 2016, being the effective date of the combination.

The incurred merger-related costs are included in administration expenses and amount to approximately CHF 0,14 million for 2015, all of which relate to the twelve months period ended December 31, 2015.

The capital contribution reserves as per December 31, 2015 amount to CHF 213,763,480.50 and remained unchanged in the year 2015. It should be noted that at the extraordinary shareholder’s meeting of January 6, 2016 the shareholders approved to offset capital contribution reserves of CHF 204,921,098.84 against the loss brought forward reducing the capital contribution reserves to CHF 8,842,381.66.

On April 20, 2016, Kuros announced that it was informed by Checkmate Pharmaceuticals of the dosing of the first melanoma patient with CMP-001, formerly known as CYT003, in a Phase 1b clinical trial. As a result, Kuros was to receive a milestone payment of USD 1 million from Checkmate under an exclusive license agreement signed in August 2015.

Appropriation of the accumulated gain

The Board of Directors proposes that the net profit of the year 2015 in the amount of CHF 9,257,120.39 is applied against the loss brought forward of CHF 275,902,216.24 resulting in a reduced new balance of loss brought forward of CHF 266,645,095.85.

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

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Kuros Biosciences AG, which comprise the balance sheet, income statement and notes (pages 86 to 95), for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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 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 not covered (article 725 para. 1 CO).

PricewaterhouseCoopers AG

Thomas Bruederlin	Thomas Ebinger
Audit expert Auditor in charge	Audit expert

Basel, 25 April 2016

Legal Disclaimer

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

Published:
Kuros Biosciences Ltd
Wagistrasse 25
8952 Schlieren/Switzerland