Kiadis pharma

ANNUAL REPORT 2016

TABLE OF CONTENTS

BUSINESS SECTION

OUR COMPANY

INTRODUCTION

Kiadis Pharma N.V. ("Kiadis Pharma" or the "Company") is a clinical stage biopharmaceutical company focused on research, development and future commercialization of cell-based immunotherapy products for the treatment of blood cancers and inherited blood disorders. The Company believes that its innovative products have the potential to address the current risks and limitations connected with allogeneic hematopoietic stem cell transplantation (HSCT), being graft-versus-host disease (GVHD), cancer relapse, opportunistic infections and limited matched donor availability. HSCT is generally regarded as the most effective curative approach to blood cancers and certain inherited blood disorders and the Company expects that HSCT could become a first-choice treatment for these diseases once current risks and limitations are addressed, thereby meeting a significant unmet medical need with its products.

The Company is based in Amsterdam-Duivendrecht, The Netherlands and its shares are listed on Euronext Amsterdam and Euronext Brussels (ticker symbol: KDS). Further information can be found at: www.kiadis.com

DISEASES

Blood cancers (leukemia)

Leukemia is a cancer of the bone marrow and blood. The four major types of leukemia are acute myeloid leukemia (AML), acute lymphoblastic leukemia (ALL), chronic myeloid leukemia (CML) and chronic lymphocytic leukemia (CLL). Myelodisplastic syndrome (MDS) is a premalignant blood disorder that often develops into AML.

All leukemias originate in the bone marrow where a stem cell undergoes a mutation and becomes a leukemia cell. Once this leukemia cell mutates, it multiplies into billions of cells. These cells, called "leukemic blasts", do not function normally but grow and survive better than normal cells. The presence of the leukemic blasts blocks the production of normal white blood cells which are key for a proper functioning of the immune system. As a result, the number of healthy white blood cells is usually lower than normal, severely affecting a patient's immune-protection.

Acute leukemias (AML and ALL) are rapidly progressing diseases whereas chronic leukemias (CML and CLL) usually progress more slowly, with patients having more functional cells for a longer period of time. The difference between those cancer types are also reflected in the differing drug approaches for each type of leukemia.

While people can get leukemia at different ages, it is most common in people over the age of sixty. The most common types of leukemia in adults are AML and CLL. ALL is the most common form of leukemia in children.

The aim of leukemia treatment is to achieve complete removal of all cancer cells (complete remission). This means that after treatment no sign of the disease remains, there are no detectable blasts in the bone marrow, and the patient returns to good health. In general, patients are considered cured after five years of complete remission. Patients with an acute leukemia (ALL or AML) need to start treatment as soon as possible after diagnosis as these diseases progress rapidly, ultimately leading to death.

First and second line treatments for leukemia include high doses of chemotherapy that may be combined with different drugs, such as cytarabine and anthracyclines. The initial phase of chemotherapy is called "induction therapy". Induction therapy may involve the simultaneous use of multiple drugs or a planned sequence of treatments. The goal of induction therapy is to deplete blood and marrow of leukemic blast cells that will be checked by histopathology (i.e. microscopic examination of tissue). Generally, if blast cells are still evident after the first course of induction chemotherapy, a second course of the same chemotherapy is administered.

Most patients achieve initial remission. However, some patients have residual leukemic cells in their marrow even after intensive treatment. This is referred to as "refractory leukemia". In other patients, leukemic cells reappear. This is referred to as "relapsed leukemia".

With refractory leukemia, approaches such as using drugs not used in the first course of treatment may be administered in an effort to induce remission. In relapsed patients, further prognosis and treatment will be influenced by the duration of the previous remission, the patient's age and the cytogenetic findings in the leukemia.

HSCT is generally regarded as the most effective curative approach in post remission therapy for acute leukemia. During HSCT treatment, the bone marrow harboring the leukemic cells is completely destroyed and entirely replaced with stem cells from a healthy donor.

This procedure is not without inherent risks, which is also the reason why HSCT is not usually a first choice treatment. The four major risks and limitations that prevent HSCT from broader application are:

- opportunistic infections;
- Graft-versus-Host-Disease (GVHD);
- cancer relapse; and
- donor availability

Mitigating the risks associated with HSCT should allow broader use of this therapy for patients with blood cancers.

Recent developments in cell-based immunotherapy have resulted in approaches which may allow more patients with blood cancers to go into remission, including various CAR-T approaches. These patients will then be eligible for curative HSCT.

Inherited blood disorders (thalassemia)

Thalassemia is a heterogeneous group of inherited blood disorders arising from defects in the genes that encode the two forms of hemoglobin (alpha (α) and beta (β)), resulting in improper oxygen transport and destruction of red blood cells in a patient.

Hemoglobin is the molecule in red blood cells that carries oxygen from the lungs to the body's tissues and returns carbon dioxide from the tissues back to the lungs. Hemoglobin is a four-subunit protein complex formed of two α-subunits and two β-subunits, each with an iron-containing heme group that binds to, and carries oxygen molecules within, red blood cells. Due to spontaneous mutation, hemoglobin gene variants are present to a low degree in all populations. Although most gene variants are rare and many are harmless, certain mutations result in severe hemoglobin disorders.

The most common severe hemoglobin disorder is related to mutations in the β-subunits and is thus termed β-thalassemia. If both genes are affected, symptoms are much more severe and the disease is then referred to as β-thalassemia major.

The defects in the genes result in ineffective formation of red blood cells and damage to existing red blood cells. As a result, β-thalassemia major patients typically present with life-threatening anemia within the first year of life and if left untreated will have a life expectancy of no more than three years. Other symptoms include jaundice, enlarged organs, misshapen bones and stunted growth.

There is currently no approved curative treatment for β-thalassemia major. Its main symptom, anemia, is treated through regular and lifelong red blood cell transfusions, which are generally needed every two to four weeks. However, this frequently leads to iron overload, which is the principal cause of mortality in β-thalassemia major patients. To control iron overload, iron chelation therapy is required as the standard treatment in these patients and typically begins after patients have received approximately twenty transfusions during their lifetime.

The course of the disease depends largely on whether patients are maintained on an adequate transfusion and iron chelation regime. Poor compliance with transfusion or iron chelation is associated with a poor prognosis and shortened survival. However, even with the standard of care, patients are at risk of infection from transfusions as well as toxicities related to iron chelation therapy.

Given the reduction in quality of life, morbidity and mortality in combination with the significant healthcare burden, there is need for a curative treatment for the disorder.

PRODUCTS

The Company's lead product ATIR101 is being tested using a single-dose regimen in patients with blood cancer who have not found a matching donor and where a partially matched (haploidentical) family member is used as donor for HSCT. On December 5, 2016 at the Annual Meeting of the American Society of Hematology (ASH), Kiadis Pharma reported positive one-year data from the single dose Phase II trial with ATIR101, on the basis of which the Company initiated a randomized, controlled, transatlantic Phase III trial with ATIR101 at the beginning of 2017.

ATIR101 (Allodepleted T-cell ImmunotheRapeutics) provides for a safe donor lymphocyte infusion (DLI) from a partially matched (haploidentical) family member without the risk of causing severe Graft-versus-Host-Disease (GVHD). The T-cells in ATIR101 will help fight infections and remaining tumor cells and thereby bridge the time until the immune system has fully re-grown from stem cells in the transplanted graft.

In ATIR101, T-cells that would cause GVHD are eliminated from the donor lymphocytes using the Company's photodepletion technology, minimizing the risk of GVHD and eliminating the need for prophylactic immune-suppression. At the same time, ATIR101 contains potential cancer killing T-cells from the donor that could eliminate residual cancer cells and help prevent relapse of the disease, known as the Graft-versus-Leukemia (GVL) effect.

ATIR101, administered as an adjunctive immuno-therapeutic on top of HSCT, provides the patient with functional, mature immune cells from a partially matched family donor that can fight infections and tumor cells but that do not cause GVHD. ATIR101 thus has the potential to make curative HSCT a viable option to many more patients.

ATIR101 has been granted Orphan Drug Designations both in the US and Europe.

The Company's second product candidate, ATIR201, addresses inherited blood disorders with an initial focus on thalassemia, a disease which results in destruction of red blood cells in patients. ATIR201 Phase I/II clinical development was initiated at the end of 2016. The Company is collaborating with the Thalassemia International Federation (TIF), an internationally renowned organization that seeks to address the needs of patients, carers, healthcare professionals and the general public in the area of thalassemia.

STRATEGY

To advance ATIR101 to commercialization

The Company aims to advance ATIR101 to commercialization. Based on the positive results on the one-year data of its single dose Phase II trial, as announced in December 2016 , the Company has initiated a randomized controlled Phase III trial, using a larger group of patients. This Phase III trial will be conducted in order to seek approval in the European Union, the United States and Canada. The Company is also in the process of preparing to apply for (conditional) marketing authorization in the European Union, based on the results of the Phase II trial.

To expand ATIR into additional hematological disorders

In addition to ATIR101, the Company plans to develop product candidates for other hematological diseases and indications. Replacing diseased bone marrow and the blood forming stem cells with healthy stem cells from a suitable donor can, in principle, cure inherited blood disorders, as well as blood cancers. This is not yet routinely performed due to the high-risk nature of eliminating and replacing the patient's diseased blood forming system. The transplant-related risks of severe infections and/or GVHD are the same as in blood cancers. Use of ATIR in conjunction with HSCT has the potential to minimize those risks and may also render HSCT a preferred option in diseases other than blood cancers. The Company is developing a clinical development program for the treatment of thalassemia. Further work is being undertaken to consider a range of different applications, all of which can expand or alter the standard of care provided to those otherwise susceptible to the above complications.

To expand its suite of cell-based immunotherapy products

The Company is conducting business development activities to possibly license or develop technology in the field of cell-based immunotherapy. The Company scouts and screens for additional, complementary technology it might license or acquire, that is consistent with its current or future business practices.

To enter into industrial partnerships with pharmaceutical and biotechnology companies

The Company continues to explore ways in which it can collaborate with other companies. Future collaborations or partnerships may include working with partners and sharing the risk of additional clinical studies, granting licenses for commercializing the Company's technology in different geographic markets or developing the Company's technology in combination with other treatments in order to offer complementary solutions to different patients to maximize the value of ATIR.

To expand and defend its patent portfolio protecting its technology platforms

The Company seeks to expand and protect its product candidates and technologies by filing and prosecuting patent applications in major commercially relevant territories and countries.

2016 AT A GLANCE

OPERATIONAL HIGHLIGHTS

- Reporting of positive data on the primary endpoint and 1-year follow-up data of the CR-AIR-007 Phase II trial with ATIR101.
- Phase III trial CR-AIR-009 initiated (beginning 2017)
- Process of Marketing Authorization Application submission to the European Medicines Agency initiated.
- Orphan Drug Designation expanded by the European Medicines Agency to include treatment in a hematopoietic stem cell transplantation.
- Collaboration with The Leukemia & Lymphoma Society for the development of ATIR101 in ALL and AML patients.
- Strengthening of the Supervisory Board with two additional and independent members.

FINANCIAL HIGHLIGHTS

- Operating loss decreased to EUR11.4 million in 2016 from a loss of EUR16.0 million in 2015. Operating expenses for 2016 included non-cash share-based payments of EUR0.4 million compared to EUR7.8 million in 2015.
- Net loss for the year decreased to EUR14.8 million in 2016 from EUR16.5 million in 2015.
- Equity position decreased to EUR9.4 million at year-end 2016 compared to EUR25.7 million at the end of 2015. This is mainly due to the loss incurred in 2016.
- The Leukemia & Lymphoma Society made an equity investment in Kiadis Pharma for an amount of US$1.75 million (EUR1.59 million) and acquired a total number of 156,328 new shares.
- The cash position decreased to EUR14.6 million at year-end 2016 compared to EUR28.7 million at the end of 2015. This is mainly due to the cash used in operating activities in 2016.

FORWARD-LOOKING STATEMENTS

This Annual Report may include statements that are, or may be deemed to be, "forward-looking statements", including without limitation those regarding Kiadis Pharma's future performance and position. Such statements are based on current expectations, estimates and projections of Kiadis Pharma and information currently available to the Company. Kiadis Pharma cautions that by their nature, forward-looking statements involve risks and uncertainties that are difficult to predict and that actual results may differ. Risks and uncertainties include, but are not limited to, macro-economic, market and business trends and conditions, competition, legal claims, the Company's ability to protect intellectual property, changes in legislation or accountancy practices, the ability to implement the Company's strategy, and economic and/or political changes. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the 'Risk management and internal control systems' chapter. As a result, the Company's actual future performance, position and/or financial results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. The Company assumes no obligation to publicly update or revise forward-looking statements, except as may be required by law.

MESSAGE FROM THE CEO

Dear Shareholders,

It is with pleasure that I present you our second Annual Report as a listed company.

The year 2016 was another productive year for Kiadis Pharma. At the end of January, we entered into a collaboration with the U.S. Leukemia and Lymphoma Society (LLS), which invested into the Company to further finance the clinical development of our lead product ATIR101. In April we presented positive top line data of the primary endpoint of our Phase II trial with a single dose of ATIR101 (CR-AIR-007) at the European Society for Blood and Marrow Transplantation (EBMT) meeting in Valencia, Spain. During the EBMT conference, Kiadis Pharma organized a very well-attended symposium with international key opinion leaders on approaches dealing with disease relapse. In May, more non-clinical data on the characterization of ATIR101 and the potential graft versus tumor activity of ATIR101 were presented at the Annual Meeting of the International Society for Cellular Therapy (ISCT) in Singapore.

In the second quarter of 2016, meetings were held with the Rapporteurs from the European Medicines Agency (EMA) that would be involved in reviewing our data to be provided as part of a Marketing Authorization Application (MAA) for ATIR101. Based on those discussions, the Company decided to file an MAA with EMA. In June we received a broadened scope of orphan protection for ATIR101 in Europe. Also in June we welcomed two new and independent members to our Supervisory Board. Dr. Robert Soiffer is Professor of Medicine at Harvard Medical School, Chief of the Division of Hematologic Malignancies at Dana-Farber Cancer Institute and Co-director of the Adult Stem Cell Transplantation Program at Dana-Farber Cancer Institute. Mr. Berndt Modig is a financial expert with deep experience in the biotech industry from his assignments with Prosensa, Jerini, Axovant Sciences, Auris Medical, Affimed and others.

After the summer, we announced the full one-year read-out from our single dose Phase II trial with ATIR101, which confirmed the very strong therapeutic effect and a significant improvement in overall survival compared to the control group used. We were selected by the American Society of Hematology (ASH) to present our Phase II data at the ASH meeting in San Diego, USA, in December. In the same month, we announced a safety update regarding our other Phase II trial where a second dose of ATIR101 was tested and this trial is now continuing with patients receiving a single dose only. Furthermore, on the clinical side, we initiated a Phase I/II trial to test ATIR201 as a new product in patients suffering from β-thalassemia major. There is currently no effective curative treatment for many patients suffering from this disease. The addition of ATIR201 to transplant regimes replacing the diseased bone marrow would potentially address this unmet medical need.

In summary, 2016 was a very productive year with many clinical milestones achieved and further trials being prepared and initiated. The Company has met its major 2016 objectives and is looking forward to another productive year.

After having been at the helm of Kiadis Pharma for more than five years, we announced in December that I would leave the Company as per April 1, 2017. As per this date, I will hand over my responsibilities as CEO to Arthur Lahr, at present our Chief Operating Officer, who will take Kiadis Pharma into its next phase of development.

I want to take this opportunity to thank our employees, partners and shareholders whose determination, commitment and support were essential to further realize our business objectives and to bring innovative life-saving products closer to the market, making a real difference to the lives of many patients.

Manfred Rüdiger
Chief Executive Officer
Kiadis Pharma N.V.

OPERATIONAL REVIEW 2016

Kiadis Pharma's lead product ATIR101 is being tested in patients with blood cancer who have not found a matching donor and where a partially matched (haploidentical) family member is used as donor for a hematopoietec stem cell transplantation (HSCT). In 2016, the Company achieved positive results on the primary endpoint and on the one-year follow up of its single dose Phase II clinical trial with ATIR101 (CR-AIR-007). The results showed a significant improvement in overall survival and reduction in transplant related mortality compared to the control group used. The Company presented these Phase II data at the American Society of Hematology Annual Meeting in San Diego, USA, in December 2016. Also in December, the Company announced a safety update regarding its Phase II trial where a second dose of ATIR101 was tested (CR-AIR-008). This trial is now continuing with patients receiving a single dose only, according to protocol, as the second dose could not be considered safe in its current form.

Based on the positive results of the single dose clinical data with ATIR101, the Company has started the process of applying for (conditional) marketing authorization for ATIR101 in the European Union. Also, based on the Phase II data, the Company initiated a randomized controlled single dose Phase III trial with ATIR101 at the beginning of 2017, designed to be the basis for approval in the United States and to provide additional data for the European Union. In addition, on the clinical side, the Company has initiated a Phase I/II trial to test ATIR201 in patients suffering from β-thalassemia major.

During 2016 the Company's existing Orphan Drug Designation (ODD) in the European Union for ATIR101 was expanded by the European Medicines Agency (EMA) to cover all uses of ATIR101 as treatment in HSCT, regardless of the underlying disease. Also in 2016 the Company entered into a collaboration around the development of ATIR101 with the U.S. Leukemia and Lymphoma Society (LLS), the world`s largest voluntary health agency dedicated to blood cancer, and appointed PCT, a Caladrius Company, as its US contract manufacturing organization for ATIR101 clinical batches.

Over the year the Company has been building its organization further to cover the increasing complexity of late stage clinical programs and pre-commercialization efforts. Especially, the clinical and CMC departments have been expanded. Furthermore, the Supervisory Board has been strengthened with the appointment of two additional and independent members, Dr. Robert Soiffer and Mr. Berndt Modig, who has become head of the audit committee at Kiadis Pharma.

FINANCIAL REVIEW 2016

FINANCIAL SUMMARY

(Amounts in EUR million, except per share data)	2016	2015	Change
Total revenue and other income	**-**	**-**	**-**
Total operating expenses	**(11.4)**	**(16.0)**	**4.6**
Research and development	(8.2)	(7.7)	(0.5)
General and administrative	(3.2)	(8.3)	5.1
Operating result	**(11.4)**	**(16.0)**	**4.6**
Net financial result	**(3.4)**	**(0.5)**	**(2.9)**
Net result	**(14.8)**	**(16.5)**	**1.7**
Net operating cash flow	**(14.3)**	**(8.1)**	**(6.2)**
Cash position at end of year	**14.6**	**28.7**	**(14.1)**
Earnings per share before dilution (EUR)	**(1.08)**	**(1.36)**	**0.28**

REVENUE & OTHER INCOME

The Group did not record revenues and/or other income in 2016 and 2015.

OPERATING EXPENSES

Operating expenses decreased to EUR11.4 million in 2016 from EUR16.0 million in 2015. The decrease is mainly a result of the expenses related to (non-cash) share-based compensation and non-recurring expenses related to the Initial Public Offering (IPO) and becoming a public company incurred in 2015.
Research and Development expenses increased to EUR8.2 million in 2016 from EUR7.7 million in 2015. Without the expenses for share-based compensation, Research and Development expenses increased to EUR8.2 million in 2016 from EUR5.5 million in 2015, mainly due to the expansion of the workforce in research and development departments and costs related to lining up a new manufacturer for North America for the Phase III trial with ATIR101 starting in 2017.

General and Administrative expenses decreased to EUR3.2 million in 2016 from EUR8.3 million in 2015. Without the expenses for share-based compensation, General and Administrative expenses were slightly higher at EUR2.8 million in 2016 compared to EUR2.7 million in 2015.

OPERATING RESULTS

As a result of the overall decrease in total operating expenses, the Group's operating loss improved from EUR16.0 million in 2015 to EUR11.4 million in 2016.

NET FINANCIAL RESULT

Net finance expenses for 2016 increased to EUR3.4 million from EUR0.5 million in 2015. The increase of EUR2.9 million is mainly due to a significant drop in finance income as the Company recorded an extinguishment gain of EUR4.6 million related to warrants (derivatives) classified as a financial liability in 2015. In 2016, the Company recorded a net gain on foreign currency exchange rates of EUR0.4 million compared to a loss of EUR1.5 million in 2015. The 2016 net foreign currency exchange gain is primarily driven by unrealized currency gains on intra-group payables, receivables and loans following a strengthening of the Canadian dollar against the euro of approximately 6% during the year.

NET RESULT

As a result of the above items, the loss for the year decreased by EUR1.7 million to EUR14.8 million in 2016 versus a loss of EUR16.5 million in 2015. The undiluted loss per share for 2016 decreased to EUR1.08 compared to EUR1.36 in 2015.

CASH FLOWS

Total cash and cash equivalents decreased by EUR14.1 million from EUR28.7 million at year-end 2015 to EUR14.6 million at the end of 2016. This decrease mainly results from a net operating cash outflow amounting to EUR14.3 million in 2016.

EQUITY

The Company's equity position amounted to EUR9.4 million at year-end 2016 versus EUR25.7 million at the end of 2015. This decrease reflects the loss for the year of EUR14.8 million and withholding tax related to shared-based payments of EUR3.5 million, partly offset by shares issued for cash to the Leukemia and Lymphoma Society for a total of EUR1.6 million.

OUTLOOK 2017

The Company continues the development program of its products. As the Company seeks to advance its products to the market it will incur increased costs as it expands its development, regulatory and marketing capabilities by adding qualified personnel in these areas. The Company has incurred losses since its inception and expects to continue to incur losses for the foreseeable future. Although on the basis of the current plans, the Company's cash and cash equivalents currently available are not sufficient to meet the Company's working capital requirements through the next twelve months, the Company believes that the required additional funds for this can be raised, either by means of equity financing, non-dilutive financing or strategic transactions. To the extent the Company will raise capital by the issuance of additional shares, existing shareholders' interests in the Company will be diluted.

Based on the positive results on the primary endpoint and the one-year follow up data of the single dose Phase II clinical trial with ATIR101, the Company has started the process of applying for (conditional) marketing authorization for ATIR101 in the European Union and intends to apply for authorization in Canada as well. Also, based on the Phase II data, we have now initiated a randomized controlled Phase III trial with ATIR101 which will start to enroll patients in 2017 and which is designed to be the basis for approval in the United States and to provide additional data for the European Union and possibly Canada to turn a potential conditional marketing authorization approval into a full approval.

We also expect the first patients to be treated on our thalassemia clinical trial with ATIR201 which was initiated at year end 2016. Finally, we will further build the organization to make sure that the increasing complexity of late stage clinical programs and pre-commercialization efforts will be appropriately covered.

STATEMENT OF THE MANAGEMENT BOARD

On the basis of the above and in accordance with best practice II.1.5 of the Dutch Corporate Governance Code applicable as of January 1, 2009, and Article 5:25c of the Financial Markets Supervision Act, the Managing Board confirms that the internal risk management and control systems provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review. The financial statements fairly represent the Company's financial condition and the results of the Company's operations and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realization of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

In view of all of the above, the Managing Board confirms that, to the best of its knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the position at the balance sheet date and the development and performance of the business during the financial year together with a description of the principal risks and uncertainties that the Company faces.

Amsterdam-Duivendrecht, March 30, 2017

Management Board

Manfred Rüdiger

Robbert van Heekeren

CORPORATE GOVERNANCE AND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

CORPORATE GOVERNANCE

INTRODUCTION

The Company is a public limited liability company with its shares listed on Euronext Amsterdam and Euronext Brussels since July 2015. The Company has a two-tier board structure: the Management Board that manages the Company on a day-to-day basis and an independent Supervisory Board that supervises and advises the Management Board.

The Company is governed by Dutch law and by its Articles of Association, which can be consulted on the Company website (www.kiadis.com).

MANAGEMENT BOARD

The Management Board consists of one or more members, to be determined by the Supervisory Board. At present, the Management Board is composed of Dr. Manfred Rüdiger, Chief Executive Officer, and Mr. Robbert van Heekeren, Chief Financial Officer. Both members of the Management Board were appointed upon incorporation of the Company in 2015 for a period of four years.

Manfred Rüdiger

Dr. Rüdiger (52, German) holds a PhD in Biochemistry from the Eberhard Karls University of Tübingen, Germany for research conducted as a Max-Planck fellow at the Max-Planck Institute for Biophysical Chemistry in Göttingen, Germany. Dr. Rüdiger is also a member of the supervisory board of 4SC AG (listed on Xetra, regulated market) and member of its audit committee.

Robbert van Heekeren

Mr. Van Heekeren (46, Dutch) holds a master's degree in Economics from Tilburg University, The Netherlands, and a master's degree in Industrial Engineering & Management Science from Eindhoven University of Technology, The Netherlands.

Members of the Management Board are appointed (and, if necessary, dismissed) by the General Meeting. The Articles of Association provide that the General Meeting appoints members of the Management Board and that the Supervisory Board may draw up a non-binding nomination of one or more nominees for each vacancy to be filled for the appointment of a person as a member of the Management Board. A resolution of the General Meeting to appoint a member of the Management Board in conformity with the nomination of the Supervisory Board shall be passed by an absolute majority of votes cast. A resolution of the General Meeting to appoint a member of the Management Board not in conformity with, or without, the nomination of the Supervisory Board shall require an absolute majority of the votes cast representing more than 50% of the Company's issued share capital.

The Articles of Association provide that the General Meeting may dismiss Management Board members at any time. A resolution of the General Meeting to dismiss a member of the Management Board pursuant to a proposal by the Supervisory Board shall be passed with an absolute majority of the votes cast. A resolution of the General Meeting to suspend or dismiss a member of the Management Board other than pursuant to, or without, a proposal by the Supervisory Board shall require an absolute majority of the votes cast representing more than 50% of the Company's issued share capital.

The Management Board is responsible for the day-to-day management of the operations of the Company. The members of the Management Board are collectively responsible for the management of the Company. Notwithstanding their collective responsibility within the Management Board, certain tasks and responsibilities have been assigned to individual members. This distribution of tasks is part of the Rules of Procedure for the Management Board which can be found on the Company website.

The functioning of and decision making within the Management Board are governed by the Rules of Procedure for the Management Board which can be found on the Company website.

The remuneration of the members of the Management Board is determined by the Supervisory Board based on the remuneration policy approved by the General Meeting. The remuneration policy for the Management Board can be found in the Section entitled 'Remuneration report' in this Annual Report.

SUPERVISORY BOARD

The Supervisory Board consists of three or more members. At present, the Supervisory Board is composed of Mr. Mark Wegter, Chairman, Mr. Martijn Kleijwegt, Mr. Stuart Chapman, Dr. Robert Soiffer and Mr. Berndt Modig. The first three members of the Supervisory Board were appointed upon incorporation of the Company in 2015 for a period of four years. The other two members of the Supervisory Board were appointed in 2016 for a period of four years. Further details in respect of the Supervisory Board members can be found in the Section entitled 'Report of the Supervisory Board' in this Annual Report.

Members of the Supervisory Board are appointed for a period of four years with a maximum of three four-year terms.

Members of the Supervisory Board are appointed (and, if necessary, dismissed) by the General Meeting. The Articles of Association provide that the General Meeting appoints members of the Supervisory Board and that the Supervisory Board may draw up a non-binding nomination of one or more nominees for each vacancy to be filled for the appointment of a person of a member of the Supervisory Board. A resolution of the General Meeting to appoint a member of the Supervisory Board in conformity with the nomination of the Supervisory Board shall be passed by an absolute majority of votes cast. A resolution of the General Meeting to appoint a member of the Supervisory Board not in conformity with, or without, the nomination of the Supervisory Board shall require an absolute majority of the votes cast representing more than 50% of the Company's issued share capital.

The Articles of Association provide that the General Meeting may dismiss Supervisory Board members at any time. A resolution of the General Meeting to dismiss a member of the Supervisory Board pursuant to a proposal by the Supervisory Board shall be passed with an absolute majority of the votes cast. A resolution of the General Meeting to suspend or dismiss a member of the Supervisory Board other than pursuant to, or without, a proposal by the Supervisory Board shall require an absolute majority of the votes cast representing more than 50% of the Company's issued share capital.

The Supervisory Board is responsible for supervising and advising the Management Board in its duty to manage the Company. The functioning of and decision making within the Supervisory Board are governed by the Rules of Procedure for the Supervisory Board which can be found on the Company website.

The remuneration of the members of the Supervisory Board is determined by the General Meeting. The Company's Annual General Meeting of June 28, 2016 approved the following remuneration for the Supervisory Board:

- annual fixed honorarium for each independent member: EUR 40,000;
- annual fixed honorarium for the Chairman, if independent: EUR 50,000;
- no separate (additional) remuneration for membership/chair of the audit committee, remuneration committee or selection and appointment committee; and
- no remuneration for members of the Supervisory Board who are not independent within the meaning of the Dutch Corporate Governance Code.

Details of the actual remuneration of the Supervisory Board in 2016 can be found in Note 23 'Related Parties' of the consolidated financial statements

Mid 2016 the Supervisory Board appointed two committees to cover key areas in greater detail: nominations and remuneration, and auditing. Further details in respect of these committees can be found in the Section entitled 'Report of the Supervisory Board' in this Annual Report.

GENERAL MEETING

The main powers of the General Meeting relate to:

- the appointment, suspension and dismissal of members of het Management Board and the Supervisory Board;
- the approval of the remuneration policy of the Management Board;
- the approval of the remuneration of the Supervisory Board;
- the adoption of the Financial Statements and declaration of dividends;
- the release from liability of the members of the Management Board and the Supervisory Board;
- the issuance of shares or rights to shares, restriction or exclusion of pre-emptive rights of shareholders, repurchase of shares and reduction of the issued share capital;
- the amendment of the Articles of Association; and
- decisions of the Management Board involving a significant change in the Company's identity of character.

The Annual General Meeting is held within six months of the end of the financial year in order to discuss and, if applicable, approve, the annual report, the annual accounts and any of the other topics mentioned above.

The Annual General Meeting and, if necessary, other General Meetings, are convened by the Management Board or the Supervisory Board. The agenda and explanatory notes are published on the Company website.

According to the Articles of Association, shareholders who, individually or jointly, represent at least 3% of the issued capital have the right to request the Company that items be placed on the agenda. Such requests need to be received in writing by the Company at least sixty days before the date of a General Meeting.

In 2016 the Annual General Meeting was held on June 28, 2016.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

The General Meeting decides on an amendment of the Articles of Association by an absolute majority of votes cast. A decision to amend the Articles of Association may only be taken at the proposal of the Management Board, subject to approval of the Supervisory Board.

SHARE CAPITAL, SHARES, VOTING RIGHTS AND SUBSTANTIAL HOLDINGS

On December 31, 2016 the Company's authorized share capital amounted to EUR 5,000,000, divided into 50,000,000 ordinary shares, each with a nominal value of EUR 0.10.

On December 31, 2016 the Company´s issued share capital amounted to EUR 1,396,650.10, divided into 13,966,501 ordinary shares, each with a nominal value of EUR 0.10.

The ordinary shares in the Company are listed on Euronext Amsterdam and Euronext Brussels (symbol: KDS, ISIN code: NL0011323407). All issued shares are fully paid-up.

There are no shares having specific voting rights, voting limitations or not having voting rights or dividend rights. When convening a General Meeting, the Management Board is entitled to determine a registration date in accordance with the relevant provisions of the Dutch Civil Code.

Pursuant to the Dutch Financial Supervision Act (Wet op het financieel toezicht), substantial holdings in the Company must be disclosed to the Netherlands Authority for the Financial Markets (Stichting Autoriteit Financiële Markten) (AFM).

According to the register kept by the AFM the following shareholders disclosed that they have a direct or indirect (potential) interest between 3% and 25% in the Company's total share capital as per January 1, 2017:

- Esprit Nominees Limited
- Lenildis Holding B.V.
- Achmea Pensioen- en Levensverzekeringen N.V. (via Life Sciences Partners B.V.)
- Life Sciences Partners II B.V.
- Alta Partners Management VIII, LLC

ISSUE OF SHARES; AUTHORITIES OF THE MANAGEMENT BOARD

The issuance of Company shares takes place upon a decision by the Management Board which decision is subject to the approval of the Supervisory Board. The scope of this power of the Management Board is determined by the General Meeting. In the General Meeting of June 30, 2015, this power was granted for a period of five years following June 30, 2015, up to a maximum of 20% of the number of ordinary shares outstanding as of the settlement date of the Company's listing on Euronext Amsterdam and Euronext Brussels.

REPURCHASE OF OWN SHARES; AUTHORITIES OF THE MANAGEMENT BOARD

The acquisition of fully paid-up Company shares by way of repurchase, via the stock exchange or otherwise, takes place upon a decision by the Management Board which decision is subject to the approval of the Supervisory Board. The scope of this power of the Management Board is determined by the General Meeting. In the General Meeting of June 28, 2016 this power was granted for a period of 18 months following June 28, 2016 for a maximum of 10% of the issued capital and for a consideration of at least EUR 0.01 per share and which may not exceed the average closing price of the shares on Euronext Amsterdam and Euronext Brussels during five consecutive trading days preceding the day of repurchase increased by 10%.

DUTCH CORPORATE GOVERNANCE CODE

The current Dutch Corporate Governance Code ("Code") entered into force on January 1, 2009. The Code applies to all companies whose registered offices are in The Netherlands and whose shares or depositary receipts for shares have been admitted to listing on a stock exchange, or more specifically to trading on a regulated market or a comparable system.

The Code contains principles and best practice provisions that regulate relations between the management board, the supervisory board and the shareholders, and is based on a "comply or explain" principle. Accordingly, the Company is required to disclose in its annual report which principles and best practices of the Code it does not apply and the reason why. The full text of the Code can be found on http://commissiecorporategovernance.nl/corporate-governance-code.

GOVERNANCE FRAMEWORK

The Company's overall governance framework and the most important governance elements at each level are the following:

- for the shareholders the Articles of Association;
- for the Supervisory Board the Rules of Procedure of the Supervisory Board, the Charter of the Audit Committee and the Charter of the Nomination and Remuneration Committee; and
- for the Management Board the Rules of Procedure of the Management Board.

NON-COMPLIANCE WITH THE CODE

The Company acknowledges the importance of good corporate governance, endorses the underlying principles of the Code and applies these principles and the Code's best practice provisions, subject to the exceptions set out below.

The supervisory board members shall evaluate its functioning and the functioning of its committees and its individual members (provision III.1.7 of the Code).

The Supervisory Board did not evaluate its functioning and the functioning of its committees and its individual members in 2016.

All supervisory board members, with the exception of not more than one person, shall be independent (provision III.2.1 of the Code).

Three present members of the Supervisory Board are not independent within the meaning of this provision. These Supervisory Board members are employed by and have been appointed upon nomination of three of the major shareholders of the Company. These three major shareholders have a long-term interest in the Company and were willing to back this up by making senior partners with relevant knowledge and experience available to the Company. The Supervisory Board considers that Messrs. Wegter, Chapman and Kleijwegt fit the intended profile of the Supervisory Board and that their contributions outweigh any perceived disadvantage of non-independence. In addition, the Company deems continuity in the composition of the Supervisory Board to be of great importance.

The supervisory board shall prepare a profile of its size and composition (provision III.3.1 of the Code).

The Supervisory Board has prepared a profile of its composition (but not of its size) which has been made generally available and is posted on the Company's website. However, the Supervisory Board has not strictly followed the recommendation of this provision to formulate an explicit target on diversity in terms of, among other things, gender or age, and the Supervisory Board does not strictly follow the recommendation for an explicit target in this respect. The overriding principle shall remain that the Supervisory Board should have a diverse composition of members with a valuable contribution to the Company in terms of experience and knowledge of the industry in which the Company is active, or other business knowledge.

The supervisory board shall draw up a retirement schedule (provision III.3.6 of the Code).

The Supervisory Board has not drawn up a retirement schedule yet because it is the first term on the listed Company for all Supervisory Board members. The Supervisory Board plans to draw up such a schedule before the first term will have ended.

The chairman of the supervisory board shall not be a former member of the management board of the company (provision III.4.2 of the Code).

Mr. Wegter, Chairman of the Supervisory Board, was a member of the Kiadis Pharma B.V. management board from September 4, 2009 through February 22, 2012.

The audit committee shall meet with the external auditor a least once a year without management board members being present (provision III.5.9 of the Code).

The Company's Audit Committee, having been appointed mid 2016, did not meet with the Company's external auditor without Management Board members being present in 2016, but will do so in 2017.

The general meeting of shareholders may pass a resolution to cancel the binding nature of a nomination for the appointment of a member of the management board or of the supervisory board and/or a resolution to dismiss a member of the management board or of the supervisory board by an absolute majority of the votes cast (provision IV.1.1 of the Code).

Considering the remaining shareholdings and involvement of the Company's current shareholders, the Company deems it appropriate that any resolutions of the General Meeting to cancel the binding nature of a nomination for the appointment of a member of the Management Board or of the Supervisory Board and/or a resolution to dismiss a member of the Management Board or of the Supervisory Board without a prior proposal of the Supervisory Board requires an absolute majority of the votes cast in a meeting where at least half of the Company's issued share capital is represented.

Meetings with analysts and presentations to analysts and (institutional) investors shall be announced in advance on the company's website and by means of press releases. Shareholders may follow these meetings and presentations in real time. After the meetings, the presentations shall be posted on the company's website (provision IV.3.1 of the Code).

The Company does not announce, for practical reasons, meetings with analysts and presentations to analysts and (institutional) investors, nor does the Company provide for shareholders to follow these meetings and presentations in real time or post the presentations on its website. In principle, no price-sensitive information shall be disclosed in the course of any contact with

analysts and (institutional) investors, unless appropriate confidentiality agreements have been entered into and in keeping with the applicable legal framework.

The company may not pay fees to parties for carrying out research for analysts' reports or for the production or publication of analysts' reports (provision IV3.3 of the Code).

The Company may pay fees for carrying out research for analysts' reports or for the production or publication of analysts' reports but if the Company pays such fees, this will be mentioned in the report, i.e. "this report has been commissioned by the company".

Analysts meetings and presentations to and direct discussions with (institutional) investors may not take place shortly before the publication of the regular financial information (provision IV3.4 of the Code).

The Company will have meetings, presentations and discussions with (institutional) investors shortly before the publication of its regular financial information, provided that such meetings, presentations and discussions regard non-financial topics.

The audit committee shall review annually the need for an internal auditor if there is no internal audit function (provision V3.3 of the Code).

As the Company's Audit Committee was not appointed until mid 2016, it has not yet reviewed the need for an internal auditor.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

In order to manage the main risks faced by Kiadis Pharma and to offer reasonable assurance that the Company's targets can be realized, that the financial information is reliable and that applicable laws and regulations are observed, the Management Board has the responsibility to develop, implement and operate adequate risk management and internal control systems. The Supervisory Board has a control function with respect to the systems of risk management and internal control. Based on internal evaluations, discussions with the Supervisory Board/Audit Committee and audits from external parties, these systems are reviewed, updated and optimized as an ongoing process within the Company. In 2016 no major failings in the internal risk management and control systems were discovered. Currently, additional protocols, documentation and (risk management-) reporting tools are being put in place. It should be noted that these systems cannot provide absolute assurance as to the realization of the Company's targets or that they can prevent all misstatements, errors and non-compliances with legislation, rules and regulations.

The Management Board and departmental managers analyze in a continuous process the potential risks, evaluating (financial) impact and likelihood, and determining appropriate measures to minimize these risks. The risk assessments are updated in line with changing internal and external circumstances. Meetings of the Management Board with departmental managers and with the Supervisory Board take place regularly to review developments, to set targets/milestones and to evaluate the realization of these milestones. In such meetings the financial position of the Company is also reviewed and budgets/cashflow forecasts are presented, which are followed up and regularly adjusted to changing prospects. Supervision and monitoring activities are performed by the senior management on a daily basis. The risk management and internal control system with regard to the financial reporting process is designed to provide reasonable assurance that the books and records properly reflect transactions necessary to permit preparation of financial statements, that the financial reporting is consistent and in compliance with legal regulations and generally accepted accounting principles and that published financial data do not contain any material misstatements. The system also provides reasonable assurance that receipts and expenditures of the Company are only made by persons authorized to do so and that assets are safeguarded. As part of this system, various internal rules and regulations have been set, including standard operating procedures, the dual-control principle, spot checks and signatory rules.

Kiadis Pharma is exposed to various risks. Our risk appetite is different for the various risk categories we are exposed to. Strategic risks and opportunities may affect our strategic ambitions. Kiadis Pharma is prepared to take moderate to high strategic risks to achieve its strategic ambitions, creating a right balance between risk and long-term reward. Operational risks include adverse unexpected developments resulting from internal processes, people and systems, or from external events which are linked to the actual operation of the business. Kiadis Pharma aims to minimize these risks, only accepting a low level, to ensure that quality standards are unaffected. Compliance risks relate to unanticipated failures to comply with applicable laws and regulations. Kiadis Pharma aims to minimize these risks. The aim is to be fully compliant with these laws and regulations. The financial risks relate to treasury, tax and accounting and reporting. Kiadis Pharma is also prudent with respect to these financial risks and aims for full compliance with financial reporting rules and regulations.

The risks and uncertainties described below are a list of risks and uncertainties currently known to Kiadis Pharma and which Kiadis Pharma considers as the main threats to achieve its objectives. Additional risks and uncertainties may also have an adverse effect on Kiadis Pharma's business, financial condition, results of operations and prospects and could adversely affect the price of its shares. All these factors are contingencies which may or may not occur.

COMMERCIALIZATION AND MARKET RISKS

If Kiadis Pharma's products do not gain market acceptance by regulators, among physicians, patients, healthcare providers, healthcare payers or the medical community as a whole, Kiadis Pharma may not be able to achieve revenues and its business will be materially adversely affected.

Kiadis Pharma incurs and will incur substantial research and clinical development costs before it can confirm the scientific validity or commercial viability of a product. Even if the FDA, EMA, Health Canada or any other regulatory authority approves the marketing of ATIR, or any other products that Kiadis Pharma may develop, physicians, healthcare providers, patients or the

medical community may not accept or use them. The degree of market acceptance of ATIR and any other products will depend on a variety of factors, including:

- the timing of market introduction;
- the number and clinical profile of competing products;
- Kiadis Pharma's ability to provide acceptable evidence of safety and efficacy;
- relative convenience and ease of administration;
- cost-effectiveness;
- availability of coverage, reimbursement and adequate payment from health maintenance organizations and other insurers, both public and private;
- prevalence and severity of adverse side effects; and
- other potential advantages over alternative treatment methods.

If ATIR or any other products that Kiadis Pharma may develop fail to achieve market acceptance, Kiadis Pharma may not be able to generate sufficient revenue. As a result, Kiadis Pharma may be required to seek additional financing. In addition, Kiadis Pharma targets specific indications with discrete patient populations. Kiadis Pharma therefore may have to achieve significant market penetration in each target market and obtain relatively high prices for its products to achieve profitability. Kiadis Pharma may make substantial investments in clinical development and commercialization without any assurance that it will be able to attain significant market share at a price that would enable it to recover its investments. If Kiadis Pharma is unable to do so, its business, financial condition and results of operations would be materially adversely affected. The pharmaceutical and biotechnology industries are characterized by rapid change and Kiadis Pharma expects competition to intensify as scientific, clinical or technical advances are made. These advances may render Kiadis Pharma's products obsolete or non-competitive. The emergence of a new standard of care in target markets may also result in Kiadis Pharma's products becoming obsolete. Should any of these factors occur, Kiadis Pharma's business, financial condition and results of operations could be materially adversely affected.

If Kiadis Pharma evolves from a company primarily involved in the clinical development of products to one also involved in the commercialization of products, Kiadis Pharma may encounter difficulties in expanding its operations successfully.

If Kiadis Pharma advances its products through clinical trials, it will need to expand its development, regulatory, marketing and supply chain capabilities or contract with third parties to provide these capabilities for it. Kiadis Pharma's ability to realize its commercialization strategy and manage any growth will require Kiadis Pharma to continue to recruit and train additional qualified personnel and make appropriate changes to its operational, financial and management controls. The expansion of its operations, including potential expansion into global markets outside of the European Union, the United States and Canada, may lead to significant costs, new challenges and risks and may divert the attention of Kiadis Pharma's management and Kiadis Pharma's business development resources. Any inability to manage anticipated growth and expanding operations could adversely affect its business, financial condition or results of operations.

If Kiadis Pharma fails to obtain adequate coverage and reimbursement from insurers, both public and private, commercially viable markets for its products may not develop or may be smaller than expected.

The commercial success of Kiadis Pharma's future products depends in part on whether third-party coverage and reimbursement will be available for the ordering of products by the medical profession for use by patients. In the United States, Medicare, Medicaid, health maintenance organizations and other insurers, both public and private, are increasingly attempting to manage healthcare costs by limiting both the coverage and the level of reimbursement of new products. As a result, they may not cover or provide adequate payment for Kiadis Pharma's products. In the European Union and other markets, Kiadis Pharma's ability to obtain coverage or reimbursement may be affected by laws governing public and private insurance and other factors. If these insurers, both public and private, do not view Kiadis Pharma's products as cost-effective, reimbursement may not be available to patients or may be insufficient to allow Kiadis Pharma's products to be marketed on a competitive basis. Legislative or regulatory efforts to reform government healthcare programs, changes to private coverage and reimbursement policies and cost containment initiatives could lower prices or reimbursement levels or result in rejection of Kiadis Pharma's products. Any

of these factors could impair the development of a commercial market for Kiadis Pharma's products and its business, financial condition and results of operations could be materially adversely affected.

The duration and scope of Kiadis Pharma's patents and orphan drug indications may not be sufficient to effectively protect its products and business.

Kiadis Pharma's commercial success depends in part on obtaining and maintaining confidential know-how, current and future patent protection for its products and orphan drug market exclusivity. Patents have a limited lifespan. Even if additional patents covering Kiadis Pharma's product candidates are obtained, the expiration of a patent may leave Kiadis Pharma more vulnerable to competition from biosimilar or generic alternatives. Certain of Kiadis Pharma's issued patents relevant for ATIR or other aspects of Kiadis Pharma's technology have already expired, and others will expire in the coming years. Moreover, patents have a limited scope of protection. Kiadis Pharma's patents may provide protection for certain aspects of its products and business, but leave other aspects unprotected, as a consequence of which the technology protected by the patents is limited. Additionally, Kiadis Pharma's patents only cover a limited number of jurisdictions, and leave other jurisdictions uncovered, as a result of which the protection provided by the patents is geographically limited. While Kiadis Pharma has rights to patents relating to the Theralux technology, these patents would likely afford only limited protection and Kiadis Pharma does not rely on them to provide it with market exclusivity for is products. Orphan drug status confers market exclusivity upon the first product to receive marketing approval by the relevant market authorization authority for the market and entails the right to exclusively market the product for the specified disease, during a period of seven years in the United States and a maximum of ten years for the European Union. To date, the Company has been granted orphan drug designations in the United States and in the European Union in respect of its ATIR products. There is however no assurance that Kiadis Pharma will be able to obtain or maintain market exclusivity for its products in indications that are important to its business. Once granted, exceptions to market exclusivity through orphan drug status may be granted to other applicants if Kiadis Pharma is unable to supply sufficient quantities of the product, or if a potential product based on the same compound of a second applicant is clinically superior.

Changes to the current regulatory frameworks governing orphan drugs may impact existing and future market exclusivities provided as a result of orphan drug designation. Even if Kiadis Pharma were to succeed in obtaining and maintaining market exclusivity through orphan drug status, the orphan drug regulations would not preclude competitors from developing or marketing different products for the same indications to which its products are directed, or from independently developing versions of Kiadis Pharma's products for different indications. If Kiadis Pharma fails to obtain or maintain market exclusivity for its products through orphan drug status, or if the commercial value of market exclusivity is diminished, its competitive position or financial and commercial prospects could be materially adversely affected.

Kiadis Pharma relies on third parties who exclusively license intellectual property rights relating to the Theralux platform to it. If any such exclusive license is terminated, Kiadis Pharma may be unable to commercialize and market the ATIR products.

Kiadis Pharma has an exclusive license for the exploitation of intellectual property rights relating to the Theralux platform granted by the University of Montreal and Maisonneuve-Rosemont Hospital. Under this license, Kiadis Pharma is required to, among other things, develop, obtain regulatory approval of, seek intellectual property protection for and commercialize products based on the Theralux technology. Kiadis Pharma's ability to comply with these requirements may be affected by factors including but not limited to the availability of financing, the current regulatory environment, the results of clinical trials, or physician and patient response to ATIR products. If a breach of certain important terms of the license were to occur and not be remedied, the licensors may assert their right to terminate the license. The loss of rights under this license could preclude Kiadis Pharma from further developing, commercializing and marketing ATIR and other products, which would have a material adverse effect on Kiadis Pharma's business, financial condition, results of operations and prospects.

DEVELOPMENT RISKS

Kiadis Pharma's future commercial potential depends on its ATIR products, in particular ATIR101. If Kiadis Pharma is unable to commercialize ATIR101, or experiences significant delays in doing so, its business, financial condition and results of operations would be materially adversely affected.

ATIR101 for leukemia is Kiadis Pharma's most advanced ATIR product in development. Kiadis Pharma's ability to generate product revenue in the future will depend significantly on the successful clinical development and commercialization of ATIR101. If the products that Kiadis Pharma is pursuing fail, it will have to develop, acquire or license new products. Any of Kiadis Pharma's products could be unsuccessful if it:

- does not demonstrate acceptable safety and efficacy in preclinical studies or clinical trials or otherwise does not meet applicable regulatory standards for approval;
- results in unacceptable adverse side effects;
- does not offer therapeutic or other improvements over existing or future products used to treat the same conditions;
- is not accepted in the medical community or by insurers, either public or private; or
- is not capable of being produced in commercial quantities at acceptable costs.

The results of the clinical trials to date cannot provide assurance that acceptable efficacy or safety will be shown upon completion of further clinical trials. If Kiadis Pharma is unable to make ATIR commercially available, or experiences significant delays in doing so, its business, financial condition and results of operations would be materially adversely affected.

Given the general applicability of Kiadis Pharma's technology platform to the development of the products it currently has in its pipeline and may develop in the future, failure to obtain marketing authorization for ATIR101 or new products would adversely affect Kiadis Pharma's ability to develop other programs and would have an adverse effect on Kiadis Pharma's business, financial condition, results of operations and prospects.

Any delay in commencing or completing, or inconclusive or negative results from, clinical trials would harm Kiadis Pharma's ability to market a product, generate revenues and have a material adverse effect on its business, financial condition and results of operations.

Clinical trials are expensive and complex. They can take many years to complete and have uncertain outcomes. Kiadis Pharma estimates that clinical trials of ATIR will continue for a significant period of time. Failure of a product can occur at any stage of the testing and Kiadis Pharma may experience numerous unforeseen events during, or as a result of, the clinical trial process that could delay or prevent commercialization of Kiadis Pharma's products. These events include, but are not limited to:

- delays in securing clinical investigators or trial sites for Kiadis Pharma's clinical trials;
- delays in obtaining regulatory approval to commence or continue a clinical trial;
- slower than anticipated rates of patient recruitment and enrollment;
- negative results from clinical trials;
- the development of unforeseen side effects in patients or unforeseen safety issues;
- dosing issues;
- introduction of new therapies or changes in standards of practice or regulatory guidance that render Kiadis Pharma's clinical trial endpoints or the targeting of Kiadis Pharma's proposed indications obsolete;
- inability to monitor patients adequately during or after treatment or problems with investigator or patient compliance with the trial protocols; and
- inability to replicate in third-party or Kiadis Pharma's future studies the safety and efficacy data obtained from a limited number of patients in Kiadis Pharma's previous and ongoing trials.

If Kiadis Pharma suffers any significant delays, setbacks or negative results in its clinical trials or if Kiadis Pharma's clinical trials are terminated, it may be unable to continue development of its products and its development costs could increase significantly, which could have a material adverse effect on its business, financial condition and results of operations.

OPERATIONAL RISKS

Due to the Company's limited resources and access to capital, the Company must prioritise development of certain products and its decision to pursue these products may prove to be unsuccessful as they may never receive regulatory approval or achieve profitability.

Because Kiadis Pharma has limited resources and access to capital to fund its operations, Kiadis Pharma's management must make significant prioritization decisions on which products to pursue and the amount of resources to allocate to each product. Kiadis Pharma's current development activities are focused primarily on the clinical development of ATIR101. To date, Kiadis Pharma has only allocated limited resources towards the development of ATIR201. These, and future decisions concerning the allocation of research, management and financial resources towards particular products or therapeutic areas may not lead to the development of viable commercial products and may divert resources from better opportunities. Similarly, these and future decisions to delay or terminate product development programs could cause Kiadis Pharma to miss valuable opportunities. If Kiadis Pharma makes incorrect determinations regarding the market potential of its products or misreads trends in the biotechnology industry for cancer or noncancer therapies, its business, financial condition and results of operations could be materially adversely affected.

Kiadis Pharma may in the future acquire businesses or engage in other transactions that could disrupt its operations.

Kiadis Pharma may selectively consider further acquisitions. Kiadis Pharma's valuation of any businesses or assets it acquires may prove incorrect and Kiadis Pharma cannot assure that it will realize the financial and strategic goals that were contemplated at the time of any transaction. Kiadis Pharma's due diligence reviews may fail to identify risks or problems, such as issues with the acquired company's product quality, clinical data or intellectual property position, unlicensed use of third-party intellectual property rights or regulatory violations. Acquisitions may result in significant write-offs and Kiadis Pharma may assume known and unknown contingencies related to product liability, intellectual property, financial disclosures, accounting practices, internal controls or other liabilities. Kiadis Pharma may also have tax exposures or lose anticipated tax benefits as a result of acquisitions or integration of merged entities.

Following an acquisition, Kiadis Pharma's ongoing business may be disrupted and Kiadis Pharma's management attention may be diverted by transition or integration issues. Kiadis Pharma may have higher than anticipated costs in continuing research and development of acquired products. If Kiadis Pharma is unable to successfully integrate acquisitions into its existing business, its relationships with current and new employees and strategic partners could suffer.

Any of these circumstances, should they occur, could have a material adverse effect on Kiadis Pharma's business, results of operations and financial condition.

If third parties on which Kiadis Pharma depends to conduct its clinical studies and to manufacture certain of its products do not perform as contractually required, fail to satisfy regulatory or legal requirements or miss expected deadlines, Kiadis Pharma's development program could be delayed with materially adverse effects on its business, financial condition, results of operations and prospects.

Kiadis Pharma relies and may rely on contract manufacturing organizations for the (clinical) production of its products and related technologies. If any of Kiadis Pharma's third-party suppliers fails to comply with applicable good manufacturing practices ("GMP") or other applicable manufacturing regulations, Kiadis Pharma's ability to develop and commercialize its products or product candidates could suffer significant interruptions. Clinical trials must be conducted with products that are GMP produced. Failure to comply with these regulations may require Kiadis Pharma to repeat pre-clinical and clinical trials, which would delay the regulatory approval process. If Kiadis Pharma were to experience an unexpected loss of supply of, or if any supplier were unable to meet Kiadis Pharma's demand for, any of its products, it could experience delays in its research and

development activities, planned clinical studies or commercialization of approved products. Kiadis Pharma could be unable to find alternative suppliers of acceptable quality who can deliver appropriate volumes at acceptable cost. The long transition periods involved in the change of manufacturers and suppliers, if necessary, would significantly delay Kiadis Pharma's clinical studies and the commercialization of its products. Kiadis Pharma also relies and may rely on contract research organizations ("CROs"), clinical data management organizations and consultants to design, conduct, supervise and monitor clinical studies. Kiadis Pharma and its CROs are required to comply with various regulations, including good clinical practices ("GCP"). If Kiadis Pharma or any of its CROs fail to comply with applicable requirements, the clinical data generated in Kiadis Pharma's clinical trials may be deemed unreliable and the FDA, EMA, Health Canada or other comparable foreign regulatory authorities may require Kiadis Pharma to perform additional clinical trials before approving its marketing applications. Kiadis Pharma cannot assure that upon inspection by a given regulatory authority, such regulatory authority will determine that any of its clinical trials comply with such requirements. If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to Kiadis Pharma's clinical protocols, regulatory requirements or for other reasons, Kiadis Pharma's clinical trials may be extended, delayed or terminated and Kiadis Pharma may not be able to obtain regulatory approval for or successfully commercialize its products in development. As a result, Kiadis Pharma's operations and the commercial prospects for its products in development would be harmed, its costs could increase and its ability to generate revenues could be delayed. If Kiadis Pharma cannot contract with acceptable third parties on commercially reasonable terms, or at all, or if these third parties do not carry out their contractual duties, satisfy legal and regulatory requirements for the conduct of pre-clinical studies or clinical trials or meet expected deadlines, Kiadis Pharma's clinical development programs could be delayed and otherwise adversely affected. Kiadis Pharma is responsible for ensuring that each of its clinical studies is conducted in accordance with the general investigational plan and protocols for the study. The FDA, EMA , Health Canada and other regulatory authorities require clinical trials to be conducted in accordance with GCP, including for conducting, recording and reporting the results of preclinical studies and clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of clinical trial participants are protected. Kiadis Pharma's reliance on third parties that it does not control does not relieve it of these responsibilities and requirements. Any such event could have a material adverse effect on Kiadis Pharma's business, financial condition, results of operations and prospects.

FINANCIAL RISKS

Kiadis Pharma has never generated any revenue from product sales and its ability to generate revenue from product sales and become profitable depends significantly on its success in commercializing its product candidates that may be hard to achieve.

Kiadis Pharma has not generated any revenue from product sales and has incurred losses since its inception. Kiadis Pharma expects to continue to incur losses for the foreseeable future and expects these losses to increase significantly as it seeks to advance its products through clinical trials, regulatory approval and commercialization (if any). To achieve and maintain profitability, Kiadis Pharma will need to generate significant revenues from sales of products that it does not expect in the foreseeable future, if at all. Should Kiadis Pharma fail to receive regulatory approval to market any or all of its products, or if such products fail to gain market acceptance, Kiadis Pharma's business, financial condition and results of operations would be materially adversely affected. If Kiadis Pharma achieves profitability in the future, it may not be able to sustain profitability in subsequent periods. It is likely that Kiadis Pharma will experience fluctuating revenues, operating results and cash flows.

If Kiadis Pharma fails in obtaining substantial additional funding, it will be unable to complete its research and development programs or commercialize any of its products.

On the basis of the current plans, Kiadis Pharma's cash and cash equivalents currently available are currently not sufficient to meet the Company's working capital requirements through the twelve months following the date of these financial statements. Furthermore, the Company requires substantial additional funds to achieve its mid- to long term objectives. These additional funds are required to conduct further research and clinical development, to obtain, maintain and enforce its patents and other intellectual property rights, to manufacture and market any products that may be approved for commercial sale, if any, to take advantage of new business opportunities to broaden and diversify its research and development portfolio and to meet its payment obligations under its loan arrangements and royalty and milestone arrangements.

Kiadis Pharma's future funding requirements will depend on many factors, including the progress and cost of its clinical trials and research and development activities; the outcome, timing and cost of regulatory approvals by the FDA, EMA, Health Canada and any other comparable regulatory authority; the cost of establishing sales, marketing, manufacturing and distribution capabilities for any product candidates for which the Company may receive regulatory approval, if any; the effects of competing technological and market developments, and the terms and timing of establishing potential license agreements or other partnerships.

Kiadis Pharma intends to seek additional capital necessary to fund its operations through equity offers, debt financings, collaboration and licensing arrangements, or a combination of one or more of these funding sources, if available. There can be no assurance that such funding will be available in a timely manner, on favorable terms, or at all, adversely affecting shareholders' rights, or that such funds, if raised, would be sufficient to enable Kiadis Pharma to continue to implement its long term business strategy. If Kiadis Pharma is unable to raise such additional funds, it may need to delay, scale back or cease expenditures for some of its products or some of its long-term research, development and commercialization programs, or grant rights to third parties to develop and market products that Kiadis Pharma would otherwise prefer to develop and market itself, thereby reducing their ultimate value to Kiadis Pharma. The failure to raise capital when needed would reduce Kiadis Pharma's business, financial condition, results of operations and prospects.

REPORT OF THE SUPERVISORY BOARD

INTRODUCTION

The Supervisory Board is responsible for supervising and advising the Management Board in its duty to manage the Company. In carrying out its duties, the Supervisory Board is guided by the Articles of Association of the Company, its Rules of Procedure, applicable law, the Dutch Corporate Governance Code applicable as of January 1, 2009 ("Code") and the overall interests of the Company and its business, taking into consideration the relevant interests of the Company's stakeholders.

In the Company's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Management Board.

COMPOSITION OF THE SUPERVISORY BOARD AND BACKGROUND INFORMATION ON THE SUPERVISORY BOARD

The Supervisory Board at present consists of the members set out below.

Name	Age	Nationality	Date of initial appointment[1]	Current term of office
Mr. Mark Wegter	46	Dutch	2001[1]	2019
Mr. Martijn Kleijwegt	62	Dutch	2006[1]	2019
Mr. Stuart Chapman	47	English	2013[1]	2019
Dr. Robert Soiffer	59	American	2016	2020
Mr. Berndt Modig	58	Swedish and American	2016	2020

(1) The presented information refers to the year of appointment to the supervisory board of Kiadis Pharma B.V., the holding entity of the Kiadis Pharma group of companies prior to the Company listing at Euronext Amsterdam and Euronext Brussels mid 2015.

Mr. Mark Wegter is Chairman of the Supervisory Board.

Mark Wegter

Mr. Wegter graduated from the Erasmus University of Rotterdam, The Netherlands, with a degree in economics. In 1998, Mr. Wegter joined Life Sciences Partners, becoming a general partner in 2001. Mr. Wegter holds positions at various Life Sciences Partners entities that manage Life Sciences Partner funds.

Mr. Wegter is not considered to be independent within the meaning of the Code.

Martijn Kleijwegt

Mr. Kleijwegt graduated from the University of Amsterdam, The Netherlands, with a degree in economics. Mr. Kleijwegt founded Life Sciences Partners in 1998 and has been managing partner of Life Sciences Partners ever since. Mr. Kleijwegt is managing director of various Life Sciences Partners entities that manage Life Sciences Partner funds. He is also a member of the board of the European Venture Capital Association.

Mr. Kleijwegt is not considered to be independent within the meaning of the Code.

Stuart Chapman

Mr. Chapman graduated from the University of Loughborough, United Kingdom, with a degree in economics. Mr. Chapman co-founded DFJ Esprit in 2006 and has been managing partner of DFJ Esprit (now named Draper Esprit) ever since.

Mr. Chapman is not considered to be independent within the meaning of the Code.

Robert Soiffer

Dr. Soiffer graduated from the New York University School of Medicine, United States of America and trained in internal medicine at Brigham and Women's Hospital, where he also was chief medical resident. He joined the Dana-Farber Cancer Institute (DFCI)

in 1988, after completing a medical oncology fellowship. Dr. Soiffer is a medical oncologist and Professor of Medicine at the Harvard Medical School, Chief of the Division of Hematologic Malignancies at the Dana-Farber Cancer Institute DFCI and Co-director of the Adult Stem Cell Transplantation Program at the Dana-Farber Cancer Institute DFCI.

Dr. Soiffer is considered to be independent within the meaning of the Code.

Berndt Modig

Mr. Modig graduated from the University of Lund, Sweden, with a degree in business administration, economics and German, and received his M.B.A. from INSEAD, Fontainebleau, France. Mr. Modig became a member of our Supervisory Board in 2016. Mr. Modig was previously Chief Financial Officer of Prosensa Holding N.V. and before that Chief Financial Officer at Jerini AG. He is now also a Board Member of Axovant Sciences Ltd., Auris Medical AG and Affimed N.V., and CEO of Pharvaris B.V.

Mr. Modig is considered to be independent within the meaning of the Code.

Dr. Soiffer and Mr. Modig joined the Supervisory Board in 2016 and followed a short introduction program on relevant Company subjects.

The targeted profile of the composition of the Supervisory Board is reflected in its Rules of Procedure, which are published on the Company website. The composition of the Supervisory Board is diverse in nationality (two Dutch, one English, one American, one Swedish/American), background, knowledge and experience.

INFORMATION

The Management Board is the most important source of information for the Supervisory Board. Information is mainly submitted for Supervisory Board meetings but also provided around those meetings and in bilateral contacts between Supervisory Board and Management Board members. This keeps the Supervisory Board informed and enables them to indicate any topics on which they wish to receive more information or have a discussion.

MEETINGS AND BUSINESS TOPICS

The Supervisory Board convened four times during 2016 with the Management Board and in addition had regular contact with the Management Board throughout the year by means of telephone conferences and individual discussions. The Chairman and CEO also had regular meetings throughout the year, including preparatory meetings prior to the Supervisory Board meetings.

None of the members of the Supervisory Board were frequently absent.

The meetings addressed the development program for the Company's lead product ATIR (clinical, regulatory, manufacturing and quality), financial matters (actual cash flow and cash flow forecasts, budget 2016 and potential (equity) financing), a long term employee incentive plan, outlook beyond 2016 (competitive landscape), corporate restructuring and potential acquisition/licensing opportunities.

As part of the meetings, the Supervisory Board reviewed the main risks of the business, being:

- the Company being dependent on the success of one key product, ATIR101;
- the Company's progress on achieving clinical and regulatory milestones and successful market acceptance, there being no certainty that these milestones/successes will actually be achieved;
- that if the Company fails to enroll patients in clinical trials for its products, the clinical trials could be significantly delayed;
- the Company relying on third parties to manufacture its products;
- the Company being active in a highly competitive and rapidly changing industry;
- the Company not yet having a positive operational cash flow and therefore being dependent on financial markets

and/or licensing/partnership revenues for funding. If such funding cannot be obtained, the Company will be unable to complete its development programs or commercialize its products;

- the Company being dependent on the availability and commitment of key, skilled employees;
- the duration and scope of the Company's patents not being sufficient to effectively protect its products and business.

All these risks were discussed with the Management Board and where possible actions were undertaken to minimize the Company's exposure. In addition, the Company manages and controls its risks, insofar as possible, by means of a risk management and internal control system. The Management Board reports regularly to and discusses with the Supervisory Board on the Company's risk management and internal control system and the compliance therewith.

The Company risks and the Company's risk management and control system are further described in the Section entitled 'Risk management and internal control systems' in this Annual Report.

The Supervisory Board established that all of its members are committed to allocating sufficient time and attention to the Supervisory Board's duties of supervising and advising the Management Board.

COMMITTEES

Mid 2016 the Supervisory Board appointed two committees to cover key areas in greater detail: nominations and remuneration, and auditing. Given the size of the Company, the subjects of nomination and remuneration were combined into one committee.

Nomination and Remuneration Committee

Members of the Nomination and Remuneration Committee are Mr. Martijn Kleijwegt (Chair) and Dr. Robert Soiffer. Each Committee has a charter which is published on the Company's website.

The main topics discussed by the Committee were:

- arrangements around the departure of Dr. Manfred Rüdiger, CEO, and the related succession planning for the Management Board in the form of the proposed appointment of Mr. Arthur Lahr as successor to Dr. Rüdiger;
- the performance and related remuneration of the members of the Management Board, both in respect of company and individual performance in 2016 , in the context of the current remuneration policy.

Dr. Manfred Rüdiger was involved in these discussions.

Recommendations and advice in respect of these topics were made by the Committee to the entire Supervisory Board for approval.

Audit Committee

Members of the Audit Committee are Mr. Berndt Modig (Chair) and Mr. Martijn Kleijwegt.

The main topics discussed by the Committee were:

- the half year financial statements for the first six months of 2016;
- the process steps undertaken by the Company in respect of making accruals; and
- (in 2017) the full year 2016 financial statements.

Mr. Robbert van Heekeren, CFO, was involved in these discussions.

In addition, the Committee met with the Company's external auditor KPMG Accountants N.V. in 2017 to discuss the auditor's audit and observations of the 2016 financial statements.

Recommendations and advice in respect of some of these topics were made by the Committee to the entire Supervisory Board for approval.

FINANCIAL STATEMENTS 2016

The 2016 financial statements were approved by the Supervisory Board in its meeting on March 30, 2017.The financial statements were audited by KPMG Accountants N.V. who were elected as the Company's external auditor in 2016. The Supervisory Board established that the external auditor was independent of the Company. The Supervisory Board will submit the financial statements to the 2017 Annual General Meeting, and will propose that the shareholders adopt them and release the Management Board from all liability in respect of its managerial activities and release the Supervisory Board from all liability in respect of its supervision of the Management Board.

Amsterdam-Duivendrecht, March 30, 2017

Supervisory Board

Mark Wegter, Chairman

Martijn Kleijwegt

Stuart Chapman

Robert Soiffer

Berndt Modig

REMUNERATION REPORT

INTRODUCTION

This chapter summarizes the Company's current remuneration policy for the members of its Management Board as approved by the General Meeting on June 28, 2016. The remuneration policy was effective from July 1, 2016. Details of the actual remuneration of the Management Board in 2016 can be found in Note 23 'Related Parties' of the consolidated financial statements.

REMUNERATION POLICY

General principles and objectives

The general principles and objectives of the remuneration policy are:

- competitive compensation so as to enable the Company to recruit, motivate and retain qualified and expert individuals that the Company needs in order to achieve its strategic and operational objectives;
- focus management on the creation of sustainable added value, taking into account the interests of all stakeholders, by having total compensation significantly driven by variable performance dependent income components;
- variable income consisting of short-term (cash bonus) and long-term incentives (share options), whereby the distribution between short-term and long-term incentives aims to achieve a proper balance between short-term results and long-term value creation.

Main items

The remuneration of the Management Board consists of:

- a fixed annual salary;
- an annual bonus in cash; and
- share options;

In addition to this total direct compensation, the Management Board participates in the Dutch pension scheme for the Company.

Fixed annual salary

The level of the base salary of the Management Board is determined by the Supervisory Board based upon:

- peer analysis against the base salaries of management board members of companies listed on Euronext Amsterdam in the Amsterdam Small Cap Index (AscX);
- remuneration reports; and
- the anticipated cost of replacing a member of the Management Board.

The Supervisory Board will consider on a yearly basis the appropriateness of any change of the base salary in the context of the market environment as well as the salary adjustments for other Company employees.

Adjustment of the base salary is at the discretion of the Supervisory Board, taking into account the general principles and objectives of the remuneration policy.

Annual bonus in cash

The Management Board shall be entitled to an annual cash bonus of up to 30% of the annual base salary based on achieving certain performance targets. The part of the bonus that is related to Company targets accounts for 50% of this bonus and the other 50% of the bonus relates to individual targets.

The Company targets and individual targets are determined each year by the Supervisory Board based on historical performance, the operational and strategic outlook of the Company in the short-term and expectations of the Company's management and stakeholders, among other things. The performance targets contribute to the realization of the objective of long-term value creation for the Company. The Company does not disclose the actual targets, as they qualify as commercially sensitive information.

The amount of the bonus shall be determined by the Supervisory Board through comparing actual performance against the set targets.

Share options

The Management Board may be granted options to ordinary Company shares in accordance with the Company's option plan, the main elements of which are the following:

- The option exercise price shall be the closing sales price at which ordinary Company shares are traded on the day prior to the day the option is granted.
- Two days per year (July 1 and January 1) have been identified as possible option grant dates. In addition, solely for a newly employed or contracted person, options may be granted on the 15th day of the month following the date in which that person commenced employment or services for the Company.
- Vesting of options may take place on one date or in part over time.
- It may be determined that options which have vested may nevertheless not be exercised for a certain period of time after their grant date.
- It may be determined that Company shares that shall be received upon the exercise of options shall be subject to a lock-up for a certain period of time.
- So-called good leaver (continued ill health, death, retirement, dismissal without cause, giving notice) shall remain entitled to vested options, such options to be exercised within one year. The Supervisory Board may however, if this rule would produce an unfair result for the good leaver, determine otherwise.
- A so-called bad leaver (termination with cause) shall lose all options, whether vested or not.
- There shall be accelerated vesting of non-vested options amongst other in case of a change of control of the Company.
- Options for the Management Board may be settled in cash.
- The option pool shall not exceed 3.5% of the Company's outstanding ordinary share capital from time to time.
- The option plan has a maximum duration of ten years.

The Supervisory Board shall in its discretion determine whether options shall be granted to the members of the Management Board and determine the number of options to be granted to the relevant member. Within the option pool of 3.5% as set out above, the Management Board may in total be granted options to at most 2% of the Company's outstanding ordinary share capital from time to time.

Options granted to the Management Board shall vest in three equal parts:

- one third of the number of options granted shall vest one year after the date the options are granted;
- one third of the number of options granted shall vest two years after the date the options are granted; and
- one third of the number of options granted shall vest three years after the date the options are granted.

If the Dutch Corporate Governance Code so provides, the Management Board may not exercise any options which have vested within the first three years after the date the options were granted.

The number of options that may be granted to the Management Board shall be related to performance targets as referenced above in relation to an annual cash bonus as the achievement of these targets shall contribute not only to short-term Company results but also to long-term value creation for the Company.

CONTRACTUAL ARRANGEMENTS

Term of employment

The Management Board members are engaged on the basis of a service agreement with a four year term, to be renewed at reappointment.

Term of appointment

The Management Board members are appointed for a period of four years, after which they are eligible for reappointment by the General Meeting.

Notice period

Resignation by a member of the Management Board member is subject to six months' notice.

Severance arrangement

The severance for a Management Board member is one annual fixed base salary (including in case of a change of control).

Claw-back

The Supervisory Board is entitled (a) to adjust a variable remuneration component if it would produce an unfair result due to extraordinary circumstances during the period in which the predetermined performance criteria have been or should have been achieved and (b) to recover a variable remuneration awarded on the basis of incorrect financial or other data.

Loans

The Company does not provide any loans to the Management Board.

SCENARIO ANALYSIS

A scenario analysis based on provision II.2.1 of the Dutch Corporate Governance Code was carried out.

REMUNERATION POLICY FOR 2017

The Supervisory Board intends to propose to the General Meeting an amended remuneration policy for the Management Board for the financial year 2017 which includes stock appreciation rights as a possible remuneration for the Management Board.

Amsterdam-Duivendrecht, March 30, 2017

Supervisory Board

Mark Wegter, Chairman

Martijn Kleijwegt

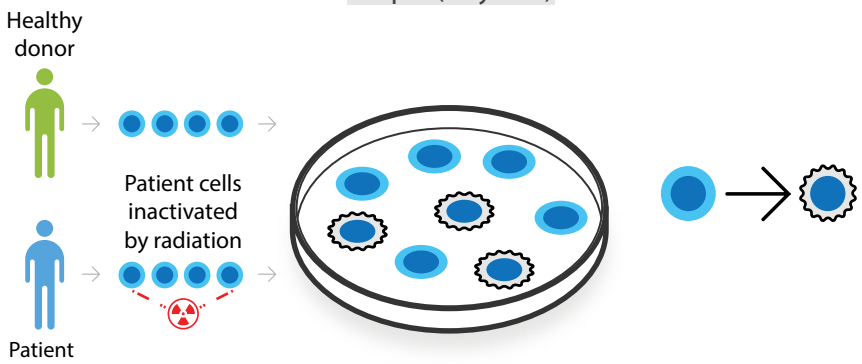
Stuart Chapman

Robert Soiffer

Berndt Modig

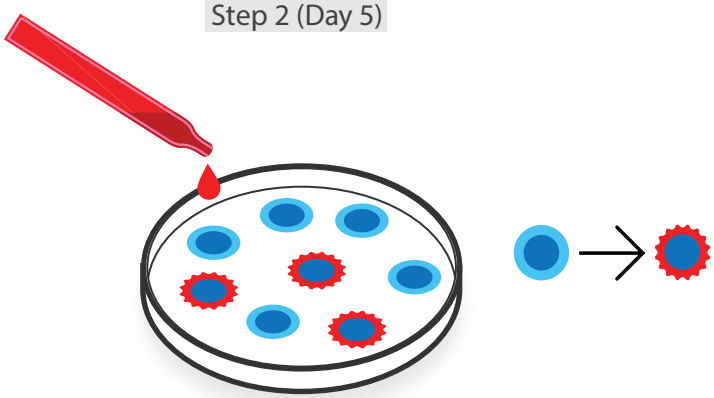
ATIR Manufacturing Process

Step 1 (Day 1–4)



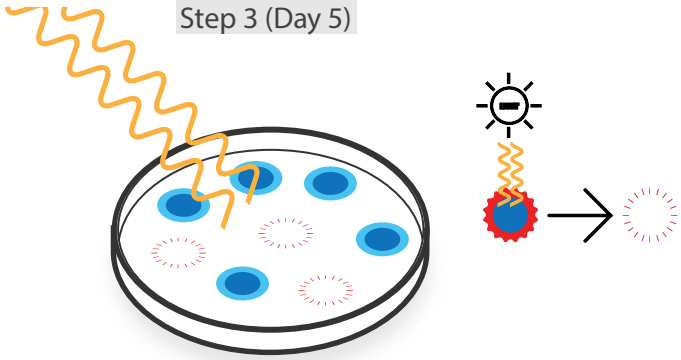
Immune dells are collected and mixed. Certain T-cells from the donor are activated by the presence of the 'foreign' patient cells. If not eliminated, these cells would cause GVHD in the patient.

Step 2 (Day 5)



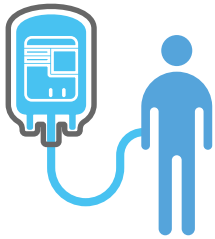
TH9402 is introduced. TH9402 is retained ONLY in the GVHD-causing T-cells.

Step 3 (Day 5)



Mixture is exposed to light using Kiadis Pharma's Photodynamic Treatment device (see picture on the right). TH9402 is activated by light, causing the 'stained' GVHD-causing T-cells to self-destruct.

Final Step - Infusion of ATIR101



The remaining product is infused back and helps rebuild their immune system to fight infections and eliminate remaining tumor cells.

CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBILITY STATEMENT

The Management Board of Kiadis Pharma N.V. hereby declares that to the best of their knowledge, the consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the management report gives a fair view of the information required pursuant to section 5:25d(8)/(9) of the Dutch Financial Supervision Act (Wet op het financieel toezicht).

Amsterdam-Duivendrecht, March 30, 2017

Management Board

Manfred Rüdiger, Chief Executive Officer

Robbert van Heekeren, Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in EUR x 1,000)	Note	As at December 31, 2016	2015
Assets			
Property, plant and equipment	4	536	333
Intangible assets	5	13,540	12,714
Total non-current assets		**14,076**	**13,047**
Trade and other receivables	6	230	145
Deferred expenses	6	351	418
Cash and cash equivalents	7	14,559	28,666
Total current assets		**15,140**	**29,229**
Total assets		**29,216**	**42,276**
Equity			
Share capital		1,397	1,347
Share premium		103,200	98,137
Translation reserve		307	271
Accumulated deficit		(95,463)	(74,105)
Equity attributable to owners of the Company	8	**9,441**	**25,650**
Liabilities			
Loans and borrowings	10	15,605	13,713
Total non-current liabilities		**15,605**	**13,713**
Loans and borrowings	10	1,555	1,166
Trade and other payables	11	2,615	1,747
Total current liabilities		**4,170**	**2,913**
Total liabilities		**19,775**	**16,626**
Total equity and liabilities		**29,216**	**42,276**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in EUR x 1,000)	Note	For the year ended December 31, 2016	2015
Revenue	12	-	-
Other income	13	-	-
Research and development expenses	14,15	(8,206)	(7,715)
General and administrative expenses	14,15	(3,202)	(8,292)
Total operating expenses		**(11,408)**	**(16,007)**
Operating loss		**(11,408)**	**(16,007)**
Interest income		13	50
Interest expenses		(1,571)	(1.394)
Other net finance (expenses) income		(1,827)	894
Net finance expenses	16	**(3,385)**	**(450)**
Loss before tax		**(14,793)**	**(16,457)**
Income tax expense	17	(1)	(1)
Loss for the period		**(14,794)**	**(16,458)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation difference for foreign operations		36	(46)
Related tax		-	-
		36	(46)
Other comprehensive income for the period, net of tax		**36**	**(46)**
Total comprehensive income for the period		**(14,758)**	**(16,504)**
Loss attributable to:			
Owners of the Company		(14,794)	(16,458)
		(14,794)	**(16,458)**
Total comprehensive income attributable to:			
Owners of the Company		(14,758)	(16,504)
		(14,758)	**(16,504)**
Earnings per share	18		
Basic earnings per share (EUR)		(1,08)	(1,36)
Diluted earnings per share (EUR)		(1,08)	(1,36)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in EUR x 1,000)	Note	Share Capital	Share Premium	Translation Reserve	Warrant Reserve	Accumulated Deficit	Total Equity
Balance as at January 1, 2015		**10,567**	**57,243**	**317**	**2,580**	**(68,042)**	**2,665**
Loss for the period						(16,458)	(16,458)
Other comprehensive income				(46)			(46)
Total comprehensive income		**-**	**-**	**(46)**	**-**	**(16,458)**	**(16,504)**
Transactions with owners, recorded directly in equity							
Issue of shares for cash	*8*	278	34,436				34,714
Transaction costs	*8*		(3,485)				(3,485)
Business combinations	*8*	(9,498)	9,498				-
Equity-settled share-based payments	*14*					7,815	7,815
Warrants lapsed	*8*				(2,580)	2,580	-
Warrants exercised	*8*		445				445
Balance as at December 31, 2015		**1,347**	**98,137**	**271**	**-**	**(74,105)**	**25,650**
Balance as at January 1, 2016		**1,347**	**98,137**	**271**	**-**	**(74,105)**	**25,650**
Loss for the period						(14,794)	(14,794)
Other comprehensive income				36			36
Total comprehensive income		**-**	**-**	**36**	**-**	**(14,794)**	**(14,758)**
Transactions with owners, recorded directly in equity							
Issue of shares for cash	*8*	16	1,576				1,592
Equity-settled share-based payments	*14*	34	3,487			(6,564)	(3,043)
Balance as at December 31, 2016		**1,397**	**103,200**	**307**	**-**	**(95,463)**	**9,441**

CONSOLIDATED STATEMENT OF OF CASH FLOWS

(Amounts in EUR x 1,000)	Note	For the year ended December 31, 2016	2015
Cash flows from operating activities			
Loss for the period		**(14,794)**	**(16,458)**
Adjustments for :			
Depreciation of property, plant & equipment (PPE)	*4*	150	140
Net interest expenses	*16*	1,558	1,344
Equity-settled share-based payments	*14*	447	7,815
Net unrealized foreign exchange (gains) losses		(401)	1,485
(Gain) loss from derivatives		-	(3,730)
(Gain) loss from restatements of loans	*10,16*	2,213	1,350
Income tax expense	*17*	1	1
Cash used in operating activities before changes in working capital and provisions:		**(10,826)**	**(8,053)**
Trade and other receivables		(129)	99
Deferred expenses		66	(175)
Trade and other payables		(2,594)	290
Other liabilities		(109)	(116)
Total change in working capital		**(2,796)**	**98**
Cash used in operating activities		**(13,622)**	**(7,955)**
Interest paid		(714)	(141)
Income taxes paid		(5)	-
Net cash used in operating activities		**(14,311)**	**(8,096)**
Cash flows from investing activities			
Interest received		52	4
Investments in PP&E	*4*	(294)	(59)
Net cash used in investing activities		**(242)**	**(55)**
Cash flows from financing activities			
Proceeds from issue of shares	*8*	1,592	34,714
Proceeds from exercise of warrants	*8*	-	445
Payment for share issue costs	*8*	-	(3,485)
Repayment of borrowings	*10*	(1,166)	(509)
Net cash from financing activities		**426**	**31,165**
Net (decrease) increase in cash and cash equivalents		**(14,127)**	**23,014**
Cash and cash equivalents as at January 1,		28,666	5,674
Effect of exchange rate fluctuations on cash held		20	(22)
Cash and cash equivalents as at December 31,	*7*	**14,559**	**28,666**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Kiadis Pharma N.V. ("the Company" or "Kiadis Pharma") and its subsidiaries (together "the Group") are engaged in the pharmaceutical development of cell-based immunotherapy products in the field of diseases of the blood building system.

The Company is a public limited liability company incorporated and domiciled in Amsterdam, The Netherlands. The address of its business office is Entrada 231-234, 1114 AA Amsterdam-Duivendrecht, The Netherlands.

These financial statements were authorized for issue by the Management Board and Supervisory Board of the Company on March 30, 2017. The financial statements as presented in this report are subject to approval by the General Meeting of Shareholders.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

Certain comparative amounts in the consolidated statement of cash flows have been reclassified to conform to this year's presentation.

2.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU-IFRS", hereafter also referred to as "IFRS").

The consolidated financial statements have been prepared under the historical cost convention except when otherwise stated. All financial information presented in euro has been rounded to the nearest thousands, except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgment in applying accounting policies, that have the most significant effect on the amounts recognized in the financial statements, are described on pages 55-57.

Going concern assessment

The consolidated financial statements have been prepared on a going concern basis, although based on the current operating plan, cash and cash equivalents are currently not sufficient to meet the Company's working capital requirements through the 12 months following the date of these financial statements. The above circumstance indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. However, the Company believes that sufficient additional funds can be raised by means of equity financing, non-dilutive financing or strategic transactions, and is currently investigating funding options. Management believes that the Company will be able to meet its financial obligations in the twelve months following the date of these financial statements. Therefore, management is of the opinion that the going concern assumption is justified.

2.2 New standards, amendments and interpretations not yet adopted

Kiadis Pharma is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9 and IFRS 15. The Company is not planning to early adopt these standards.

IFRS 9, published in July 2014, replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15, published in May 2014 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 16, published in January 2016, establishes a revised framework for determining whether a lease is recognized on the (Consolidated) Statement of Financial Position. It replaces existing guidance on leases, including IAS 17. IFRS 16 is effective on or after January 1, 2019, with early adoption permitted. Kiadis Pharma will assess the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

There are no other IFRS standards or interpretations which are not yet effective which would be expected to have a material impact on the financial statements of the Group.

2.3 Consolidation

The Company is the holding company of a group of companies. The following legal entities are subsidiaries of Kiadis Pharma N.V. and together form the Kiadis Pharma group of companies:

Legal Entity	Registered Office	Investment%
Kiadis Pharma B.V.	The Netherlands	100.00%
Kiadis Pharma Netherlands B.V.	The Netherlands	100.00%
Kiadis Pharma Intellectual Property B.V.	The Netherlands	100.00%
Kiadis Pharma Germany GmbH	Germany	100.00%
Kiadis Pharma Canada Inc.	Canada	100.00%

Kiadis Pharma B.V. merged into Kiadis Pharma N.V. on January 6, 2016 and has ceased to exist. Kiadis Pharma N.V. is the parent of the other legal entities listed above as of January 6, 2016.

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(b) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Business combinations under common control and legal mergers are accounted for using a predecessor value method. A predecessor value method involves accounting for the assets and liabilities of the acquired business using existing carrying values rather than at fair value. When applying a predecessor value method no goodwill is recognized.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Management Board.

As per December 31, 2016, the Group has one lead product under development being ATIR. This is considered to be the only reportable segment. All corporate activities can be assigned therefore to this segment as well. Therefore no additional segment analysis is disclosed.

2.5 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

(c) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in Other Comprehensive Income (OCI) and accumulated in the translation reserve, except to the extent that the translation difference is allocated to Non-Controlling Interests (NCI).

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant

proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

2.6 Notes to the cash flow statement

The cash flow statement has been prepared using the indirect method. The cash disclosed in the cash flow statement is comprised of cash and cash equivalents. Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows denominated in foreign currencies have been translated at the exchange rate prevailing at the transaction date. Exchange rate differences affecting cash items are shown separately in the Cash flow statement.

Interest paid and income taxes are included in Cash used in operating activities.

2.7 Intangible Assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired (also after re-assessment), the difference is recognized directly in the income statement.

Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Patents (licenses, trademarks)

Patents can be acquired separately or as part of a business combination. Patents that are acquired as part of a business combination are valued at fair value. Patents that are acquired separately by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. A patent is recognized as intangible asset when:

- it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset. The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination.

Amortization is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives. Amortization begins when an asset is available for use.

(c1) In-process research and development acquired in a business combination

In-process research and development acquired in a business combination is capitalized as intangible assets if the assets acquired meet the definition of an intangible asset. I.e., an intangible asset lacks physical substance; is identifiable; is non-monetary; and is controlled by the entity and expected to provide future economic benefits. Intangible assets acquired in a business combination that meet the following criteria are recognized at fair value: it is probable that future economic benefits that are attributable will flow to the entity; and the fair value of the asset can be measured reliably. These intangible assets are amortized from the moment these assets are available for use, being the commencement of the commercial introduction of the product on a straight-line basis over the term of its expected benefit.

(c2) Research and development expenses

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(c3) Capitalized in-process research and development

Capitalized in-process research and development costs with a finite useful life are stated at cost less accumulated amortization and impairment losses. These costs are amortized on a straight-line basis over the term of its expected benefit from the moment these assets are available for use, being the commencement of the commercial introduction of the product.

This intangible 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 (also refer to 2.9).

(d) Subsequent expenditure

Subsequent expenditure of intangibles is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates and is amortized over the estimated useful life of the respective intangible. All other expenditure, including expenditure on internally generated goodwill, is recognized in profit or loss when incurred.

2.8 Property, Plant and Equipment

(a) Property, plant and equipment

Property, plant and equipment comprise laboratory equipment, hardware, furniture and leaseholds improvements. All property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(b) Subsequent costs

The costs of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(c) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Laboratory equipment and furniture: 5 years
Hardware: 5 years
Leaseholds Improvements: Lease term

Depreciation methods, useful lives and residual values are reassessed at the reporting 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 (also refer to 2.9).

Gains and losses on the sale of property, plant and equipment are included in the consolidated financial statement of income.

(d) Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased

equipment and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in "finance lease liabilities". The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each term. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

2.9 Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are reassessed at each reporting date for any indications that the loss has decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.10 Financial Instruments

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

(a) Non-derivative financial instruments

Non-derivative financial instruments comprise trade, other receivables and deferred expenses, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Investments are measured at fair value through profit and loss if held for trading purposes or designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in profit and loss when incurred. Financial instruments at fair value through profit and loss are measured at fair value, and changes therein are recognized in profit and loss.

Trade receivables are recognized at amortized cost less impairment losses.

Cash and cash equivalents includes cash-in-hand, current accounts, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown separately within current liabilities on the statement of financial position. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and borrowings are measured at fair value at initial recognition and subsequently stated at amortized cost.
Loans and borrowings are classified as "current liabilities" and "non-current liabilities" to reflect the Group's obligations to repay the loan. The portion that is due for payment within 12 months is classified as "current liabilities" while the remainder is classified as "non-current liabilities".

Trade and other payables are stated at amortized cost.

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Accounting for finance income and expense is discussed in Note 2.15.

(b) Derivative financial instruments
Derivatives that qualify as financial liabilities are accounted for at fair value through profit and loss. At each reporting date, the fair value of derivatives is remeasured and changes are recognized in profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

2.11 Equity
(a) Ordinary shares
Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity.

(b) Preference share capital
Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss.

(c) Treasury shares
The cost of the Company's own equity instruments that the Company has reacquired ("treasury shares") is deducted from equity. Costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity, net of any related income tax benefit. Any consideration paid or received is recognized directly in equity.

(d) Transaction costs
Qualifying costs attributable to an equity transaction are recorded directly in equity. Only incremental costs that are attributable directly to issuing own equity instruments are recognized in equity. Qualifying costs may include, but are not limited to, fees for legal and tax advice related to the share issue, cost of preparing the prospectus, underwriting fees and fees incurred in respect of the valuation of the shares.

2.12 Employee Benefits

(a) Share-based payments

For equity-settled option and bonus plans the accounting treatment is as follows: the grant date fair value of options or rights to bonus shares granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to these options or rights. The amount recognized as an expense is adjusted to reflect the latest estimate of the number of rights that will vest.

For cash-settled bonus plans the expense and corresponding financial liability incurred are measured at the fair value of the liability. These cash-settled awards are subsequently re-measured at each reporting date.

(b) Pension obligations

The Group has a defined contribution plan in place. The Group has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense in profit or loss when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Bonus plans

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

An accrual is recognized for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.13 Research & Development and General & Administrative Expenses

Research expenditures, and development expenditures that do not meet the asset recognition criteria, are recognized as expenses as incurred and comprise allocated employee costs, collaboration costs, allocated office costs, license costs, amortization costs, depreciation costs, and the cost of laboratory consumables.

General and administrative expenses comprise allocated employee costs, allocated office costs, consultancy costs, and other general and administrative costs.

2.14 Operating Leases

Leases in which substantially all 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 term of the lease.

2.15 Finance Income and Expenses

Finance income comprises interest income on funds invested, and foreign currency gains. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise interest expense on loans and borrowings and foreign currency losses.

2.16 Income Tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

(a) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

(b) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group prepares its consolidated financial statements in accordance with IFRS as adopted by the EU. The preparation of financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities and contingencies as of the date of the Group's financial statements, and the reported amounts of revenues and expenses for the relevant accounting periods. The Group bases these estimates on historical experience and assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Management evaluates these estimates on an ongoing basis.

3.1 Critical accounting estimates and assumptions

The Group has identified the following critical accounting policies as requiring management to make the most significant estimates and judgments in the preparation of its consolidated financial statements. The Group considers an accounting policy to be critical if it requires management to make an accounting estimate based on assumptions about matters that are highly uncertain at the time the estimate is made, and if the reasonable use of different estimates in the current period or changes in the accounting estimate that are reasonably likely to occur from period to period would have a material impact on its financial presentation. When reviewing the Group's financial statements, investors should consider the effect of estimates on its critical accounting policies, the judgments and other uncertainties affecting application of these policies and the sensitivity of the Group's reported financial results to changes in conditions and assumptions. The Group's actual results may differ materially from these estimates under different assumptions.

3.2 Critical judgments in applying the Company's accounting policies

(a) Impairment of Goodwill, Patents and In-process R&D acquired in a business combination

The Group reviews long-lived assets for impairment when events or circumstances indicate that carrying amounts may not be recoverable. In determining impairments of intangible assets and tangible fixed assets, management must make significant judgments and estimates to determine whether the cash flows generated by those assets are less than their carrying value. Determining cash flows requires the use of judgments and estimates that have been included in the Group's strategic plans and long-range forecasts. The data necessary for the execution of the impairment tests are based on management estimates of future cash flows, which require estimating revenue growth rates and profit margins.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, in general the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Goodwill and intangibles that are not yet amortized are evaluated at least annually for impairment and written down to its recoverable amount, in the case of impairment. The determination of such implied value involves significant judgment and estimates from management.

Changes in assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

(b) Income Tax Expense

The Group exercises judgment in determining the extent of the realization of the net operating losses based upon estimates of future taxable income in the various jurisdictions in which these net operating losses exist. Where there is an expectation that on the balance of probabilities there will not be sufficient taxable profits to utilize these net operating losses, these net operating losses have not been recognized as a deferred tax asset. If actual events differ from management's estimates, or to the extent that these estimates are adjusted in the future, any changes could materially impact the Group's financial position and results of operations.

On December 31, 2016, Kiadis Pharma N.V. had deferred tax assets in respect of gross cumulative tax losses of EUR57.4 million in The Netherlands and CN$21.4 million in Canada. These deferred tax assets have been recognized to the extent they are used to offset the deferred tax liabilities which the Group has recognized.

(c) Share-based payments

The amount recognized as an expense for equity-settled share-based payments reflects the latest estimate of the number of rights that will vest. At each balance date, the Group revises its estimates of the number of rights which are expected to vest. The Group recognizes the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity.

The amount recognized as an expense for cash-settled share-based payments reflects the estimated change in fair value of the corresponding liability at the reporting date.

(d) Loans and borrowings

The Group exercises judgment in determining which financial liabilities qualify as loans and subsequently exercises judgment in determining the estimated fair value of these loans. For level 2 financial liabilities, management has to make significant judgments and estimates about future cash flows.

3.3 Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for (re-)measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that financial asset or liability.

(a) Intangible assets

The fair value of in-process research and development acquired in a business combination is based on the discounted cash flow method for product-related technologies (by calculating the present value of future cash flows resulting from each asset). A discount rate of 12% has been used as input for a risk-adjusted NPV model.

(b) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Share-based payments

Measurement inputs to calculate the fair value of employee stock options include the (estimated) share price on the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Measurement inputs to calculate the fair value of employee rights to equity-settled share-based payments include the share price of the last transaction of the Company's stock on Euronext stock exchange immediately prior to the grant date, exercise price and the estimated vesting schedule. For cash-settled share-based payments the share price at the reporting date is used as an input to calculate the fair value of the financial liability.

(e) Loan from Hospira Inc.

The Group exercises judgment in determining the estimated value of the financial liability towards Hospira Inc. that has been judged as a loan. For this financial liability, management has to make significant judgments and estimates about future cash flows towards Hospira Inc.

4. PROPERTY, PLANT AND EQUIPMENT

(Amounts in EUR x 1,000)	Laboratory Equipment	Furniture & Hardware	Leasehold Improvements	Total
Balance as at January 1, 2015				
Cost of acquisition	713	209	41	963
Depreciation / impairment	(347)	(162)	(41)	(550)
Book value as at January 1, 2015	**366**	**47**	**-**	**413**
Changes in book value 2015				
Additions	38	22	-	60
Depreciation	(124)	(16)	-	(140)
Total changes in book value 2015	**(86)**	**6**	**-**	**(80)**
Balance as at December 31, 2015				
Cost of acquisition	751	231	41	1,023
Depreciation / impairment	(471)	(178)	(41)	(690)
Book value as at December 31, 2015	**280**	**53**	**-**	**333**
Changes in book value 2016				
Additions	250	65	38	353
Depreciation	(130)	(19)	(1)	(150)
Total changes in book value 2016	**120**	**46**	**37**	**203**
Balance as at December 31, 2016				
Cost of acquisition	1,001	296	79	1,376
Depreciation / impairment	(601)	(197)	(42)	(840)
Book value as at December 31, 2016	**400**	**99**	**37**	**536**

5. INTANGIBLE ASSETS

(Amounts in EUR x 1,000)	Goodwill	In-process Research & Development	Patents	Total
Balance as at January 1, 2015				
Cost	4,330	9,357	80	13,767
Amortization / Impairment	-	-	(80)	(80)
Book value as at January 1, 2015	**4,330**	**9,357**	**-**	**13,687**
Changes in book value 2015				
Effect of movement in foreign exchange rates	(308)	(665)	-	(973)
Total changes in book value 2015	**(308)**	**(665)**	**-**	**(973)**
Balance as at December 31, 2015				
Cost	4,022	8,692	80	12,794
Amortization / Impairment	-	-	(80)	(80)
Book value as at December 31, 2015	**4,022**	**8,692**	**-**	**12,714**
Changes in book value 2016				
Effect of movement in foreign exchange rates	261	565	-	826
Total changes in book value 2016	**261**	**565**	**-**	**826**
Balance as at December 31, 2016				
Cost	4,283	9,257	80	13,620
Amortization / Impairment	-	-	(80)	(80)
Book value as at December 31, 2016	**4,283**	**9,257**	**-**	**13,540**

Goodwill

Goodwill recognized relates to the acquisition of Celmed BioSciences Inc.

In-process research and development acquired in a business combination

The business combination effected in 2006 (acquisition of Celmed BioSciences Inc.) has been accounted for in accordance with IFRS 3, Business Combinations. Based on IFRS 3, the acquirer shall, at the acquisition date, allocate the cost of a business combination by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date. These intangible assets are amortized from the commencement of the commercial production of the product on a straight-line basis over the term of its expected benefit. The useful live is estimated to be 10 years at minimum from the date of market introduction.

Impairment test of goodwill and in-process research and development

For the purpose of the impairment testing, goodwill and in-process research and development have been allocated to the total Group because no lower cash-generating units can be identified which generate cash inflows that are largely independent of those from other assets. The recoverable amount is determined based on a value-in-use calculation (i.e. the present value of the future cash flows expected to be derived from the products, of which positive cash flows are not expected till the development period has successfully completed and a product has been launched, the commencement of the commercial sale of the

product). The calculation is executed by applying an income approach which involves calculating the present value of future cash flows (over an estimable period) resulting from each asset. Estimated risk-adjusted future net cash flows are used, which are a.o. based on probabilities of reaching the market with an estimated potential product introduction date (estimated in 2020), possible revenues resulting from estimated market shares and product pricing, estimated gross margins and estimated operating expenditures. A discount rate of 12% had been used for a risk-adjusted NPV model. Reasonable possible changes in key assumptions will not lead to a materially different outcome. However, a scenario of not being able to reach commercialization of the related products will probably result in impairment.

6. TRADE, OTHER RECEIVABLES AND DEFFERED EXPENSES

(Amounts in EUR x 1,000)	2016	2015
VAT receivables	221	80
Deferred expenses	351	418
Interest receivable	8	46
Other amounts receivable	1	19
	581	**563**

7. CASH AND CASH EQUIVALENTS

(Amounts in EUR x 1,000)	2016	2015
Cash at bank and in hand	1,009	9,013
Short-term bank deposits	13,550	19,653
Cash and cash equivalents	**14,559**	**28,666**
Bank overdrafts used for cash management purposes	-	-
Net cash as per statement of cash flows	**14,559**	**28,666**

All amounts reported as cash or cash equivalents are at the free disposal of the company with the exception of a call deposit having a carrying value of EUR73 thousand that is pledged against certain bank guarantees provided as security for the lease of buildings.

8. SHAREHOLDERS' EQUITY

Shares issued

	Number of Issued Shares		
	Ordinary Shares	Preference Shares Class AA	Preference Shares Class BB
Balance as at January 1, 2015	**8,784,919**	**1,188,841**	**593,577**
New shares issued for cash	2,777,136	-	-
Business combinations	1,909,589	(1,188,841)	(593,577)
Balance as at December 31, 2015	**13,471,644**	**-**	**-**
New shares issued for cash	156,328	-	-
Legal merger	290	-	-
Equity-settled share-based payments	338,239	-	-
Balance as at December 31, 2016	**13,966,501**	**-**	**-**

On December 31, 2016, the total number of ordinary shares issued by the Company was 13,966,501 (2015: 13,471,644) with a nominal value of EUR0.10 (2015: EUR0.10) per share. Ordinary shares hold the right to one vote per share.

Share capital

(Amounts in EUR x 1,000)	Issued Share Capital			
	Ordinary Shares	Preference Shares Class AA	Preference Shares Class BB	Total
Balance as at January 1, 2015	**8,785**	**1,189**	**593**	**10,567**
New shares issued for cash	278	-		278
Business combinations	(7,716)	(1,189)	(593)	(9,498)
Balance as at December 31, 2015	**1,347**	**-**	**-**	**1,347**
New shares issued for cash	16	-	-	16
Equity-settled share-based payments	34	-	-	34
Balance as at December 31, 2016	**1,397**	**-**	**-**	**1,397**

On January 29, 2016, the Company entered into an equity investment agreement with The Leukemia & Lymphoma Society (LLS) for an amount of US$1.75 million to be received in 2 tranches. On February 5, 2016, the Company issued 89,308 ordinary shares to LLS for a subscription price of EUR10.235 per share. On July 8, 2016, the Company issued 67,020 ordinary shares to LLS for a subscription price of EUR10.109 per share.

The subscription price was established at the lowest of 3 average closing prices of the Company's listed ordinary shares. The 3 average closing prices were calculated using the closing prices of (i) the last five days, (ii) the last 15 days and (iii) the last 30 days prior to the effective date of the agreement.

On June 30, 2016, the Company issued an aggregate number of 338,239 to the participants of the Exit Participation Plan (EPP). The EPP was a bonus plan to provide incentives to certain executives and key employees of the Company. Following the Initial Public Offering (IPO) of the Company that took place on July 3, 2015, participants were granted shares in the Company based on the company value in the IPO. These share awards vested on June 28, 2016. A total number of 696,338 bonus shares were granted under the EPP. On June 30, 2016, an aggregate number of 338,239 bonus shares net of withholding tax were issued to participants of the EPP.

Treasury shares

On December 31, 2016, the Company did not hold any of its own shares (2015: nil).

Share premium

(Amounts in EUR x 1,000)	2016	2015
Balance as at January 1,	**98,137**	**57,243**
Share premium on new shares issued	1,576	34,436
Transaction costs	-	(3,485)
Business combinations	-	9,498
Equity-settled share-based payments	3,487	-
Warrants exercised	-	445
Balance as at December 31,	**103,200**	**98,137**

Equity-settled share-based payments relate to the bonus shares issued under the EPP described in section Share capital above.

Translation reserve

The translation reserve comprises all foreign currency differences arising from translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

9. DEFERRED TAX ASSETS AND LIABILITIES

Management has considered that (i) its main group companies have no history of taxable profits in recent years, and (ii) there is no convincing evidence that these companies will be able to generate taxable profits in the near-term future. Therefore, it is uncertain how the Group may recover or settle its deferred tax assets and liabilities in the next few years. However, management has come to the conclusion that the Group's deferred tax assets exceed its deferred tax liabilities and may be used to offset its deferred tax liabilities in the different tax jurisdictions in which the Group operates. Hence the Group has recognized its deferred tax assets relating to unused tax losses only to the extent that they may be used to offset its deferred tax liabilities. The Group has not recognized a deferred tax asset for the remaining part of its unused tax losses.

Tax loss carry forwards

(Amounts in EUR x 1,000)	2016	2015	Expiry period
Kiadis Pharma N.V. (*)	57,364	53,669	2017-2025
Kiadis Pharma Canada Inc. (**)	15,035	12,269	2024-2036
	72,399	**65,938**	

(*) The tax loss carry forwards in The Netherlands can only be utilized if the business carried on after the change of control is similar to the business carried on before the change in control.

(**) The tax loss carry forwards in Canada can only be utilized to the extent that the business carried on prior to the change of control is carried on after the change in control with a reasonable expectation of profit and only to the extent of the profit of that business or a similar business.

10. LOANS AND BORROWINGS

(Amounts in EUR x 1,000)	2016	2015
Non-current liabilities		
Government loans (RVO NL)	4,526	6,093
Loan from Hospira Inc.	10,206	6,803
Loan from University of Montreal	873	817
	15,605	**13,713**

(Amounts in EUR x 1,000)	2016	2015
Current liabilities		
Government loans (RVO NL)	1,555	1,166
	1,555	**1,166**

Movements in the carrying amounts of the loans can be summarized as follows:

(Amounts in EUR x 1,000)	RVO NL	Hospira Inc.	University of Montreal
Balance as at January 1, 2016	**7,259**	**6,803**	**817**
Interest accrued during the period	702	841	28
Interest payments	(714)		
Repayments	(1,166)		
Restatement of carrying amount		2,213	
Effect of changes in foreign exchange rates		349	28
Balance as at December 31, 2016	**6,081**	**10,206**	**873**

Terms and debt repayment schedule

	Nominal interest rate	Year of maturity	Carrying amount	
(Amounts in EUR x 1,000)			2016	2015
Government Loan I (RVO NL)	11.40%	2015-2020	3,816	4,580
Government Loan II (RVO NL)	10.00%	2016-2020	2,265	2,679
Loan from Hospira Inc.	1.50%	undefined	10,206	6,803
Loan from University of Montreal	3.50%	undefined	873	817
			17,160	**14,879**

Loan from RVO NL

The Company has two loans from Rijksdienst voor Ondernemend Nederland (RVO NL), a Dutch governmental agency. These types of loans have as purpose to stimulate innovation. In 2016, the Company started to make monthly interest payments and quarterly repayments on the second loan. Both loans will be fully repaid by the end of 2020.

Loan from Hospira Inc.

In December 2011, the Company entered into an agreement with Hospira Inc. for which an amount of US$24.5 million had been judged as a loan. The loan bears a contractual interest rate of 1.5% per annum and the conditional payment obligations regarding this loan are as follows:

(a) a milestone payment of US$3 million upon the earlier of (i) the execution of a sub-license on the Theralux platform, or (ii) the first commercial sale of a product derived from the Theralux platform; and

(b) a 5% royalty on worldwide net-sales of products derived from the Theralux product platform until the loan amount has been fully paid.

After initial recognition at fair value, the carrying amount of the loan is re-measured at each reporting date, should there have been a change in the (estimated) underlying cash flows. In such cases, the carrying amount of the loan is re-measured to the net present value of the expected underlying cash flows discounted at the original effective interest rate of 11%.

Covenants

The Company is not subject to any debt covenants.

11. TRADE AND OTHER PAYABLES

(Amounts in EUR x 1,000)	2016	2015
Suppliers	1,268	596
Salaries, bonuses and vacation	339	162
Payroll tax and social premium contributions	206	95
Accrued clinical costs	426	479
Accrued manufacturing costs	137	226
Accrued audit fees	95	81
Other	144	108
	2,615	**1,747**

12. REVENUE

No revenues were recorded in 2016 and 2015.

13. OTHER INCOME

No other income was recorded in 2016 and 2015.

14. EMPLOYEE BENEFITS

(Amounts in EUR x 1,000)	2016	2015
Wages and salaries	2,956	2,200
Compulsory social security contributions	281	197
Contributions to defined contribution plans	127	87
Share-based payments	447	7,815
Company cars	5	5
Other employee benefits	61	39
Total employee benefits	**3,877**	**10,343**
Number of employees (headcount) as at December 31,		
Research & development positions	33	22
General & administrative positions	6	5
	39	**27**

Share-based payments

The Group has a share option program in place that entitles employees to purchase shares in the Company. Under the Kiadis Pharma stock option plan, 169,515 stock options were issued and still outstanding at December 31, 2016. None of these options were exercisable on this date.

The option rights granted give entitlement to one ordinary share. Option rights granted are conditional on the employee completing a pre-defined number of years of service ("the vesting period"). Each installment of the Company's graded vesting awards is treated as a separate share option grant. Consequently, the vesting periods for the individual installments of the Company's graded vesting awards vary between 1 and 3 years for options granted on or after July 1, 2016. The options are exercisable from the vesting date. Option rights lapse 10 years after the grant date and option rights not yet vested forfeit if the employee ceases to be employed with the Group.

The fair value of these option rights is accounted for under wages and salaries in the income statement, with addition of the same amount to retained earnings. The Hull and White option valuation model has been used. The following parameters have been applied: share price EUR11.50, exercise price EUR12.35, risk-free interest rate -0.131%, volatility 62.7%, and a maximum life span of 10 years.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price (EUR per share)	Number of options	Average exercise price (EUR per share)	Number of options
As at January 1,	**-**	**-**	**1.00**	**382,137**
Granted	12.35	169,515	1.00	-
Forfeited		-	1.00	-
Exercised		-	1.00	-
Lapsed		-	1.00	(382,137)
As at December 31,	**12.35**	**169,515**	**-**	**-**

Share options outstanding at the end of the year have the following expiry years and exercise prices:

Expiry year	Exercise price (EUR per share)	Number of options as at December 31,	
		2016	2015
2026	12.35	169,515	-
	12.35	**169,515**	**-**

15. EXPENSES

(Amounts in EUR x 1,000)	2016	2015
Employee benefits (see Note 14)	3,877	10,343
Depreciation expense	150	140
Facilities	353	325
Consultancy	1,553	1,462
Telecom & IT	95	139
Travel	489	257
Insurance	78	67
Clinical costs	670	785
Manufacturing	3,380	2,147
Other	763	342
Total operating expenses	**11,408**	**16,007**

The research and development expenses comprise allocated employee costs, clinical development costs, collaboration costs, laboratory supplies, consumables costs and allocated depreciation costs. General and administrative expenses comprise allocated employee costs, office costs and other administrative costs.

The research and development and general and administrative expenses can be summarized as follows:

(Amounts in EUR x 1,000)	2016	2015
Research and development expenses	8,206	7,715
General and administrative expenses	3,202	8,292
Total operating expenses	**11,408**	**16,007**

Auditor's fees

The following fees were charged by KPMG Accountants N.V. to the Company, its subsidiaries and other consolidated companies, as referred to in Section 2:382a(1) and (2) of the Netherlands Civil Code.

(Amounts in EUR x 1,000)	KPMG Accountants N.V.	Other KPMG network	Total KPMG
2016			
Audit of the financial statements	120		120
Other audit engagements	7		7
Tax-related advisory services		4	4
Other non-audit services			-
	127	**4**	**131**
2015			
Audit of the financial statements	119		119
Other audit engagements	239		239
Tax-related advisory services		105	105
Other non-audit services			-
	358	**105**	**463**

16. FINANCE INCOME AND EXPENSES

(Amounts in EUR x 1,000)	2016	2015
Finance income		
Interest income	13	50
Net foreign exchange gain	386	-
Extinguishment gain on derivatives	-	4,589
	399	**4,639**
Finance expenses		
Bank borrowings, and other debt	(1,571)	(1,394)
Net foreign exchange loss	-	(1,486)
Loss from restatements of loans	(2,213)	(1,350)
Loss from change in fair value of derivatives	-	(859)
	(3,784)	**(5,089)**

Finance expenses for bank borrowings and other debt include interest on third party loans for EUR868 thousand (2015: EUR613 thousand) and interest on government loans for EUR702 thousand (2015: EUR780 thousand).

17. INCOME TAX EXPENSE IN THE INCOME STATEMENT

(Amounts in EUR x 1,000)	2016	2015
Current tax expense		
Current year	1	1
	1	1
Deferred tax expense		
	-	-
Tax expense	**1**	**1**

Current year tax expense relates to the subsidiary in Germany that charges its expenses with a mark-up to other group companies.

(Amounts in EUR x 1,000)	2016	2015
Reconciliation of effective tax rate		
Loss before income taxes	14,793	16,457
Tax using the Company's domestic tax rate (25.0% for all years)	(3,698)	(4,114)
Effect of tax rates in foreign jurisdictions	(8)	(11)
Tax exempt income	(165)	(933)
Non-deductible expenses	122	1,881
Tax incentives	-	(4)
Current year losses for which no deferred tax asset is recognised	3,750	3,181
	1	**1**

18. EARNINGS PER SHARE

Basic earnings per share

(Amounts in EUR x 1,000)	2016	2015
Loss attributable to ordinary shareholders	(14,794)	(16,458)
Issued ordinary shares at January 1,	13,471,644	10,694,508
Effect of shares issued for cash	112,752	1,362,821
Effect of shares issued related to share-based payments	170,044	-
Effect of shares issued related to a business combination	285	-
Weighted-average number of ordinary shares at December 31,	13,754,725	12,057,329
Basic earnings per share (EUR)	(1.08)	(1.36)

The calculation of basic earnings per share for the year ended December 31, 2016 has been based on the loss attributable to ordinary shareholders of EUR14,794 thousand and a weighted-average number of ordinary shares outstanding during the year of 13,755 thousand.

For the years presented in these consolidated financial statements, the number of issued ordinary shares at January 1 has been adjusted for the business combination that took place on June 12, 2015. Shares have been included in the weighted average number of shares from their issuance date.

Diluted earnings per share

	2016	2015
Weighted average number of ordinary shares (basic)	13,754,725	12,057,329
Effect of share-based payments (stock options)	-	-
Weighted-average number of ordinary shares (diluted) at December 31,	13,754,725	12,057,329
Diluted earnings per share (EUR)	(1.08)	(1.36)

The calculation of diluted earnings per share for the year ended December 31, 2016, has been based on the loss attributable to ordinary shareholders of EUR14,794 thousand and a weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

On December 31, 2016, an aggregate number of 169,515 dilutive options on ordinary shares were outstanding. These options have been awarded as share-based payments to the Management Board (see also Notes 14 and 23) and were excluded from the diluted weighted-average of ordinary shares calculation because their effect would have been anti-dilutive. As a result, diluted earnings per share equals basic earnings per share.

19. FINANCIAL INSTRUMENTS

As a result of our operating and financing activities, we are exposed to market risks that may affect our financial position and results of operations. Market risk is the potential to incur economic losses on risk sensitive financial instruments arising from adverse changes in factors such as foreign exchange rate fluctuations.

Management is responsible for implementing and evaluating policies which govern our funding, investments and any use of derivative financial instruments. Management monitors risk exposure on an ongoing basis.

Capital management

The Company does not have an explicit return on capital policy. There have been no changes in the capital management policies during the year. Capital is considered by the Company to be equity and debt as shown in the statement of financial position.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Kiadis Pharma currently has no regular sales and therefore no substantial amounts outstanding with customers. As such, customer related credit risks are not considered to be of significant influence to the Company.

The Company limits its exposure to credit risk by maintaining its bank accounts and short term deposits with well established bank institutions.

Liquidity risk analysis

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

As at December 31, 2016, the Company does not have adequate funds available to settle its payment obligations from its ongoing business operations for a period of twelve months following the date of these financial statements.

A debt repayment schedule is included in Note 10. Also refer to the Going concern assessment in Note 2.1 for an explanation of how the Company assessed its short-term obligations.

Exposure to interest rate risks

The effective interest rate on short-term bank deposits was 0.1% on average for 2016 (2015: 0.4%). An increase of 25 basis points in interest rates would have increased equity and profit by EUR54 thousand.

Exposure to foreign currency risk

The Company's functional currency is the euro (symbol: EUR). The functional currency of the Dutch and German subsidiaries is also the euro. The functional currency of the Canadian subsidiary is the Canadian dollar.

The Group operates primarily via its Dutch entities, but also conducts business in North America. The Group has therefore expenses denominated in the Canadian dollar and the US dollar in connection with, among other things, its sponsored trials, process development, loans, and the maintenance of its intellectual property portfolio. Group entities may also have intercompany balances and loans denominated in other currencies than their functional currency.

The Company's euro-denominated consolidated reported financial results can be affected by changes in the relative values of the Canadian dollar and the US dollar against the euro. Fluctuations in currency values also distort period-to-period comparisons of financial performance. Also given the high volatility of currency exchange rates, there can be no assurance that the Company will be able to effectively manage its currency risk to minimize the impact on its business. The Company's exposure to foreign currency translation gains and losses may change over time if it expands its operations and could have a material adverse effect on the Company's business, results of operations or financial condition. Group companies do not currently engage in any hedging activities to limit their exposure to exchange rate fluctuations.

A strengthening of the Canadian and US dollar against the euro at December 31, 2016 of 5% would have increased equity by EUR38 thousand and increased the loss for the year by EUR54 thousand. This analysis is based on foreign currency exchange rates that the Company considered to be reasonably possible at the end of the reporting period. All other variables are considered to remain unchanged.

The analysis is performed on the same basis for 2015. A strengthening of the Canadian dollar and US dollar against the euro at December 31, 2015 of 5% would have increased equity by EUR50 thousand and decreased the loss for the year by EUR98 thousand.

Fair values

The following tables show the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair value			
	Non-current assets	Current assets						
(Amounts in EUR x 1,000)		Trade and other receivables	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total
December 31, 2016								
Financial assets not measured at fair value								
Trade and other receivables		230		230				
Cash and cash equivalents			14,559	14,559				
		230	**14,559**	**14,789**				
December 31, 2015								
Financial assets not measured at fair value								
Trade and other receivables		145		145				
Cash and cash equivalents			28,666	28,666				
		145	**28,666**	**28,811**				

	Carrying amount					Fair value			
	Non-current liabilities		Current liabilities						
(Amounts in EUR x 1,000)	Derivatives	Loans and borrowings	Trade and other payables	Loans and borrowings	Total	Level 1	Level 2	Level 3	Total
December 31, 2016									
Financial liabilities not measured at fair value									
Government Loans (RVO NL)		4,526		1,555	6,081		6,081		6,081
Loan from Hospira Inc.		10,206			10,206		10,206		10,206
Loan from University of Montreal		873			873		873		873
Trade and other payables			2,615		2,615				
	-	**15,605**	**2,615**	**1,555**	**19,775**				
Financial liabilities not measured at fair value									
Government Loans (RVO NL)		6,093		1,166	7,259		7,259		7,259
Loan from Hospira Inc.		6,803			6,803		6,803		6,803
Loan from University of Montreal		817			817		817		817
Trade and other payables			1,747		1,747				
	-	**13,713**	**1,747**	**1,166**	**16,626**				

20. CONTINGENCIES

Milestone payments

Celmed Founding Shareholders

The Group is party to agreements with certain former shareholders of Celmed BioSciences Inc., including Theratechnologies Inc., Fonds de Solidarité des Travailleurs du Quebec and Investissements Santé Inc. Under these agreements, the Group is obligated to pay such shareholders CN$3.4 million, if and when all approvals required to market Rhitol in the United States have been granted by the FDA and CN$6.9 million, if and when all approvals required to market NB1011 in the United States have been granted by the FDA. These obligations are secured by a hypothecation of certain rights to Theralux and NB1011 patents under Quebec laws and a security interest under California law.

University of Montreal

Between 1991 and 1997, Kiadis Pharma Canada Inc. and/or its predecessors entered into a series of licensing agreements with the University of Montreal which obligates the Group to pay royalties of 5% of net sales of all products derived from the Theralux product platform for the term of our commercialization of such products. The same rate of royalties applies to receipts related to sub-licenses.

Hospira Inc.

If and when the loan from Hospira Inc. (see Note 10) has been repaid, Hospira is able to receive thereafter royalties of 3% on net sales of products derived from the Theralux product platform in a specified territory (total world minus North & South America and China) for an unlimited period of time.

21. COMMITMENTS

Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(Amounts in EUR x 1,000)	2016	2015
Less than one year	177	275
Between one and five years	-	57
More than 5 years	-	-
	177	**332**

(a) Rental of premises:

The Company has rental commitments regarding office and laboratory space located in Amsterdam with a total liability as of December 31, 2016, of EUR177 thousand (2015: EUR332 thousand). The remaining lease terms are 8 months for office space and 4 months for laboratory space.

(b) Capital commitments

At the reporting date December 31, 2016, there were no capital expenditures contracted for, but not yet incurred.

22. BUSINESS COMBINATIONS

On January 6, 2016, a legal merger took place and Kiadis Pharma B.V. merged into Kiadis Pharma N.V. with the latter being the surviving company.

23. RELATED PARTIES

Transactions with related parties with a significant influence over the Company

The transactions with shareholders that have a significant impact over the Company during the years presented are described below. Other than this, there were no transactions or business activities with related parties.

Management Board and Supervisory Board

(a) Management Board salary, bonus and other emoluments

In addition to salaries, the Group also provides non-cash benefits.

The Management Board included in the table below relates to 2 members (Chief Executive Officer (CEO) and Chief Financial Officer (CFO)) who were in office during the years 2016 and 2015.

(Amounts in EUR x 1,000)	2016	2015
Salaries and other short-term employee benefits	668	498
Pensions	19	9
Share-based payments	447	3,731
Social securities	28	30
Other emoluments	12	5
Total	**1,174**	**4,273**

The table below shows the remuneration received by the individual members of the Management Board for the year ended December 31, 2016.

(Amounts in EUR)	Base salary	Cash bonus	Share-based payments	Pension contributions	Social security costs	Other benefits	Total remuneration
Dr. Manfred Rüdiger	315,000	135,000	381,247	11,619	18,490	5,086	866,442
Mr. Robbert van Heekeren	173,350	45,000	65,587	7,390	9,255	7,012	307,594
	488,350	**180,000**	**446,834**	**19,009**	**27,745**	**12,098**	**1,174,036**

Expenses of share-based payments incurred in 2016 relate to the options granted to the members of the Management Board on July 1, 2016.

The remuneration of the Supervisory Board members included in the table below relates to the compensation for 6 members in 2016 (2015: 4).

(Amounts in EUR x 1,000)	2016	2015
Remuneration	44	25
Share-based payments	-	61
Total	**44**	**86**

The table below shows the remuneration received by the individual members of the Supervisory Board for the year ended December 31, 2016. In 2016, Mr. Vincent Brichard was a member of the Supervisory Board from January 1 through April 1. Mr. Berndt Modig and Dr. Robert Soiffer were appointed as members of the Supervisory Board by the Annual General Meeting held on June 28, 2016.

(Amounts in EUR)	Base salary	Cash bonus	Share-based payments	Pension contributions	Social security costs	Other benefits	Total remuneration
Mr. Mark Wegter	-	-	-	-	-	-	-
Mr. Martijn Kleijwegt	-	-	-	-	-	-	-
Mr. Stuart Chapman	-	-	-	-	-	-	-
Mr. Vincent Brichard	3,750	-	-	-	-	-	3,750
Mr. Berndt Modig	20,000	-	-	-	-	-	20,000
Dr. Robert Soiffer	20,000	-	-	-	-	-	20,000
	43,750	**-**	**-**	**-**	**-**	**-**	**43,750**

(b) Transactions of shares in the Company

In June 2016, 153,459 bonus shares were issued to Dr. Rüdiger and 37,737 bonus shares were issued to Mr. Van Heekeren. See also Note 8. The expenses related to this plan were incurred in 2015.

(c) Options held in the Company

On July 1, 2016, options were granted to the members of the Management Board. No options have been granted to Supervisory Board members. Options held by the Management Board are as follows:

Options held by	As at December 31,		Exercise price	Conditions
	2016	2015	in EUR	
Dr. Manfred Rüdiger	135,612	-	12.35	Granted July 1, 2016. Vesting dates July 1, 2017, July 1, 2018 and July 1, 2019. Expiration date July 1, 2026.
Mr. Robbert van Heekeren	33,903	-	12.35	Granted July 1, 2016. Vesting dates July 1, 2017, July 1, 2018 and July 1, 2019. Expiration date July 1, 2026.

24. PROPOSAL FOR PROFIT APPROPRIATION

The Management Board proposes that the loss for the year of EUR14,794 thousand will be charged to accumulated deficit. This proposal is reflected in the financial statements.

25. SUBSEQUENT EVENTS

In January 2017, Dr. Rüdiger, the Company's CEO, formally decided to step down as per March 31, 2017. Dr. Rüdiger will hand over his responsibilities as CEO to Mr. Lahr, currently the Company's Chief Operating Officer. Mr. Lahr was appointed CEO designate by the Supervisory Board in December 2016.

On February 20, 2017, the Company made an announcement for an Extraordinary General Meeting to be held on April 4, 2017. One of the voting items on the agenda of this General Meeting is the appointment of Mr. Lahr as statutory director of Kiadis Pharma N.V.

In January 2017, an aggregate number of 86,200 stock options were granted to Kiadis Pharma employees.

COMPANY FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

(Amounts in EUR x 1,000)	Note	As at December 31, 2016	2015
Assets			
Property, plant and equipment	1	1	-
Intangible assets *	2	-	-
Financial non-current assets *	3	13,885	2,939
Total non-current assets		**13,886**	**2,939**
Trade, other receivables and prepayments	4	118	3,320
Cash and cash equivalents	5	13,841	20,441
Total current assets		**13,959**	**23,761**
Total assets		**27,845**	**26,700**
Equity			
Share capital		1,397	1,347
Share premium		103,200	31,827
Translation reserve		307	(46)
Accumulated deficit		(95,463)	(7,478)
Equity attributable to owners of the Company	6	**9,441**	**25,650**
Liabilities			
Loans and borrowings	7	15,605	-
Provisions *		915	-
Total non-current liabilities		**16,520**	**-**
Loans and borrowings	7	1,555	-
Trade and other payables	8	329	1,050
Total current liabilities		**1,884**	**1,050**
Total liabilities		**18,404**	**1,050**
Total equity and liabilities		**27,845**	**26,700**

* In the 2016 financial statements, goodwill and other intangible assets relating to investments in subsidiaries are included in financial non-current assets. Receivables due by group companies for which no payment is expected within 12 months are also included in financial non-current assets. A provision is made for financial non-current assets with a negative value.
See also Note 3.

COMPANY INCOME STATEMENT

(Amounts in EUR x 1,000)	For the year ended December 31, 2016	2015
Share in results from participating interests, after taxation	(9,025)	(9,234)
Other results, after taxation	(5,769)	(6,059)
Loss for the period	**(14,794)**	**(15,293)**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

GENERAL INFORMATION

On June 12, 2015, Kiadis Pharma N.V. was incorporated and became the parent of the Kiadis Pharma group of companies. The comparative figures in the company financial statements cover the period from the date of incorporation through December 31, 2015. The description of the Group's activities and the Group structure as included in the notes to the consolidated financial statements also apply to the Company financial statements.

BASIS OF PREPARATION

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Netherlands Civil Code. The Company uses the option of Article 8:362 of Part 9, Book 2, of the Netherlands Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU as explained further in the notes of the consolidated financial statements.

In accordance with the exemption in Article 2:402 of Part 9 Book 2 of the Netherlands Civil Code the Company income statement is presented in abbreviated form.

On January 6, 2016, Kiadis Pharma B.V. merged into Kiadis Pharma N.V. and has ceased to exist. As a result, Kiadis Pharma N.V. acquired all assets and liabilities of Kiadis Pharma B.V. This legal merger has been accounted for using the carrying amounts of all assets and liabilities of Kiadis Pharma B.V.

FINANCIAL NON-CURRENT ASSETS

Participating interests are measured on the basis of the equity method, and are reported net of non-current group receivables and intangible assets related to investments in subsidiaries. Participating interests with negative equity are reported under provisions.

Result from participating interests

The share of profit of participating interests consists of the share of the Company in the results of these participating interests.

GOING CONCERN

See Note 2.1 of the consolidated financial statements.

1. PROPERTY, PLANT AND EQUIPMENT

(Amounts in EUR x 1,000)	Furniture & Hardware	Total
Balance as at December 31, 2015		
Cost of acquisition	-	-
Depreciation / impairment	-	-
Book value as at December 31, 2015	**-**	**-**
Changes in book value 2016		
Legal merger	1	1
Depreciation	-	-
Total changes in book value 2016	**1**	**1**
Balance as at December 31, 2016		
Cost of acquisition	2	2
Depreciation / impairment	(1)	(1)
Book value as at December 31, 2016	**1**	**1**

2. INTANGIBLE ASSETS

(Amounts in EUR x 1,000)	Goodwill	In-process Research & Development	Total
Balance as at December 31, 2015			
Cost	-	-	-
Amortization / Impairment	-	-	-
Book value as at December 31, 2015	**-**	**-**	**-**
Changes in book value 2016			
Legal merger	4,022	8,692	12,714
Effect of movement in foreign exchange rates	261	565	826
Total changes in book value 2016	**4,283**	**9,257**	**13,540**
Balance as at December 31, 2016			
Cost	4,026	8,700	12,726
Amortization / Impairment	257	557	814
Book value as at December 31, 2016	**4,283**	**9,257**	**13,540**

Goodwill and other intangible assets relate to the investment in Kiadis Pharma Canada Inc., and are included in financial non-current assets. See also Note 3.

3. FINANCIAL NON-CURRENT ASSETS

(Amounts in EUR x 1,000)	2016	2015
Participating interests in group companies	**(69,294)**	**2,939**

On January 6, 2016, Kiadis Pharma B.V. merged into Kiadis Pharma N.V. and has ceased to exist. As a result, Kiadis Pharma N.V. became the parent of the legal entities Kiadis Pharma Netherlands B.V., Kiadis Pharma Intellectual Property B.V., Kiadis Pharma Germany GmbH and Kiadis Pharma Canada Inc.

The movements in participating interests can be shown as follows:

(Amounts in EUR x 1,000)	Kiadis Pharma B.V.	Kiadis Pharma Netherlands B.V.	Kiadis Pharma Intellectual Property B.V.	Kiadis Pharma Germany GmbH	Kiadis Pharma Canada Inc.	Total
Balance as at December 31, 2015	**2,939**	**-**	**-**	**-**	**-**	**2,939**
Changes in 2016						
Legal merger	(2,939)	(44,549)	(1,220)	32	(12,269)	(60,945)
Divestments in subsidiaries	-	(1,472)	-	-	-	(1,472)
Share in result	-	(9,156)	(90)	(1)	222	(9,025)
Effect of changes in foreign exchange rates	-	-	-	-	(791)	(791)
Total changes in 2016	**(2,939)**	**(55,177)**	**(1,310)**	**31**	**(12,838)**	**(72,233)**
Balance as at December 31, 2016	**-**	**(55,177)**	**(1,310)**	**31**	**(12,838)**	**(69,294)**

The net balance of financial non-current assets reported on the balance sheet is calculated as follows:

(Amounts in EUR x 1,000)	Kiadis Pharma B.V.	Kiadis Pharma Netherlands B.V.	Kiadis Pharma Intellectual Property B.V.	Kiadis Pharma Germany GmbH	Kiadis Pharma Canada Inc.	Total
Participating interests as at December 31, 2016	**-**	**(55,177)**	**(1,310)**	**31**	**(12,838)**	**(69,294)**
Net value of subsidiaries in 2016						
Receivable due by group companies	-	54,429	1,143	-	13,152	68,724
Goodwill related to subsidiaries	-	-	-	-	4,283	4,283
In-process R&D related to subsidiaries	-	-	-	-	9,257	9,257
Provisions	-	748	167	-	-	915
Net financial non-current assets as at December 31, 2016	**-**	**-**	**-**	**31**	**13,854**	**13,885**

4. TRADE, OTHER RECEIVABLES AND DEFERRED EXPENSES

(Amounts in EUR x 1,000)	2016	2015
Receivable from group companies	68,724	3,195
Interest receivable	8	32
VAT receivable	20	19
Deferred expenses	90	74
	68,842	**3,320**

Receivables due by group companies are included in financial non-current assets. See also Note 3.

5. CASH AND CASH EQUIVALENTS

(Amounts in EUR x 1,000)	2016	2015
Cash at bank and in hand	291	7,939
Short-term bank deposits	13,550	12,502
Cash and cash equivalents	**13,841**	**20,441**
Bank overdrafts used for cash management purposes	-	-
Net cash as per balance sheet	**13,841**	**20,441**

6. EQUITY

(Amounts in EUR x 1,000)	Share Capital	Share Premium	Translation Reserve	Accumulated Deficit	Total Equity
Balance as at January 1, 2015	**-**	**-**	**-**	**-**	**-**
Changes in 2015					
Profit (loss) for the period	-	-	-	(15,293)	(15,293)
Issue of shares - incorporation	1,069	431	-	-	1,500
Issue of shares - IPO	278	34,436	-	-	34,714
Transaction costs	-	(3,485)	-	-	(3,485)
Exercise of warrants	-	445	-	-	445
Share-based payments	-	-	-	7,815	7,815
Translation difference	-	-	(46)	-	(46)
Balance as at December 31, 2015	**1,347**	**31,827**	**(46)**	**(7,478)**	**25,650**
Changes in 2016					
Profit (loss) for the period	-	-	-	(14,794)	(14,794)
Issue of shares for cash	16	1,576	-	-	1,592
Legal merger	-	66,310	317	(66,627)	-
Share-based payments	34	3,487	-	(6,564)	(3,043)
Translation difference	-	-	36	-	36
Balance as at December 31, 2016	**1,397**	**103,200**	**307**	**(95,463)**	**9,441**

7. LOANS AND BORROWINGS

(Amounts in EUR x 1,000)	2016	2015
Non-current liabilities		
Government Loans (RVO NL)	4,526	-
Loan from Hospira Inc.	10,206	-
Loan from University of Montreal	873	-
	15,605	**-**

(Amounts in EUR x 1,000)	2016	2015
Current liabilities		
Government Loans (RVO NL)	1,555	-
	1,555	**-**

See also Note 10 'Loans and borrowings' of the consolidated financial statements.

8. TRADE AND OTHER PAYABLES

(Amounts in EUR x 1,000)	2016	2015
Suppliers	40	95
Salaries, bonuses and vacation	74	47
Tax and social premium contributions	46	16
Debts to subsidiaries	28	776
Accrued audit fees	95	81
Accrued board fees	10	15
Accrued consultancy costs	36	15
Other	-	5
	329	**1,050**

9. FINANCIAL INSTRUMENTS

See Note 19 'Financial instruments' of the consolidated financial statements.

10. COMMITMENTS

As of January 1, 2016, the Company is the parent of the fiscal unity Kiadis Pharma N.V., and therefore liable for the liabilities of the fiscal unity as a whole.

11. EMOLUMENTS OF SENIOR MANAGEMENT

See Note 23' Related Parties' of the consolidated financial statements.

Amsterdam-Duivendrecht, March 30, 2017

Management Board

Manfred Rüdiger, Chief Executive Officer

Robbert van Heekeren, Chief Financial Officer

Supervisory Board

Mark Wegter, Chairman

Martijn Kleijwegt

Stuart Chapman

Robert Soiffer

Berndt Modig

OTHER INFORMATION

Provisions of article of association in respect of profit appropriation

As per Article 21 of the Company's articles of association, the Management Board shall determine, subject to prior approval of the Supervisory Board, which part of the profits shall be added to the Company's reserves. The remaining profits are at the disposition of the shareholders' meeting.

INDEPENDENT AUDITOR'S REPORT

Please find attached the independent auditor's report from KPMG.

Independent auditor's report

To: the Annual General Meeting of Shareholders and the Supervisory Board of Kiadis Pharma N.V.

Report on the accompanying financial statements 2016

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Kiadis Pharma N.V. as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of Kiadis Pharma N.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the financial statements 2016 of Kiadis Pharma N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2016;
2 the following consolidated statements for 2016: the statements of comprehensive income, changes in equity and cash flows; and
3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1 the company balance sheet as at 31 December 2016;
2 the company income statement for 2016; and
3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Kiadis Pharma N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Material uncertainty related to going concern

We draw attention to the going concern paragraph in note 2.1 of the financial statements 2016 which indicates that the company has insufficient cash and cash equivalents to meet their working capital requirements through the next twelve months and therefore depends on an equity financing, a non-dilutive financing or strategic transactions. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We evaluated and challenged the company's future business plans and related cash flow forecasts and the process in which these were prepared. We tested the underlying key assumptions, such as expected cash outflow for R&D and tested related expenses and other operating expenses. In order to corroborate management's future business plans and to identify potential contradictory information we, amongst others, read the board minutes and supervisory board minutes, read analyst reports and read the test results of the Phase II testing performed by the Company.

Management is currently investigating funding options. We evaluated the progress of management's plans and assessed the accessibility to potential sources of funding.

Audit approach

Summary

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 157,500 (2015: EUR 112,500). The materiality is determined with reference to recurring total operating expenses (1.5%). We consider recurring total operating expenses as the most appropriate benchmark as this best reflects the nature of the entity, being in the stage of developing a medicine. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of EUR 8,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Kiadis Pharma N.V. is head of a group of entities. The financial information of this group is included in the financial statements of Kiadis Pharma N.V.

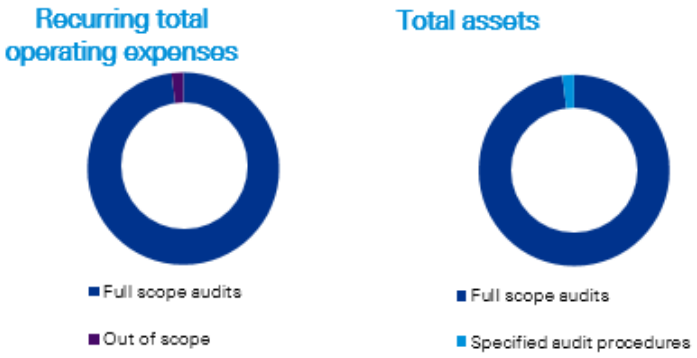
Our group audit mainly focused on significant group entities. To achieve sufficient coverage over the Group's significant risks, we performed audits for group reporting purposes on two entities.

We have:

- performed audit procedures ourselves at group entities Kiadis Pharma Netherlands B.V. and Kiadis Pharma N.V.;
- performed review procedures or specified audit procedures at other group entities.

Accounting for the group's activities takes place at the headquarters in Amsterdam, the Netherlands. As a consequence, we were able to perform all of the audit work for the group at group level. This resulted in a coverage of the recurring total operating expenses of 98%.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.



Our key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the Supervisory Board. The key audit matter is not a comprehensive reflection of all matters discussed.

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation Goodwill and In-progress research and development
Description There is a risk that the carrying value of goodwill and in-progress research and development may not be recovered from future cash flows if e.g. study results do not meet the current expectations. As explained in Note 2.7 to the financial statements, an impairment trigger analysis is performed at each reporting date and an impairment analysis is performed on a yearly basis. There is inherent uncertainty involved in forecasts and significant judgements are made with respect to the assumptions used in the company's impairment model, as disclosed by management in Note 5 to the financial statements, making this a key matter for our audit.

Valuation Goodwill and In-progress research and development
Our response Our audit procedures included, among others, testing the company's impairment model and evaluating the assumptions and methodologies used by the company. In particular, the expected market introduction date, the likelihood of market introduction of the product, expected sales volume, price and margins as well as discount rates were assessed. We compared the business enterprise value derived from the market share price with the carrying amount of goodwill and intangible fixed assets. We included in our team a valuation specialist to assist us in these audit activities. We made an assessment of the business enterprise value with externally derived data and compared it with the market capitalisation based on the stock price at year-end 2016. We also assessed the adequacy of the disclosures in Note 5 to the financial statements about the assumptions to which the outcome of the impairment test is most sensitive.
Our observation In our view, the assumptions used in the impairment model are balanced and as a consequence the valuation is appropriate. The disclosure in Note 5 about the assumptions of the impairments test is sufficient.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- business section (including the report of the management board);
- corporate governance and risk management and internal control systems;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Based on the below procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other Information pursuant to Part 9 of Book 2 of the Netherlands Civil Code

Report on other legal and regulatory requirements

Engagement

We have operated as statutory auditor of Kiadis Pharma N.V., and its legal predecessors, since 2011. We were appointed by the General Meeting of Shareholders as auditor of Kiadis Pharma N.V. on 28 June 2016, for the audit of 2016.

Description of the responsibilities for the financial statements

Responsibilities of the Management Board and Supervisory Board for the financial statements

The management board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of financial statements

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA) https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_oob_variant_%20Engels.docx

Amstelveen, 30 March 2017

KPMG Accountants N.V.

H.A.P.M. van Meel RA

SAVING LIVES WITH INNOVATIVE CELL-BASED THERAPY

Kiadis Pharma N.V.
Entrada 231-234
1114 AA Amsterdam - Duivendrecht
+31 (0) 20 314 02 50
www.kiadis.com