Kiadis pharma

ANNUAL REPORT 2017

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BUSINESS SECTION

OUR COMPANY

INTRODUCTION TO KIADIS PHARMA

We are building a fully integrated biopharmaceutical company to maximize the potential of our ATIR cell-based immunotherapy platform. Our lead program represents a near-term commercial opportunity for adult blood cancers and other diseases of the blood and immune system with a high unmet medical need. ATIR is a patient specific T-cell product manufactured *ex vivo* with our proprietary technology to selectively deplete harmful donor T-cells that can attack patient tissue and cause Graft versus Host Disease, or GVHD, while retaining those T-cells that fight relapse and infections. We are initially developing our lead product candidate, ATIR101, for use in conjunction with haploidentical hematopoietic stem-cell transplants (HSCT) for adult blood cancers, to address key limitations of HSCT by lowering relapse and GVHD rates, without prophylactic immunosuppression. We believe that ATIR can improve HSCT options and outcomes, and could allow the use of HSCT to be expanded to a broader range of patient groups and a broader range of diseases of the blood or immune system. We estimate that, over time, a target population of 50,000 patients per year in Europe and the United States could potentially benefit from ATIR as an adjunctive therapy to HSCT.

Based on the positive results from our single dose Phase II CR-AIR-007 study, we submitted a marketing authorization application, or MAA, to the European Medicines Agency, or EMA, in April 2017 for approval of ATIR101 as an adjunctive treatment in haploidentical HSCT for high risk adult hematological malignancies. We expect to obtain a Committee for Medicinal Products for Human Use, or CHMP, opinion in the fourth quarter of 2018 which, if positive, would enable us to receive a conditional marketing approval from the European Commission as early as the first quarter of 2019. If we obtain conditional marketing approval when expected, we intend to launch ATIR101 in selected countries in Europe through a dedicated internal commercial organization starting in the second half of 2019. ATIR101 received the regenerative medicine advanced therapy, or RMAT, designation from the United States Food and Drug Administration, or FDA, in September 2017, and we are currently conducting an international Phase III trial in which the first patient was enrolled in December 2017 as a basis for a subsequent FDA filing and marketing approval in the United States. We plan to leverage this data set to remove potential conditions around our expected EMA approval. ATIR101 has been granted multiple orphan drug designations both in Europe and the United States.

As set forth in the following table, we intend to initially focus on ATIR101 for adult blood cancers and then unlocking potential applications of ATIR in a broader range of patient groups and indications.

Product	Pre-Clinical	Phase I	Phase II	Phase III	Filing	Catalysts	Commercial Rights
• ATIR101 (Europe)	*Orphan Drug Designation*					– CHMP Opinion 4Q18 – EU Launch 2H19	Kiadis pharma
• ATIR101 (USA)	*Orphan Drug & RMAT Designations*					– Phase III (interim) read out	Kiadis pharma

HSCT is an established treatment for adult blood cancers and inherited blood diseases where the diseased blood and immune system of a patient is first killed with chemotherapy with or without radiation and then replaced with a healthy blood and immune system from a donor. Despite being potentially curative, HSCT use is limited by the lack of donors and the inherent risk of GVHD in patients. GVHD occurs when certain T-cells from the donor (i.e., the graft) recognize the patient's tissues as foreign and attack the patient (i.e., the host). GVHD can cause rash and other skin disease, ulceration, GI tract disease, liver cirrhosis, immunodeficiency, infections, muscle constriction, bone loss, lung disease, thyroid dysfunction, cancers, sleep deprivation, depression and eye disease. In its acute form, GVHD can be life threatening, and as a chronic disease it can be severely debilitating.

In order to mitigate the risk of GVHD, HSCT is ideally performed with a graft from a genetically matched donor. However, between 20% and 80% of eligible patients who are in need of HSCT will not find a matched donor in time. For example, in 2012, it was estimated that 13,500 patients in the United States could not find a matched donor and failed to receive a stem cell transplant.

To address the lack of donors, use of genetically half matched, or haploidentical, donors (such as parents, children and, in many cases, siblings of the patient) for HSCT has grown significantly over the last years. However, using genetically half matched donors has the inherent risk of severe and potentially lethal GVHD and, as a result, requires depletion of patient specific T-cells of the donor graft and significant immune suppression in patients.

The Post-Transplant Cyclophosphamide protocol, or PTCy protocol, commonly referred to as the Baltimore protocol, has become widely used for haploidentical HSCT, experiencing approximately 30% compounded annual growth since 2012. Under the PTCy protocol, the donor T-cells that attack the patient are depleted in the patient with chemotherapy (e.g., cyclophosphamide) immediately after the transplant, and patients are subsequently treated with immunosuppression. The PTCy protocol has allowed a reduction of the rates of chronic and acute GVHD to about a quarter of patients. However, up to half of patients may relapse after a PTCy stem cell transplant. In addition, cyclophosphamide and immunosuppression, such as steroids, may cause severe toxicities, including adrenal suppression, osteoporosis, cataracts, myopathy, hyperlipidemia, nephrotoxictity, CNS toxicity, myelosuppression, hepatotoxicity and infections.

Our lead product candidate, ATIR101, is an adjunctive treatment to haploidentical HSCTs that has demonstrated substantial and clinically relevant improvements over historical observational cohort data for a similar HSCT without ATIR101, as well as improvements over PTCy protocol data reported in scientific literature. In our international Phase II CR-AIR-007 trial, a single dose of ATIR101 given in 23 patients after a haploidentical, T-cell depleted HSCT led to a three-fold increase in overall survival when compared with data from our non-interventional CR-AIR-006 trial, a historical observational cohort of patients with just a T-cell depleted haploidentical HSCT. Even though patients did not receive prophylactic immunosuppressants, the single dose of ATIR101 did not cause acute GVHD, and only one patient developed chronic GVHD. As set forth in the table below, our Phase II CR-AIR-007 results also demonstrated an improvement in relapse, GVHD and GVHD-Free and Relapse-Free Survival over available literature for the PTCy protocol in relevant patient populations at 12 months:

Endpoint at 12 months	ATIR101 as adjunct to haploidentical T-cell depleted HSCT (CR-AIR-007 study in acute leukemia; 23 patients)	PTCy / Baltimore protocol with haploidentical T-cell replete HSCT (available literature)
Relapse rate	9%	29%
Chronic GVHD rate	4%	24%
Grade III/IV acute GVHD rate	0%	5%
GVHD-Free and Relapse-Free Survival	57%	36%

We are conducting an international Phase III trial with ATIR101 in 195 haploidentical HSCT patients with acute leukemia and myelodysplastic syndrome, or MDS, at approximately 50 sites in the United States, Canada and Europe. Following our interactions with the FDA and regulators in the European Union, we designed this trial to support market approval of ATIR101 in the United States, as well as to remove any potential conditions around our expected marketing approval in the European Union. The trial's primary endpoint is GVHD-free and relapse-free survival, known as GRFS, of ATIR101 versus the PTCy protocol. The first patient was enrolled in December 2017.

If approved, we intend to market ATIR101 in Europe and North America through an internal commercial organization. We believe we will not require a large commercial infrastructure as the transplant community has a relatively small number of key opinion leaders, or KOLs, and is concentrated among relatively few transplant centers. For example, there are only approximately 70 stem cell transplant centers in France, Germany, Italy, Spain and the United Kingdom. In addition, the ongoing Phase III study is allowing us to build relationships within the transplant community. We have started building our own commercial, medical affairs, and supply chain infrastructure, including our own manufacturing facility in The Netherlands.

In the future, we could expand usage of our ATIR platform by performing additional studies in the pediatric population, inherited blood disorders (e.g., thalassemia or sickle cell anemia), inherited immune disorders (e.g., severe combined immunodeficiency) and autoimmune disease (e.g., multiple sclerosis or lupus), and by developing ATIR101 as an adjunctive therapy to other HSCT protocols, such as the PTCy protocol or an α/β T-cell depleted HSCT. In addition, we aim to expand to other regions, such as China, where haploidentical HSCT is often the only available treatment due to small family sizes and lack of donor registries.

Our Strengths

Substantial and clinically relevant clinical data for ATIR101.

ATIR101 is designed to address the major limitations of HSCT by lowering relapse and GVHD rates using widely available haploidentical donors, without prophylactic immunosuppression. Phase II CR-AIR-007 data of ATIR101 shows a substantial and clinically relevant improvement over a historical observational cohort study with respect to survival and over PTCy protocol data reported in scientific literature with respect to relapse rate, GVHD and GVHD-free and relapse free survival.

Near-term commercial opportunity for ATIR101 with defined regulatory path to market.

ATIR101 is undergoing regulatory review in Europe and we expect to obtain a CHMP opinion as early as the fourth quarter of 2018 which, if positive, would enable us to receive a conditional marketing approval from the European Commission in the first quarter of 2019. If we obtain conditional marketing approval, we intend to launch ATIR101 in selected countries in Europe in the second half of 2019. In addition, we received RMAT 'breakthrough' designation from the FDA, and ATIR101 has been granted multiple orphan drug designations both in Europe and the United States. We are conducting a Phase III study in the United States, Canada and Europe directly comparing ATIR101 to the PTCy protocol that, if successful, we believe will support a Biological License Application, or BLA, to the FDA in the United States.

Retained worldwide commercial rights for ATIR101 allowing for independent commercialization.

We have retained worldwide development and commercialization rights to ATIR101. If approved, we believe we are well positioned to commercialize ATIR101 through an internal commercial organization targeting the relatively few transplant centers and small number of KOLs in Europe and North America. We have started building our own commercial, medical affairs, manufacturing and supply chain infrastructure to prepare for a potential launch in Europe in the second half of 2019.

Broad potential applicability of ATIR platform across indications and HSCT approaches.

Although most data with ATIR101 has to date been generated in adult acute leukemia patients, we believe ATIR can also be applied for pediatric indications, other blood cancers and other diseases of the immune and blood system. And while ATIR101 so far has been studied after a T-cell depleted CD34+ selected HSCT, it can in principle also be given as an adjunctive T-cell product after other HSCT protocols such as an α/β T-cell depleted HSCT or the PTCy protocol.

Fully integrated, efficient, infrastructure for patient-specific cell based products.

We are creating a patient specific supply chain and commercial infrastructure. ATIR101 is manufactured using a five-day central manufacturing process that does not require genetic engineering and thus no BL2 infrastructure. We are setting up our own manufacturing capability at our leased facility in Amsterdam, The Netherlands, to support our early commercialization requirements in Europe. We believe our manufacturing platform has the potential to have an attractive cost of goods and lower capital expenditures relative to other personalized cell or gene therapy approaches, such as CAR-T.

Seasoned leadership.

Our executive and non-executive leadership teams have extensive industry experience and complementary skill sets. The team has an established track record in development, manufacturing and commercialization of orphan drugs, both in smaller biotechnology companies and in large pharmaceutical companies in the United States and Europe.

The Company's shares are listed on Euronext Amsterdam and Brussels under the ticker KDS.
Further information can be found at our website www.kiadis.com.
Company presentation: http://www.kiadis.com/company-presentation/

2017 AT A GLANCE

OPERATIONAL HIGHLIGHTS

- Filed a Marketing Authorization Application (MAA) with the European Medicines Agency (EMA) based on the positive results from the Phase II CR-AIR-007 trial for approval of lead program ATIR101 as an adjunctive treatment in haploidentical (genetically half-matched) hematopoietic stem-cell transplantations for adult patients with blood cancers (April 2017).
- Received the Regenerative Medicine Advanced Therapy (RMAT) designation from the US FDA for ATIR101 (September 2017). The RMAT pathway is equivalent to the Breakthrough Therapy designation and allows companies, such as Kiadis Pharma, that are developing regenerative medicine therapies to interact with the US FDA more frequently. During 2017 only 12 companies managed to obtain an RMAT designation.
- Commenced a Phase III trial of ATIR101 in the US, Canada and Europe (December 2017).
- Got access to build in-house manufacturing capabilities with an agreement to lease an existing state of the art commercial manufacturing facility. This includes process development and quality control laboratories, as well as office space (December 2017).
- Strengthened the Kiadis Pharma organization and Supervisory Board with new team members with a track record in developing and commercializing innovative products, including Arthur Lahr as new CEO, Jan Feijen as COO, Andrew Sandler as CMO and Karl Hård as Head Investor Relations. In October 2017, Dr Otto Schwarz, former COO of Actelion and in January 2018, Subhanu Saxena, former Head of Global Product Strategy at Novartis and CEO of Cipla, were proposed as new Supervisory Board members (both to be nominated at the next General Meeting of shareholders).

FINANCIAL HIGHLIGHTS

- Operating loss increased to EUR16.1 million in 2017 from a loss of EUR11.4 million in 2016.
- Operating expenses increased by EUR4.7 million compared to last year as the number of employees increased from 39 at year-end 2016 to 61 at the end of 2017.
- Net finance expenses decreased to EUR0.9 million in 2017 from EUR3.4 million in 2016.
- Net loss for the year increased to EUR17.0 million in 2017 from EUR14.8 million in 2016.
- Equity position improved to EUR15.9 million at year-end 2017 compared to EUR9.4 million at the end of 2016. This is mainly due to net proceeds of EUR20.8 million from two share offerings completed in 2017 and the loss incurred in 2017.
- The cash position increased to EUR29.9 million at year-end 2017 compared to EUR14.6 million at the end of 2016. This is due to cash received from two share offerings and a new debt facility agreement, less the cash used in operating activities in 2017.

FORWARD-LOOKING STATEMENTS

Certain statements, beliefs and opinions in this Annual Report are forward-looking, which reflect Kiadis Pharma's or, as appropriate, Kiadis Pharma's directors' current expectations and projections about future events. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial effects of the plans and events described herein. A multitude of factors including, but not limited to, changes in demand, competition and technology, can cause actual events, performance or results to differ significantly from any anticipated development. Forward looking statements contained in this Annual Report regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. As a result, Kiadis Pharma expressly disclaims any obligation or undertaking to release any update or revisions to any forward-looking statements in this Annual Report as a result of any change in expectations or any change in events, conditions, assumptions or circumstances on which these forward-looking statements are based. Neither Kiadis Pharma nor its advisers or representatives nor any of its subsidiary undertakings or any such person's officers or employees guarantees that the assumptions underlying such forward-looking statements are free from errors nor does either accept any responsibility for the future accuracy of the forward-looking statements contained in this Annual Report or the actual occurrence of the forecasted developments. You should not place undue reliance on forward-looking statements, which speak only as of the date of this Annual Report.

MESSAGE FROM THE CEO

Dear Shareholders,

We can look back at 2017 as a truly transformational year and are well on our way turning Kiadis Pharma into a Phase III clinical and commercial stage company. I am very proud of what the entire Kiadis Pharma team has achieved.

In April 2017, we filed our first Marketing Authorization Application (MAA) with the European Medicines Agency (EMA) for approval of our lead program ATIR101 as an adjunctive treatment in haploidentical (genetically half-matched) hematopoietic stem-cell transplantations (HSCT) for adult patients with blood cancers. We expect to obtain an opinion from the EMA as early as the fourth quarter of 2018 which, if positive, would enable us to receive a conditional marketing approval from the European Commission in the first quarter of 2019. If we obtain conditional marketing approval, we intend to launch ATIR101 in selected countries in Europe starting in the second half of 2019.

In September 2017, we received the Regenerative Medicine Advanced Therapy (RMAT) designation from the FDA for ATIR101. The RMAT pathway is analogous to the Breakthrough Therapy designation designed for traditional drug candidates and medical devices and was specifically created by the US Congress in 2016. Just like the Breakthrough designation, it allows companies developing regenerative medicine therapies to interact with the FDA more frequently. During 2017 only 12 companies managed to obtain an RMAT designation and I'm delighted Kiadis Pharma was one of these.

And in December 2017 we started our international randomized Phase III trial, comparing ATIR101 with the Post-Transplant Cyclosphosphamide approach. It is planned that the study will enroll at least 195 adult blood cancer patients in around 50 transplantation centers in the US, Canada and Europe. This is one of the few randomized Phase III studies in haploidentical stem cell transplantations, and it will provide important data for the transplant field.

Manufacturing is a crucial part of cell therapy products. Therefore, we were very pleased to enter into a lease agreement in December 2017 for an existing state of the art commercial manufacturing facility in Amsterdam, perfectly suited for production of ATIR101, allowing in-house manufacturing. The facility also includes process development and quality control laboratories, as well as space for the Kiadis Pharma headquarters. We moved into the new building last February and have started preparing for the start of manufacturing and laboratory activities.

Building a successful biotech business is all about 'people and money': progressing medicines to patients requires specialized skills and substantial funds. Since I started as CEO in April 2017, we strengthened management with several key additions, most notably Jan Feijen as COO, Andrew Sandler as CMO and Karl Hård as Head Investor Relations. Industry veterans Otto Schwarz (former Actelion COO) and Subhanu Saxena (former Novartis executive and Cipla CEO) agreed to join our Supervisory Board. We raised over EUR 40 million in equity and debt in 2017 and, with the March 2018 raise, more than EUR 60 million in the last 12 months. We now have a healthy cash balance, extending well beyond the potential EMA CHMP opinion, providing the company with the funds needed to progress the Phase III trial and prepare the potential EU commercial launch.

I wish to thank our employees, partners and shareholders for their continued support and confidence. ATIR101 has the potential to address a very significant unmet need in transplantation, reducing relapse and GVHD. I look forward to continue this journey together with you to achieve our vision to become a fully integrated biopharmaceutical company and improve the lives of patients suffering from serious diseases.

Regards,

Arthur Lahr
Chief Executive Officer
Kiadis Pharma N.V.

OPERATIONAL REVIEW 2017

Our lead program ATIR101 represents a near-term commercial opportunity for blood cancers and at a later stage for potentially other diseases of the blood and immune system, addressing a high unmet medical need. We submitted a marketing authorization application, or MAA, to the European Medicines Agency, or EMA, in April 2017 for approval of ATIR101 as an adjunctive treatment in haploidentical HSCT for high risk hematological malignancies in adults.

ATIR101 received the regenerative medicine advanced therapy, or RMAT, designation from the United States Food and Drug Administration, or FDA, in September 2017, and we are currently conducting an international Phase III trial in which the first patient was enrolled in December 2017. Following our interactions with the FDA and regulators in the European Union, we designed this trial to support marketing approval of ATIR101 in the United States, as well as to remove possible conditions around our expected marketing approval in the European Union.

In December 2017 we leased an existing commercial manufacturing facility in Amsterdam, The Netherlands, allowing in-house manufacturing.

Over the year the entire organization has been strengthened. Senior new appointments in 2017 included a new Chief Executive Officer, Chief Operations Officer and Chief Medical Officer. The Supervisory Board was also expanded with one additional and independent member in 2017 and was expanded with another independent member in January 2018 (both to be nominated at the next General Meeting of shareholders).

FINANCIAL REVIEW 2017

FINANCIAL SUMMARY

(Amounts in EUR million, except per share data)	2017	2016	Change
Total revenue and other income	**-**	**-**	**-**
Total operating expenses	**(16.1)**	**(11.4)**	**(4.7)**
Research and development	(11.2)	(8.2)	(3.0)
General and administrative	(4.9)	(3.2)	(1.7)
Operating result	**(16.1)**	**(11.4)**	**(4.7)**
Net financial result	**(0.9)**	**(3.4)**	**2.5**
Net result	**(17.0)**	**(14.8)**	**(2.2)**
Net operating cash flow	**(15.9)**	**(14.3)**	**(1.6)**
Cash position at end of year	**29.9**	**14.6**	**15.3**
Equity	**15.9**	**9.4**	**6.5**
Earnings per share before dilution (EUR)	**(1.14)**	**(1.08)**	**(0.06)**

REVENUE & OTHER INCOME

The Group did not record revenue and/or other income in 2017 and 2016.

OPERATING EXPENSES

Operating expenses increased to EUR16.1 million in 2017 from EUR11.4 million in 2016, an increase of EUR4.7 million. The main driver behind this increase is the increase in headcount from 39 at year-end 2016 to 61 at the end of 2017.

Research and Development expenses increased to EUR11.2 million in 2017 from EUR8.2 million in 2016. Without the expenses for share-based compensation, Research and Development expenses increased to EUR10.9 million in 2017 from EUR8.2 million in 2016, an increase of EUR2.7 million. This increase is mainly due to the expansion of the workforce in research and development departments, start-up costs for the Phase III trial with ATIR101 starting in 2017, and higher consultancy expenses mainly for the Marketing Authorization Application submission.

General and Administrative expenses increased to EUR4.9 million in 2017 from EUR3.2 million in 2016. Without the expenses for share-based compensation, General and Administrative expenses were EUR1.2 million higher at EUR4.0 million in 2017 compared to EUR2.8 million in 2016 due to higher consultancy expenses related to several financing rounds in 2017 and severance pay to the former CEO.

OPERATING RESULTS

As a result of the overall increase in total operating expenses, the Group's operating loss increased from EUR11.4 million in 2016 to EUR16.1 million in 2017.

NET FINANCIAL RESULT

Net finance expenses for 2017 decreased to EUR0.9 million from EUR3.4 million in 2016. The decrease of EUR2.5 million is mainly due to a gain recorded in 2017 of EUR0.6 million from the adjustment of the carrying value of a loan versus a loss of EUR2.2 million recorded in 2016 for that same loan.

NET RESULT

As a result of the above items, the loss for the year increased by EUR2.2 million to EUR17.0 million in 2017 versus a loss of EUR14.8 million in 2016. The undiluted loss per share for 2017 increased to EUR1.14 compared to EUR1.08 in 2016.

CASH FLOWS

Total cash and cash equivalents increased by EUR15.3 million from EUR14.6 million at year-end 2016 to EUR29.9 million at the end of 2017. This increase mainly results from the net proceeds of two share offerings for a total amount of EUR20.8 million, net proceeds from a new debt facility agreement of EUR14.7 million, loan repayments of EUR6.6 million and net operating cash outflow amounting to EUR15.9 million in 2017.

EQUITY

The Company's equity position amounted to EUR15.9 million at year-end 2017 versus EUR9.4 million at the end of 2016, an increase of EUR6.5 million. The main drivers of this increase are net proceeds of two share offerings of EUR20.8 million in total, proceeds from shares issued upon the exercise of warrants for EUR2.4 million, partly offset by the loss for the year of EUR17.0 million.

OUR STRATEGY

Our vision is to become a fully integrated biopharmaceutical company and improve the lives of patients suffering from serious diseases. We aim to maximize the potential value of our ATIR cell-based immunotherapy platform in HSCT and then over time expand to other cell therapy and HSCT products.

Our strategy to achieve this vision and long-term value creation is as follows:

Obtain regulatory approval in Europe with ATIR101 and launch in H2 2019.

Based on the results of our successful Phase II CR-AIR-007 trial, we filed an MAA in Europe in April 2017 and submitted responses to the EMA's Day 120 List of Questions in March 2018. We expect to obtain a CHMP opinion as early as the fourth quarter of 2018 which, if positive, would enable us to receive a conditional marketing approval from the European Commission in the first quarter of 2019. If we obtain conditional marketing approval, we intend to launch ATIR101 in selected countries in Europe starting in the second half of 2019.

Continue to advance the Phase III development of ATIR101 as a basis for approval in the U.S. and other territories.

In September 2017, we received RMAT designation from the FDA for ATIR101. In December 2017 we started enrolling an international Phase III trial with at least 195 patients at approximately 50 sites directly comparing ATIR101 to the PTCy protocol. The study is intended to provide the basis for registering ATIR101 in the United States and other territories.

Commercialize ATIR101 through our own commercial organization.

HSCT is driven by a small group of key opinion leading physicians in a relatively small number of transplantation centers. Therefore, if ATIR101 is approved, we believe we can commercialize it with a relatively small internal commercial organization in Europe and the United States, and may seek partners in other regions. In anticipation of a conditional marketing approval in Europe, we are currently building in-house commercial, manufacturing and supply chain capabilities with the goal of a commercial launch in selected countries in Europe starting in the second half of 2019.

Expand the use of ATIR within blood cancers and in other diseases of the blood and immune system.

To expand the usage of ATIR101 in blood cancer, we intend to initiate additional trials in pediatric patients and with ATIR101 as an adjunctive T-cell product after other haploidentical HSCT protocols such as α/β T-cell depleted HSCT or the PTCy protocol. In addition, we believe that our ATIR platform can potentially provide patient benefits in a broader range of HSCT settings, including inherited blood disorders (e.g., thalassemia), inherited immune disorders (e.g., SCID) and auto-immune diseases (e.g., multiple sclerosis). Improved patient outcomes in those indications can potentially transform HSCT into a much more widely-used treatment option.

Leverage our personalized cell-based immunotherapy platform to expand our suite of products.

Driven by our experienced management team, we intend to leverage the patient specific commercial and supply chain infrastructure that we are building by pursuing additional opportunities in HSCT and/or cell-based immunotherapy, either via in-licensing or acquisition.

To achieve our strategy, we are creating an organization and culture dedicated to long-term value creation, putting our patients first, acting with quality and integrity, taking ownership to deliver fast, and attracting and retaining the best and diverse talent

OUTLOOK 2018

Kiadis Pharma continues the development program of its lead product candidate ATIR101. As the Company seeks to advance its product to the market it will incur increased costs as it expands its development, regulatory and commercial capabilities by adding qualified personnel and contractors in these areas. The Company has incurred losses since its inception and expects to continue to incur losses for the foreseeable future. On the basis of the current plans, the Company's cash and cash equivalents currently available are sufficient to meet the Company's working capital requirements into the third quarter of 2019. The Company believes that the required additional funds after 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.

We expect to obtain a Committee for Medicinal Products for Human Use, or CHMP, opinion in the fourth quarter of 2018 which, if positive, would enable us to receive a conditional marketing approval from the European Commission as early as the first quarter of 2019. If we obtain conditional marketing approval when expected, we intend to launch ATIR101 in selected countries in Europe through our own commercial organization starting in the second half of 2019. We will continue enrollment in our international Phase III trial with ATIR101 and also invest in in-house commercial manufacturing in The Netherlands.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

The Company's corporate governance and compliance with the Dutch Corporate Governance Code, and the Company's risk management and internal control systems, are described in the next section of this Annual Report.

STATEMENT OF THE MANAGEMENT BOARD

The Management Board confirms, in accordance with best practice 1.4.3 of the Dutch Corporate Governance Code applicable as of the financial year starting on or after January 1, 2017, and Article 5:25c of the Financial Markets Supervision Act (*Wet op het financieel toezicht*), that:

- this Annual Report provides sufficient insight into the nature of the Company's risk management and control systems and confirms that the control systems functioned properly in 2017;
- this Annual Report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
- the control systems provide reasonable assurance that the financial statements do not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial statements are prepared on a going concern basis; and
- this Annual Report addresses those material risks and uncertainties that may have a significant impact on the Company's continuity for the twelve months following the date of this Annual Report.

The Management Board declares that to the best of their knowledge, the consolidated financial statements for the year ended December 31, 2017, 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 Group, and the Management Report incorporated in this Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group. For a detailed description of the risk factors, we refer to the 'Risk management and internal control systems' chapter in this Annual Report.

Amsterdam, April 13, 2018

Management Board

Arthur Lahr
Chief Executive Officer

Robbert van Heekeren
Chief Financial Officer

CORPORATE GOVERNANCE AND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

CORPORATE GOVERNANCE

INTRODUCTION

The Company is a public limited liability company established under the laws of The Netherlands with common shares listed on Euronext Amsterdam and Euronext Brussels. The Company has a two-tier board structure: the Management Board, solely composed of executive directors, that manages the Company on a day-to-day basis and thereby operates in the context of an Executive Committee, and the Supervisory Board, solely composed of non-executive directors, that supervises and advises the Management Board. The two Boards are independent of each other and are accountable to the Annual General Meeting for the performance of their functions.

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 Mr. Arthur Lahr, Chief Executive Officer, and Mr. Robbert van Heekeren, Chief Financial Officer. Mr. Lahr was appointed on April 4, 2017 for a period of four years and Mr. Van Heekeren was appointed upon incorporation of the Company in 2015 for a period of four years.

Arthur Lahr

Mr. Lahr (49, Dutch) holds a master's degree in Applied Physics from the University of Delft, The Netherlands, and an MBA from INSEAD, Fontainebleau, France. Mr. Lahr also serves as a member of the supervisory board of Sanquin, the Dutch national plasma and blood product supplier.

Robbert van Heekeren

Mr. Van Heekeren (47, 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 and for the implementation of its strategy. 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.

EXECUTIVE COMMITTEE

The Executive Committee comprises the members of the Management Board, the Chief Operations Officer (COO), the Chief Medical Officer (CMO), the Head of IR and Communications and the General Counsel & Corporate Secretary (GC). This ensures functional and operational expertise is present at the highest level in the organization. The COO, CMO, Head IR and GC are appointed by the Chief Executive Officer of the Management Board after consultation with the Supervisory Board and they report to the Chief Executive Officer. They assist the Management Board in its day-to-day management of the operations of the Company. The Supervisory Board has regular direct interaction with all members of the Executive Committee and all Executive Committee members attend most Supervisory Board meetings.

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 2017 can be found in Note 24 'Related Parties' of the consolidated financial statements

The Supervisory Board has 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 2017 the Annual General Meeting was held on June 8, 2017.

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, 2017 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, 2017 the Company´s issued share capital amounted to EUR 1,728,739.70, divided into 17,287,397 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 December 31, 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 8, 2017, this power was granted for a period of five years following June 8, 2017, up to a maximum of 50% of the number of ordinary shares outstanding in the capital of the Company as of June 8, 2017.

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 8, 2017 this power was granted for a period of 18 months following June 8, 2017 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%.

CORPORATE GOVERNANCE

As a Dutch public limited liability company, the Company is subject to the general provisions of Dutch law and the Dutch Corporate Governance Code ("Code"). The current Code is applicable as of the financial year starting on or after January 1, 2017. Pursuant to the Code and general Dutch law, the Management Board and the Supervisory Board have a duty to act in the interest of the Company and the sustainable success of its business, with an aim to creating long-term value, taking into account the interests of its employees, clients, shareholders and other stakeholders. As a consequence of the duty of the Management Board and the Supervisory Board to act in the interest of the Company and the sustainable success of its business, the Management

Board and the Supervisory Board may decide to protect such interest by initiating certain actions which are generally available under Dutch law. Such actions may include (but are not limited to) not cooperating with a potential takeover offer, using the so-called response period (*responstijd*) of maximum 180 days or other grounds to postpone the adoption of resolutions that relate to the strategy of the Company, or taking other ad hoc actions or steps that can be implemented under the Company's articles of association and general Dutch law to discourage, delay or prevent a change in control of the Company, its business or one or more of its subsidiaries or to prevent or deter shareholder activism or protect against another threat.

DUTCH CORPORATE GOVERNANCE CODE

The Dutch Corporate Governance 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.

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 practices where the Company is not in compliance with the Code are the following:

1. Best practice provision 2.1.1 – Profile

The supervisory board should prepare a profile, taking account of the nature and the activities of the enterprise affiliated with the company. The profile should address: (i) the desired expertise and background of the supervisory board members; (ii) the desired diverse composition of the supervisory board, referred to in best practice provision 2.1.5; (iii) the size of the supervisory board; and (iv) the independence of the supervisory board members. The profile should be posted on the company´s website.

The Supervisory Board has prepared a profile which is posted on the Company´s website, but this profile does not address the size of the Supervisory Board nor the desired diverse composition of the Supervisory Board in terms of nationality, age, gender and education. This provision was departed from as the overriding principles for the Company are (a) 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, and (b) that the Company should have flexibility in attracting Supervisory Board members who will be able to provide such contribution to the Company, given its small size and specificity in terms of focus, strategy and stage of development. These overriding principles are shown by the new Supervisory Board members that have been (or who have been announced will be) appointed as of when the Company was listed at Euronext Amsterdam and Brussels in 2015 and who are diverse in nationality, age, educational background and work background.

For the reasons provided above, the Company does not intend to comply with this best practice provision.

2. Best practice provision 2.1.5 - Diversity policy

The supervisory board should draw up a diversity policy for the composition of the management board, the supervisory board and, if applicable, the executive committee. The policy should address the concrete targets relating to diversity and the diversity aspects relevant to the company, such as nationality, age, gender, and education and work background.

The reasons for the departure from this provision in respect of the Supervisory Board are set out above in relation to best practice provision 2.1.1. The reason for this departure in respect of the Management Board and Senior Management is similar, in that the Company´s overriding principle is that the Management Board and Senior Management should have a diverse composition with their members specifically having the necessary expertise, education and work background in the industry in which the Company is active and that the Company should have flexibility in attracting Management Board and Senior Management members who will be able to provide a valuable contribution to the Company, given its small size and specificity in terms of focus, strategy and stage of development. This overriding principle is shown by the new members of the Management Board and Senior Management that have been joint the Company in 2017 and who are diverse in nationality, age, educational background and work background.

For the reasons provided above, the Company does not intend to comply with this best practice provision.

3. Best practice provision 2.1.7 - Independence of the supervisory board

The composition of the supervisory board is such that the members are able to operate independently and critically vis-à-vis one another, the management board, and any particular interests involved. In order to safeguard its independence, the supervisory board is composed in accordance with the following criteria: (i) any one of the criteria referred to in best practice provision 2.1.8, sections i. to v. inclusive should be applicable to at most one supervisory board member; (ii) the total number of supervisory board members to whom the criteria referred to in best practice provision 2.1.8 are applicable should account for less than half of the total number of supervisory board members; and (iii) for each shareholder, or group of affiliated shareholders, who directly or indirectly hold more than ten percent of the shares in the company, there is at most one supervisory board member who can be considered to be affiliated with or representing them as stipulated in best practice provision 2.1.8, sections vi. and vii.

The Supervisory Board is not independent as three of the five present members of the Supervisory Board are not independent within the meaning of best practice provisions 2.1.7 and 2.1.8. These Supervisory Board members are employed by and have been appointed upon nomination of three of the significant Shareholders. These three significant 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 Kiadis Pharma. 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, Kiadis deems continuity in the composition of the Supervisory Board to be of great importance, also taking into account the small size of the Company and its specificity in terms of focus, strategy and stage of development.

For the reasons provided above, the Company does not intend to comply with this best practice provision.

4. Best practice provision 2.1.9 - Independence of the chairman of the supervisory board

The chairman of the supervisory board should not be a former member of the management board of the company and should be independent within the meaning of best practice provision 2.1.8.

Prior to Mr. Wegter, chairman of the Supervisory Board, being appointed as member of the Supervisory Board as per 12 June 2015, he was a member of the management board of Kiadis Pharma B.V. from 4 September 2009 through 22 February 2012. The Supervisory Board considers that Mr. Wegter's contributions outweigh any perceived disadvantage of non-independence or of being a former member of the management board of Kiadis Pharma B.V. In addition, the Company deems continuity in the position of chairman to be of great importance, also taking into account the small size of the Company and its specificity in terms of focus, strategy and stage of development.

For the reasons provided above, the Company does not intend to comply with this best practice provision.

5. Best practice provision 2.2.4 - Succession

The supervisory board should ensure that the company has a sound plan in place for the succession of management board and supervisory board members that is aimed at retaining the balance in the requisite expertise, experience and diversity. Due regard should be given to the profile referred to in best practice provision 2.1.1 in drawing up the plan for supervisory board members. The supervisory board should also draw up a retirement schedule in order to avoid, as much as possible, supervisory board members retiring simultaneously. The retirement schedule should be published on the company's website.

There is not yet a sound plan in place for the succession of the Management Board and Supervisory Board members. In addition, the Supervisory Board has not drawn up a retirement schedule for itself yet. The reason is that it is the first term on the listed Company for all Supervisory Board and Management Board members. In addition, with regard to the Supervisory Board, three members were appointed upon the incorporation of the Company in June 2015, a further two members were appointed in June 2016 and the Company has announced that two more members will be proposed for appointment during the 2018 Annual General Meeting. As all of these members have a term of four years, there is already a natural succession plan/retirement schedule in place for the Supervisory Board.

The Company intends to comply with this best practice provision by drawing up such succession plans/retirement schedule before the first term will have ended.

6. Best practice provision 2.2.6 - Evaluation by the supervisory board

At least once per year, outside the presence of the management board, the supervisory board should evaluate its own functioning, the functioning of the various committees of the supervisory board and that of the individual supervisory board members, and should discuss the conclusions that are attached to the evaluation. In doing so, attention should be paid to: (i) substantive aspects, the mutual interaction and the interaction with the management board; (ii) events that occurred in practice from which lessons may be learned; and (iii) the desired profile, composition, competencies and expertise of the supervisory board.

The Supervisory Board did not evaluate its functioning and the functioning of its committees and its individual members in 2017 due to the Supervisory Board having been in a phase of transition as new (independent) members to the Supervisory Board were being selected to be nominated to the General Meeting in 2018.

The Company does not intend to comply with this best practice provision.

7. Best practice provision 2.2.7 - Evaluation of the management board

At least once per year, outside the presence of the management board, the supervisory board should evaluate both the functioning of the management board as a whole and that of the individual management board members, and should discuss the conclusions that must be attached to the evaluation, such also in light of the succession of management board members. At least once annually, the management board, too, should evaluate its own functioning as a whole and that of the individual management board members.

The Management Board did not evaluate its own functioning and that of its individual members in 2017 but did so at the beginning of 2018.

The Company intends to comply with this best practice provision by the end of 2018.

8. Best practice provision 2.3.1 - Supervisory board's terms of reference

The division of duties within the supervisory board and the procedure of the supervisory board should be laid down in terms of reference. The supervisory board's terms of reference should include a paragraph dealing with its relations with the management board, the general meeting, the employee participation body (if any) and the executive committee (if any). The terms of reference should be posted on the company's website.

The Supervisory Board's terms of reference do not yet contain a paragraph dealing with its relations with the employee participation body as there is no such body, nor with the executive committee, as the terms of reference will be amended in this respect in 2018.

The Company intends to comply with this best practice provision by the end of 2018.

9. Best practice provision 2.3.4 - Composition of the committees

The audit committee or the remuneration committee should not be chaired by the chairman of the supervisory board or by a former member of the management board of the company. More than half of the members of the committees should be independent within the meaning of best practice provision 2.1.8.

More than half of the members of the Audit Committee and of the Nomination and Remuneration Committee are not independent as Mr. Kleijwegt, a member of both two-person committees, is not independent. The reason is that the appointments to these committees took place in June 2016, prior to the revised Corporate Governance Code becoming effective.

The Company expects it will comply with this best practice provision after the appointment in 2018 of the new (independent) Supervisory Board members who have been announced to be appointed, assuming these members will join one or more of the Supervisory Board committees.

10. Best practice provision 4.2.3 - Meetings and presentations

Analyst meetings, analyst presentations, presentations to institutional or other investors and press conferences should be announced in advance on the company's website and by means of press releases. Analysts' meetings and presentations to investors should not take place shortly before the publication of the regular financial information. All shareholders should be able to follow these meetings and presentations in real time, by means of webcasting, telephone or otherwise. After the meetings, the presentations should be posted on the company's website.

Kiadis does not announce, for practical reasons, meetings with analysts and presentations to analysts and (institutional) investors, nor does Kiadis provide for shareholders to follow these meetings and presentations in real time. However, the presentation used by Kiadis for its meetings with analysts and (institutional) investors is the Company presentation that is posted on its website and regularly updated and which is therefore a public document.

Kiadis will have meetings with analysts and give presentations to (institutional) investors also shortly before the publication of its regular financial information, but such meetings and presentations will not regard such regular financial information.

For the reasons provided above, the Company does not intend to comply with this best practice provision.

11. Best practice provision 4.2.5 - Management board contacts with press and analysts

The contacts between the management board on the one hand and the press and financial analysts on the other should be handled and structured carefully and with due observance of the applicable laws and regulations. The company should not do anything that might compromise the independence of analysts in relation to the company and vice versa.

Some analysts have as their business model that they are paid by a company for their research reports. If the Company would pay such an analyst to carry out research for a report or for the production or publication of an analyst report, the report will mention this, i.e. "this rapport has been commissioned by the company".

For the reason provided above, the Company does not intend to comply with this best practice provision.

12. Best practice provision 4.3.3 - Cancelling the binding nature of a nomination or dismissal

The general meeting of shareholders of a company not having statutory two-tier status (structuurregime) 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. It may be provided that this majority should represent a given proportion of the issued capital, which proportion may not exceed one-third. If this proportion of the capital is not represented at the meeting, but an absolute majority of the votes cast is in favour of a resolution to cancel the binding nature of a nomination, or to dismiss a board member, a new meeting may be convened at which the resolution may be passed by an absolute majority of the votes cast, regardless of the proportion of the capital represented at the meeting.

The Articles of Association state that a resolution of the General Meeting to appoint or dismiss a member of the Management Board or Supervisory Board not in conformity with or without a proposal 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 Company deems this appropriate considering the remaining shareholdings and involvement of the Company's current significant Shareholders.

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. As part of the risk management and control system, several procedures have been put in place, including a whistle-blower's procedure. In 2017 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 and expanded. Due to the expansion of the finance department in 2017, the Company was able to implement additional procedures to strengthen the quality control with respect to the recording of financial transactions. It should be noted that our 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 periodically 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 product in development and our only product in clinical testing. 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.

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 on the clinical development of ATIR101. 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 non-cancer 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 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 currently relies and may rely on contract manufacturing organizations for the (clinical) production of its products and related technologies. If any of Kiadis Pharma's current or future 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 current or future 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 sufficient to meet the Company's working capital requirements through the twelve months following the date of these financial statements. However, the Company requires 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; private and government insurance reimbursement; the effects of competing technological and market developments, and the terms and timing of establishing potential license agreements or other partnerships.

Kiadis Pharma may 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 the financial year starting on or after January 1, 2017 ("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	Gender	Nationality	Date of initial appointment[1]	Current term of office
Mr. Mark Wegter	48	Male	Dutch	2001[1]	2019
Mr. Martijn Kleijwegt	63	Male	Dutch	2006[1]	2019
Mr. Stuart Chapman	48	Male	English	2013[1]	2019
Dr. Robert Soiffer	60	Male	American	2016	2020
Mr. Berndt Modig	59	Male	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.

The Supervisory Board will nominate Dr. Otto Schwarz and Mr. Subhanu Saxena as new members of the Supervisory Board to be appointed by the General Meeting. Both Dr. Schwarz and Mr. Saxena are considered to be independent within the meaning of the Code.

Dr. Schwarz most recently served as Executive Vice-President, Chief Operating Officer and a member of the Executive Committee of Actelion Pharmaceuticals Inc., up to its recent acquisition by Johnson & Johnson. Dr. Schwarz holds a PhD in pharmaceutical chemistry from Vienna University, Austria.

Mr. Saxena currently serves as a Regional Director with the Bill & Melinda Gates Foundation as well as a Partner at New Rhein Healthcare and a Senior Advisor to Bain Capital. Prior thereto, Mr. Saxena served as the Managing Director and Global Chief Executive Officer of Cipla, a publicly listed, Indian pharmaceutical and biotech company. Mr. Saxena holds a graduate degree in engineering from Oxford University and an MBA from INSEAD, Fontainebleau, France.

Mark Wegter

Mr. Mark Wegter is Chairman of the Supervisory Board. 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 was previously Chief Financial Officer of Prosensa Holding N.V. and before that Chief Financial Officer at Jerini AG and Surplex GmbH. 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.

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 2017 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.

The meetings addressed the Company long-term value creation strategy, specifically the development program for the Company's lead product ATIR (clinical, medical, regulatory, manufacturing and quality), financial matters (actual cash flow and cash flow forecasts, budget 2017 and 2018 and potential (equity) financing), personnel matters (new Executive Committee members and a long term employee incentive plan) and outlook beyond 2017 (competitive landscape and preparations for EU commercialization).

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

The Supervisory Board has 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 are 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 in 2017 during at total of two meetings, were:

- a long term employee incentive plan in the form of a stock appreciation right plan;
- the remuneration policy for the Management Board as was thereafter approved by the General Meeting on April 4, 2017;
- the performance and related remuneration of the members of the Management Board, both in respect of company and individual performance in 2017, in the context of the remuneration policy; and
- new members to the Company Executive Committee.

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

Audit Committee

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

The main topics discussed by the Committee in 2017 during at total of two meetings, were:

- the full year 2016 financial statements including the external auditor's report;
- selection external auditor for 2017;
- the financial statements for the first six months of 2017;
- funding needs and funding possibilities for the Company;
- accrual process; and
- the current absence of an internal audit department and future requirements.

In addition, the Committee met with the Company's external auditor KPMG Accountants N.V. in 2017 and 2018 to discuss, respectively, the auditor's audit (-plan) and observations of the 2016 and 2017 financial statements.

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

Meeting attendance of the Supervisory Board

Member	Supervisory Board meetings	Audit Committee meetings	Nomination and Remuneration Committee meetings
Mr. Mark Wegter	100%		
Mr. Martijn Kleijwegt	100%	100%	100%
Mr. Stuart Chapman	100%		
Dr. Robert Soiffer	100%		100%
Mr. Berndt Modig	100%	100%	

EVALUATION

In 2017 the Supervisory Board did not evaluate its own functioning nor the functioning of its various committees or its individual members, due to the Supervisory Board having been in a phase of transition as new (independent) members to the Supervisory Board were being selected to be nominated to the General Meeting in 2018.

The Supervisory Board did evaluate the functioning of the Management Board and its individual members, amongst others in the context of the remuneration policy, and the Supervisory Board believes they are functioning well.

INTERNAL AUDIT

The Supervisory Board, as per the recommendation of the Audit Committee, has concluded that due to the size of the Company it does not yet require the establishment of an internal audit function. The Supervisory Board has assessed whether adequate alternative measures have been taken and will consider each year whether it is necessary to establish an internal audit department. In arriving at this conclusion, the Supervisory Board took into consideration that the Company has provided for the assessment and testing of its risk management and control systems to be supported by the management of the Company.

FINANCIAL STATEMENTS 2017

The 2017 financial statements were approved by the Supervisory Board on April 13, 2018.The financial statements were audited by KPMG Accountants N.V. who were elected as the Company's external auditor in 2017. The Supervisory Board established that the external auditor was independent of the Company. The Supervisory Board will submit the financial statements to the 2018 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, April 13, 2018

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 April 4, 2017. The remuneration policy was effective from April 4, 2017. Details of the actual remuneration of the Management Board in 2017 can be found in Note 24 'Related Parties' of the consolidated financial statements.

REMUNERATION POLICY

General principles and objectives

The general principles and objectives of the remuneration policy are the following:

- competitive compensation so as to enable Kiadis Pharma to recruit, motivate and retain qualified and expert individuals that Kiadis Pharma 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 and stock appreciation rights), 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;
- align the economic interest of the Management Board as related to long-term incentives with the economic interest of the Kiadis Pharma shareholders.

Main items

The remuneration of the Management Board consists of:

- a fixed annual salary;
- an annual bonus in cash;
- share options and stock appreciation rights;
- pension; and
- severance pay.

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;
- the pay ratios within the Kiadis Pharma group of companies; 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 Kiadis Pharma employees.

Adjustment of the base salary is at the discretion of the Supervisory Board, taking into account the general principles and objectives of this Remuneration Policy.

The base salary of the new CEO, appointed as member of the Management Board in April 2017, was determined by the Supervisory Board on the basis of the above. No adjustment was made to the base salaries of the Management Board in 2017.

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 Kiadis Pharma targets accounts for 50% of this bonus and the other 50% of the bonus relates to individual targets.

The Kiadis Pharma targets and individual targets are determined each year by the Supervisory Board based on historical performance, the operational and strategic outlook of Kiadis Pharma in the short-term and expectations of Kiadis Pharma's management and stakeholders, among other things. The performance targets shall contribute to the realization of the objective of long-term value creation for Kiadis Pharma. Kiadis Pharma 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.

For 2017 the Supervisory Board has established the extent to which the targets for 2017 were achieved by the Management Board and Note 24 'Related Parties' of the consolidated financial statements sets out the bonuses that were earned on the basis of results achieved in 2017. These bonuses will be paid out in 2018.

Share options and stock appreciation rights

The Management Board may be granted (i) options to ordinary Kiadis Pharma shares in accordance with Kiadis Pharma's share option plan and (ii) stock appreciation rights in accordance with Kiadis Pharma's stock appreciation right plan.

Kiadis Pharma share option plan

The main elements of the Kiadis Pharma share option plan are the following:

- The options are options to acquire ordinary Kiadis Pharma shares, whereby one option gives the right to acquire one ordinary share.
- The option exercise price shall be the closing sales price at which ordinary Kiadis Pharma shares are traded on the day prior to the day the option is granted.
- Two days per year (January 1 and July 1) have been identified as possible option grant dates to prevent insider issues. For a new member of the Management Board, options may in addition be granted on the day (as approved by the (extraordinary) General Meeting) as per which that person shall commence as a member of the Management Board. Should any of the days referenced above be in a so-called closed period according to Kiadis Pharma's Insider Trading Policy, the granting date shall be amended for such occasion to be the 15th day after the closed period has terminated.
- 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 Kiadis Pharma shares that shall be received upon the exercise of options shall be subject to a lock-up for a certain period of time.
- A so-called good leaver (continued ill health, death, retirement, dismissal without cause, giving notice) shall remain entitled to vested options with the non-vested options lapsing. Vested options are to be exercised within one year. The Supervisory Board may however, if this rule would produce an unfair result for a good leaver leaving due to continued ill health, death, retirement or dismissal without cause, determine otherwise.
- A so-called bad leaver (immediate termination for 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 Kiadis Pharma.
- Options for the Management Board may be settled in cash.
- The number of shares in respect of which options may be granted under the option plan on any grant date when added to:
  - the number of shares comprised in outstanding options granted pursuant to the option plan; and
  - the number of shares which have been issued on the exercise of options that have been granted pursuant to the option plan;

  shall not exceed 3.5% of the number of ordinary shares in issue immediately prior to such grant date.
- Options may be granted under the option plan up till the tenth anniversary of the adoption of the plan by the Supervisory Board and the Management Board.

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 Kiadis Pharma'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 on the first anniversary of the date the options are granted;
- one third of the number of options granted shall vest on the second anniversary of the date the options are granted; and
- one third of the number of options granted shall vest on the third anniversary of 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 the performance targets set out above under paragraph (IV) "Annual bonus in cash for the Management Board" as the achievement of these targets shall contribute not only to short-term Kiadis Pharma results but also to long-term value creation for Kiadis Pharma.

Kiadis Pharma stock appreciation right plan

The main elements of the Kiadis Pharma stock appreciation right plan are the following:

- A stock appreciation right provides the right to receive a cash payment equal to the excess of the exercise price over the initial price, multiplied by the number of ordinary Kiadis Pharma shares with respect to which the stock appreciation right is exercised.
- The initial price shall be the closing sales price at which ordinary Kiadis Pharma shares are traded on the day prior to the day the stock appreciation right is granted and the exercise price shall be the closing sales price at which ordinary Kiadis Pharma shares are traded on the day prior to the day the stock appreciation right is exercised.
- Two days per year (January 1 and July 1) have been identified as possible stock appreciation right grant dates to prevent insider issues. For a new member of the Management Board, a stock appreciation right may in addition be granted on the day (as approved by the (extraordinary) General Meeting) as per which that person shall commence as a member of the Management Board. Should any of the days referenced above be in a so-called closed period according to Kiadis Pharma's Insider Trading Policy, the granting date shall be amended for such occasion to be the 15th day after the closed period has terminated.
- Vesting of a stock appreciation right may take place on one date or in part over time.
- It may be determined that a stock appreciation right which has vested may nevertheless not be exercised for a certain period of time after its grant date.
- A so-called good leaver (continued ill health, death, retirement, dismissal without cause, giving notice) shall remain entitled to the vested part of his stock appreciation right with the non-vested part lapsing. The vested part of the stock appreciation right is to be exercised within one year. The Supervisory Board may however, if this rule would produce an unfair result for a good leaver leaving due to continued ill health, death, retirement or dismissal without cause, determine otherwise.
- A so-called bad leaver (immediate termination for cause) shall lose his stock appreciation right, whether vested (in part) or not.
- There shall be accelerated vesting of the non-vested part of a stock appreciation right amongst other in case of a change of control of Kiadis Pharma.
- The number of shares in respect of which stock appreciation rights may be granted under the stock appreciation right plan on any grant date, when added to:
  - the number of shares in respect of which stock appreciation rights granted pursuant to the stock appreciation right plan are outstanding; and
  - the number of shares in respect of which stock appreciation rights have been exercised pursuant to the stock appreciation right plan;

  shall not exceed 3% of the number of ordinary shares in issue immediately prior to such grant date.
- Stock appreciation rights may be granted under the stock appreciation right plan up till the tenth anniversary of the adoption of the plan by the Supervisory Board and the Management Board.

The Supervisory Board shall in its discretion determine whether stock appreciation rights shall be granted to the members of the Management Board and determine the number of shares in respect of which a stock appreciation right will be granted to the relevant member.

A stock appreciation right granted to the Management Board shall vest in three equal parts:

- one third shall vest on the first anniversary of the date the stock appreciation right is granted;
- one third shall vest on the second anniversary of the date the stock appreciation right is granted; and
- one third shall vest on the third anniversary of the date the stock appreciation right is granted.

The number of shares in respect of which stock appreciation rights may be granted to the Management Board shall be related to the performance targets set out above under paragraph (IV) "Annual bonus in cash for the Management Board" as the achievement of these targets shall contribute not only to short-term Kiadis Pharma results but also to long-term value creation for Kiadis Pharma.

The number of shares in respect of which stock appreciation rights were granted to the new CEO, appointed as member of the Management Board in April 2017, was determined by the Supervisory Board on the basis of the above. No other share options and/or stock appreciation rights were granted to the Management Board in 2017.

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.

Pension

The Management Board participates in the Dutch pension scheme for the Company.

Severance arrangement

The remuneration in the event of dismissal of a member of the Management Board shall not exceed one year of the fixed annual base salary. Severance pay is not awarded if the agreement with the member of the Management Board is terminated early at the initiative of the Management Board member or is terminated due to gross negligence or willful misconduct on the part of the Management Board member.

As set forth in Note 24 'Related Parties' of the consolidated financial statements, Dr. Rüdiger, who left the Company during 2017, received a severance payment as his service agreement was terminated due to a change of circumstances as a result of which he could not reasonably be expected to continue the performance of his services.

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

Scenario analyses based on the Dutch Corporate Governance Code have been taken into consideration.

INTERNAL PAY RATIOS

The Dutch Corporate Governance Code requires publication of the pay ratio within the Company between the remuneration of the Management Board and that of a representative reference group. This pay ratio has been calculated on the basis of the total employment compensation paid out in 2017 as set forth in Note 15 'Employee Benefits' of the consolidated financial statements, from which has been subtracted the total compensation paid to the Management Board and Supervisory Board as set out in Note 24 'Related Parties' of the consolidated financial statements, divided by the number of employees employed as per December 31, 2017 (i.e. not the average number of employees employed over the full year 2017 nor the Full-time equivalent (FTE)) as reported in Note 15 'Employee Benefits' of the consolidated financial statements. Thus calculated, the internal pay ratio in 2017 was 10 to 1.

REMUNERATION POLICY FOR 2018

The Supervisory Board intends to propose to the General Meeting an amended remuneration policy for the Management Board for the financial year 2018, such amended policy to reflect (i) that the Kiadis Pharma share option plan and the Kiadis Pharma stock appreciation right plan are combined into one incentive plan, (ii) an increase of the number of share options and/or stock appreciation rights that may be granted to eligible persons and (iii) the deletion of the maximum number of share options that may be granted to the Management Board.

Amsterdam, April 13, 2018

Supervisory Board

Mark Wegter, Chairman

Martijn Kleijwegt

Stuart Chapman

Robert Soiffer

Berndt Modig

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in EUR x 1,000)	Note	As at December 31, 2017	2016
Assets			
Property, plant and equipment	4	602	536
Intangible assets	5	12,830	13,540
Total non-current assets		**13,432**	**14,076**
VAT and other receivables	6	582	230
Deferred expenses	6	767	351
Cash and cash equivalents	7	29,906	14,559
Total current assets		**31,255**	**15,140**
Total assets		**44,687**	**29,216**
Equity			
Share capital		1,729	1,397
Share premium		124,413	103,200
Translation reserve		295	307
Warrant reserve		1,275	-
Accumulated deficit		(111,853)	(95,463)
Equity attributable to owners of the Company	8	**15,859**	**9,441**
Liabilities			
Loans and borrowings	10	21,599	15,605
Derivatives	11	1,445	-
Employee benefits	15	540	-
Total non-current liabilities		**23,584**	**15,605**
Loans and borrowings	10	1,789	1,555
Trade and other payables	12	3,455	2,615
Total current liabilities		**5,244**	**4,170**
Total liabilities		**28,828**	**19,775**
Total equity and liabilities		**44,687**	**29,216**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in EUR x 1,000)	Note	For the year ended December 31, 2017	2016
Revenue	13	-	-
Other income	14	-	-
Research and development expenses	15,16	(11,215)	(8,206)
General and administrative expenses	15,16	(4,905)	(3,202)
Total operating expenses		**(16,120)**	**(11,408)**
Operating loss		**(16,120)**	**(11,408)**
Interest income		-	13
Interest expenses		(2,285)	(1,571)
Other net finance income or (expenses)		1,372	(1,827)
Net finance expenses	17	**(913)**	**(3,385)**
Loss before tax		**(17,033)**	**(14,793)**
Income tax expense	18	(5)	(1)
Loss for the period		**(17,038)**	**(14,794)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation difference for foreign operations		(12)	36
Related tax		-	-
		(12)	36
Other comprehensive income for the period, net of tax		**(12)**	**36**
Total comprehensive income for the period		**(17,050)**	**(14,758)**
Loss attributable to:			
Owners of the Company		(17,038)	(14,794)
		(17,038)	**(14,794)**
Total comprehensive income attributable to:			
Owners of the Company		(17,050)	(14,758)
		(17,050)	**(14,758)**
Earnings per share	19		
Basic earnings per share (EUR)		(1.14)	(1.08)
Diluted earnings per share (EUR)		(1.14)	(1.08)

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, 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 payment	*15*	34	3,487	-	-	(6,564)	(3,043)
Balance as at December 31, 2016		**1,397**	**103,200**	**307**	**-**	**(95,463)**	**9,441**
Balance as at January 1, 2017		**1,397**	**103,200**	**307**	**-**	**(95,463)**	**9,441**
Loss for the period		-	-	-	-	(17,038)	(17,038)
Other comprehensive income		-	-	(12)	-	-	(12)
Total comprehensive income		**-**	**-**	**(12)**	**-**	**(17,038)**	**(17,050)**
Transactions with owners, recorded directly in equity							
Issue of shares for cash	*8*	300	22,700	-	-	-	23,000
Transaction costs	*8*	-	(2,367)	-	155	-	(2,212)
Fair value of warrants issued	*8*	-	(2,313)	-	-	-	(2,313)
Equity-settled share-based payment	*15*	-	-	-	11	648	659
Reclassification of warrants from derivatives	*8*	-	-	-	1,962	-	1,962
Warrants exercised	*8*	32	3,193	-	(853)	-	2,372
Balance as at December 31, 2017		**1,729**	**124,413**	**295**	**1,275**	**(111,853)**	**15,859**

CONSOLIDATED STATEMENT OF OF CASH FLOWS

(Amounts in EUR x 1,000)	Note	For the year ended December 31, 2017	2016
Cash flows from operating activities			
Loss for the period		**(17,038)**	**(14,794)**
Adjustments for :			
Depreciation of property, plant & equipment (PPE)	*4*	177	150
Net interest expenses	*17*	2,285	1,558
Share-based payments	*15*	1,199	447
Net unrealized foreign exchange (gains) or losses		(752)	(401)
(Gain) or loss from derivatives	*11,17*	(36)	-
(Gain) or loss from adjustments of loans	*10,17*	(614)	2,213
Income tax expense	*18*	5	1
Cash used in operating activities before changes in working capital and provisions:		**(14,774)**	**(10,826)**
VAT and other receivables and deferred expenses		(776)	(63)
Trade and other payables and other liabilities		720	(2,703)
Total change in working capital		**(56)**	**(2,766)**
Provisions		-	-
Cash used in operating activities		**(14,830)**	**(13,592)**
Interest paid		(1,040)	(714)
Income taxes paid		(3)	(5)
Net cash used in operating activities		**(15,873)**	**(14,311)**
Cash flows from investing activities			
Interest received		8	52
Acquisition of PP&E	*4*	(83)	(294)
Net cash used in investing activities		**(75)**	**(242)**
Cash flows from financing activities			
Proceeds from issue of shares	*8*	23,000	1,592
Proceeds from exercise of warrants	*8*	2,372	-
Proceeds from borrowings	*10*	15,000	-
Payment for share issue costs	*8*	(2,212)	-
Payment of transaction costs related to loans and borrowings	*10*	(295)	-
Repayment of borrowings	*10*	(6,561)	(1,166)
Net cash from financing activities		**31,304**	**426**
Net increase (decrease) in cash and cash equivalents		**15,356**	**(14,127)**
Cash and cash equivalents as at January 1,		14,559	28,666
Effect of exchange rate fluctuations on cash held		(9)	20
Cash and cash equivalents as at December 31,	*7*	**29,906**	**14,559**

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. As of February 5, 2018, the address of its business office is Paasheuvelweg 25, 1105 BP Amsterdam, The Netherlands.

These financial statements were authorized for issue by the Management Board and Supervisory Board of the Company on April 13, 2018. The financial statements as presented in this report are subject to approval by the General Meeting of Shareholders.

2. ACCOUNTING PRINCIPLES AND 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.

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 (hereafter also referred to as "EU-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 EU-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 59 – 61.

Going concern assessment

The consolidated financial statements have been prepared on a going concern basis. Based on the current operating plan, cash and cash equivalents are estimated to be sufficient to meet the Company's working capital requirements through the 12 months following the date of these financial statements. In March 2018, the Company issued 2.6 million new shares and raised an additional EUR23.4 million in gross proceeds.

2.2 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 (the "Group"):

Legal Entity	Registered Office	Investment%
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 US Corporation	Unites States of America	100.00%

(a) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company 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 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.

(c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2.3 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, 2017, 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.

2.4 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.

2.5 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 from operating activities.

2.6 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 Note 2.8 'Impairment').

(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.

2.7 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 Note 2.8 'Impairment').

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

2.8 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.

2.9 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 2.14 'Finance Income and Expenses'.

(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.

2.10 Equity

(a) Ordinary shares

The Company only has ordinary shares and these are classified within equity upon issue.

(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) Warrants

Warrants that meet the so-called fixed-for-fixed condition, i.e. the Company has a contractual right to deliver a fixed number of its own equity instruments in exchange for a fixed consideration in cash, are recognized in equity (warrant reserve).

Warrants that fail to meet the fixed-for-fixed condition are classified as financial liabilities. However, these warrants may meet the fixed-for-fixed condition at a later date e.g. when predefined future events take place. Therefore, the fair value of these warrants may be reclassified from financial liabilities to equity on the date they meet the fixed-for-fixed condition.

Warrants issued to suppliers in exchange for goods or services are share-based payment expenses and are recognized in equity (warrant reserve).

Shares issued upon exercise of such warrants or options are measured at their exercise price.

(e) 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, the cost of preparing a prospectus, underwriting fees and fees incurred in respect of the valuation of the shares.

2.11 Employee Benefits

(a) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid 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.

(b) Share-based payment

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.

(c) Pension plans

In the Netherlands, 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 in the year in which the related employee services are rendered. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Employees in the United States are enabled to participate in a 401k plan, which also qualifies as a defined contribution plan. The employer matches 50% of the first 6% the employee contributes to their 401k plan. Any employee contribution over 6% is not matched. Costs of the 401k plan are expensed in the year in which the related employee services are rendered.

(d) 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.

2.12 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.

2.13 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against the statement of income.

Lease agreements in which the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

2.14 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.

2.15 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.

2.16 New relevant standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017, which Kiadis has not applied in preparing these consolidated financial statements.

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. Kiadis will implement IFRS 9 per January 1, 2018 using the modified retrospective approach, meaning that the 2017 comparative numbers in the 2018 financial statements will not be restated. Any impact of IFRS 9 as of January 1, 2018 will be recognized directly in equity. The Company has reviewed the impact of this new standard and has concluded that the impact is limited since (i) the Company does not have financial assets other than tax receivables (VAT) and deposits for the lease of buildings, and (ii) the Company currently does not engage in hedging relationships.

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. Since Kiadis did not generate revenues in the years presented in these financial statements, there will be no impact from this standard on the 2018 financial statements.

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. Kiadis will implement IFRS 16 by applying the modified retrospective method, meaning that the comparative numbers in the financial statements will not be restated to show the impact of IFRS 16.

Under the new standard lease contracts will be recognized on Kiadis' balance sheet and subsequently depreciated on a straight-line basis. The liability recognized upon transition is measured based on discounted future cash flows and the future interest will be recorded in interest expenses. Lease expenses currently recorded in the income statement will therefore be replaced by depreciation and interest expenses for all lease contracts within the scope of the standard. A quantitative analysis of the financial impact of the new standard on Kiadis has not yet been made.

Kiadis has only two lease arrangements that will be recorded on the Company's balance sheet as a result of IFRS 16. These leases relate to offices, laboratories and manufacturing facilities. In selecting which practical expedients to apply Kiadis has focused on reducing the complexity of implementation. Based on analysis of the options available, Kiadis will:

- measure the Right of Use Asset based on the lease liability recognized
- apply the short-term and low value exemptions
- not use the transition option for leases with a short remaining contract period
- apply the option to exclude non-lease components from the lease liability for real estate leases.

The following new or amended standards are not expected to have a significant impact of Kiadis' consolidated financial statements:

- Classification and measurement of Share-based Payments (amendments to IFRS 2)
- Foreign Currency Transactions and Advance Consideration (IFRIC 22)
- Uncertainty over tax treatments (IFRIC 23)
- Annual Improvements to IFRS Standards 2014–2016 Cycle (amendments IFRS 1 and IAS 28).

3. ACCOUNTING ESTIMATES AND JUDGMENTS

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.

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.

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 their 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, 2017, Kiadis Pharma N.V. had deferred tax assets in respect of gross cumulative tax losses of EUR71.6 million in The Netherlands and CN$29.4 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.

(e) Derivatives

The Group exercises judgment in determining the estimated fair value of derivatives. For derivatives that are level 3 financial liabilities this means that management has to make assumptions about certain inputs used to calculate fair values, using the Black, Scholes and Merton option pricing model.

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) Share-based payments

Measurement inputs to calculate the fair value of employee stock options include the 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.

(b) 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.

(c) Derivatives

For calculating the fair value of warrants, the Black, Scholes and Merton option valuation formula ('Black and Scholes') is applied. Measurement inputs to calculate the fair value include estimated share prices at different future dates using a Monte Carlo simulation model, expected share price volatility, risk-free interest rate, probabilities that certain scenarios will occur, discount rates, and the exercise price of the financial instrument.

4. PROPERTY, PLANT AND EQUIPMENT

(Amounts in EUR x 1,000)	Laboratory Equipment	Furniture & Hardware	Leasehold Improvements	Total
Balance as at January 1, 2016				
Cost of acquisition	751	231	41	1,023
Depreciation / impairment	(471)	(178)	(41)	(690)
Book value as at January 1, 2016	**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**
Changes in book value 2017				
Additions	152	69	22	243
Depreciation	(124)	(35)	(18)	(177)
Total changes in book value 2017	**28**	**34**	**4**	**66**
Balance as at December 31, 2017				
Cost of acquisition	1,153	363	101	1,617
Depreciation / impairment	(725)	(230)	(60)	(1,015)
Book value as at December 31, 2017	**428**	**133**	**41**	**602**

5. INTANGIBLE ASSETS

(Amounts in EUR x 1,000)	Goodwill	In-process Research & Development	Patents	Total
Balance as at January 1, 2016				
Cost	4,022	8,692	80	12,794
Amortization / Impairment	-	-	(80)	(80)
Book value as at January 1, 2016	**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**
Changes in book value 2017				
Effect of movement in foreign exchange rates	(225)	(485)	-	(710)
Total changes in book value 2017	**(225)**	**(485)**	**-**	**(710)**
Balance as at December 31, 2017				
Cost	4,058	8,772	80	12,910
Amortization / Impairment	-	-	(80)	(80)
Book value as at December 31, 2017	**4,058**	**8,772**	**-**	**12,830**

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 life 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 amongst others 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. VAT & OTHER RECEIVABLES AND DEFERRED EXPENSES

(Amounts in EUR x 1,000)	2017	2016
VAT receivables	331	221
Deferred expenses	767	351
Deposits (lease of buildings)	231	-
Other amounts receivable	20	9
	1,349	**581**

7. CASH AND CASH EQUIVALENTS

(Amounts in EUR x 1,000)	2017	2016
Cash at bank and in hand	29,906	1,009
Short-term bank deposits	-	13,550
Cash and cash equivalents	**29,906**	**14,559**
Bank overdrafts used for cash management purposes	-	-
Net cash as per statement of cash flows	**29,906**	**14,559**

All amounts reported as cash or cash equivalents are at the free disposal of the company with the exception of an amount of EUR73 thousand that is pledged against certain bank guarantees provided as security for the lease of buildings.

8. SHAREHOLDERS' EQUITY

Shares issued and share capital

On December 31, 2017, 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 EUR0.10. On December 31, 2017, the total number of ordinary shares issued by the Company was 17,287,397 (2016: 13,966,501). On December 31, 2017, the issued share capital totaled EUR1.729 million.

Ordinary shares hold the right to one vote per share.

	Number of Issued Shares	Issued Share Capital
	Ordinary Shares	in EUR x 1,000
Balance as at January 1, 2016	**13,471,644**	**1,347**
New shares issued for cash	156,328	16
Legal merger	290	-
Equity-settled share-based payments	338,239	34
Balance as at December 31, 2016	**13,966,501**	**1,397**
New shares issued for cash	2,996,269	300
New shares issued upon exercise of warrants	324,627	32
Balance as at December 31, 2017	**17,287,397**	**1,729**

In June 2017, the Company raised EUR5 million in gross proceeds by issuing a total of 746,269 units, each comprising 1 ordinary share and 1 warrant, in a private placement with several existing and new shareholders.

In September 2017, the Company issued 324,627 shares upon the exercise of 324,627 warrants with an exercise price of EUR7.307 and received EUR2.4 million in cash.

In October 2017, the Company issued 2.25 million shares for gross proceeds of EUR18 million in a private placement with several existing and new shareholders.

Treasury shares

On December 31, 2017, the Company did not hold any of its own shares (2016: nil).

Share premium

(Amounts in EUR x 1,000)	2017	2016
Balance as at January 1,	**103,200**	**98,137**
Share premium on new shares issued	22,700	1,576
Transaction costs	(2,367)	-
Fair value of warrants issued	(2,313)	-
Equity-settled share-based payment	-	3,487
Warrants exercised	3,193	-
Balance as at December 31,	**124,413**	**103,200**

In June and October 2017, the Company issued new shares for cash raising a total of EUR 23.0 million in gross proceeds of which EUR22.7 million was recorded as share premium.

Transaction costs comprise bank fees from the syndicates that arranged the private placements in June and October 2017, legal fees and due diligence related costs of EUR2.4 million in total.

The warrants issued in the June 2017 private placement contained a so-called ratchet clause, meaning that the exercise price of the warrants could be adjusted once based upon a future dilutive financing event taking place within twelve months after the grant date. Therefore, the warrants initially did not meet the fixed-for-fixed criteria and were classified as a financial liability (derivatives). See also Note 11 'Derivatives'. The fair value of these warrants of EUR2.3 million is deducted from share premium.

In September 2017, the Company received EUR2.37 million in cash upon the exercise of 324,627 warrants by investors who participated in the June 2017 financing round of which EUR2.34 million was accounted for as share premium. In addition, a corresponding amount of EUR853 thousand was reclassified from Warrant reserve to Share premium.

Warrant reserve

(Amounts in EUR x 1,000)	2017	2016
Balance as at January 1,	**-**	**-**
Warrants issued for services	166	-
Reclassification from derivatives	1,962	-
Warrants exercised	(853)	-
Balance as at December 31,	**1,275**	**-**

In connection with the June 2017 private placement, the Company issued 55,970 warrants to certain service providers as consideration for the services they provided during this financing round. These warrants were classified as equity instruments and an amount of EUR166 thousand was recorded in warrant reserve. Of this amount EUR155 thousand was recognized as transaction cost and deducted from equity and the remaining EUR11 thousand was charged to the income statement as consultancy costs. The fair value of the services provided was measured indirectly, with reference to the fair value of the equity instruments granted, on the date that the financing round was completed. For calculating the fair value of these warrants at year-end 2017, the Black, Scholes and Merton option valuation formula (`Black and Scholes`) has been applied. As there is a potential downward adjustment in the exercise price depending on a future share price at a potential estimated moment of issuing additional equity instruments, a Monte Carlo simulation model has been applied to model the share price forward. Based on these projected share prices at potential moments of issuing additional equity instruments, an average Black and Scholes value was determined.

On August 17, 2017, Kiadis Pharma entered into a loan agreement with Kreos Capital V (UK) Ltd. As part of this loan agreement, Kiadis Pharma issued warrants to Kreos. As a consequence of the issuance of these warrants to Kreos, the exercise price of the warrants previously issued in connection with the private placement in June 2017 became fixed and as a result, this change led to a reclassification from liabilities to equity. See also Note 11 'Derivatives'.

In September 2017, an aggregate number of 324,627 warrants were exercised by several investors who participated in the June 2017 financing round and a corresponding amount of EUR853 thousand was reclassified from Warrant reserve to Share premium.

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)	2017	2016	Expiry period
Kiadis Pharma N.V. (*)	71,608	57,364	2018-2026
Kiadis Pharma Canada Inc. (**)	19,572	15,035	2024-2037
	91,180	**72,399**	

(*) The tax loss carry forwards in The Netherlands can only be utilized if the business carried on after a change of control is similar to the business carried on before such change in control.
(**) The tax loss carry forwards in Canada can only be utilized to the extent that the business carried on prior to a change of control is carried on after such 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)	2017	2016
Non current liabilities		
Government Loan I (RVO NL)	-	2,797
Government Loan II (RVO NL)	-	1,729
Loan from Kreos Capital V (UK) Ltd	11,401	-
Loan from Hospira Inc.	9,401	10,206
Loan from University of Montreal	797	873
	21,599	**15,605**

(Amounts in EUR x 1,000)	2017	2016
Current liabilities		
Government Loan I (RVO NL)	-	1,019
Government Loan II (RVO NL)	-	536
Loan from Kreos Capital V (UK) Ltd	1,789	-
	1,789	**1,555**

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

(Amounts in EUR x 1,000)	RVO NL	Kreos Capital V (UK) Ltd	Hospira Inc.	University of Montreal
Balance as at January 1, 2017	**6,081**	**-**	**10,206**	**873**
Interest accrued during the period	373	763	1,121	28
Interest payments	(373)	(667)	-	-
New loan agreements	-	13,574	-	-
Repayments	(6,081)	(480)	-	-
Adjustment of carrying amount	-	-	(614)	-
Effect of changes in foreign exchange rates	-	-	(1,312)	(104)
Balance as at December 31, 2017	**-**	**13,190**	**9,401**	**797**

Terms and debt repayment schedule

(Amounts in EUR x 1,000)	Currency	Nominal interest rate	Year of maturity	December 31, 2017		December 31, 2016	
				Face value	Carrying amount	Face value	Carrying amount
Government Loan I (RVO NL)	EUR	11.40%	2015-2020	-	-	3,816	3,816
Government Loan II (RVO NL)	EUR	10.00%	2016-2020	-	-	2,265	2,265
Loan from Kreos Capital V (UK) Ltd	EUR	10.00%	2018-2021	15,000	13,190	-	-
Loan from Hospira Inc.	USD	1.50%	undefined	22,372	9,401	25,010	10,206
Loan from University of Montreal	USD	3.50%	undefined	797	797	873	873
				38,169	**23,388**	**31,964**	**17,160**

Loan from RVO NL

The Company had two loans from Rijksdienst voor Ondernemend Nederland (RVO NL), a Dutch governmental agency. These types of loans are issued to stimulate innovation. In August 2017, the Company fully repaid the amounts outstanding of both loans.

Loan from Kreos Capital V (UK) Ltd

In August 2017, the Company obtained debt financing from Kreos Capital V (UK) Ltd for up to EUR15 million to refinance existing loans and fund the development of the Company's ATIR products.

The first tranche of EUR10 million was immediately drawn down and partly used to repay the outstanding loans from Rijksdienst voor Ondernemend Nederland (RVO NL) of EUR5.3 million in total. In connection with this first tranche, Kiadis Pharma issued 211,348 warrants to Kreos Capital. These warrants, to be classified as liabilities, had a total combined fair value of EUR0.9 million. Taking into account this fair value of the warrants and transaction costs of EUR0.3 million to be amortized, the loan with Kreos Capital had a fair value of €8.8 million at initial recognition. This tranche will be repaid in 36 equal monthly installments from June 2018 until May 2021.

The second tranche of EUR5 million was drawn down in October 2017. In connection with this second tranche, Kiadis Pharma issued 42,269 warrants to Kreos Capital. These warrants, to be classified as liabilities, had a total combined fair value of EUR0.3 million. Taking into account this fair value of the warrants, the second loan with Kreos Capital had a fair value of €4.7 million at initial recognition. This tranche will be repaid in 36 equal monthly installments from November 2018 until October 2021.

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 first grant of a sub-license to the Theralux platform, or (ii) the first commercial sale of a product derived from the Theralux platform by Kiadis; 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 probability-weighted net present value of the estimated underlying cash flows discounted at the original effective interest rate of 11%.

During 2017, the carrying amount of this loan has been adjusted to reflect changes in the (estimated) underlying future cash flows (EUR614 thousand decrease) and a weakening of the US dollar against the euro (EUR1.3 million decrease). These amounts have been charged to the income statement (see Note 17 'Finance Income and Expenses').

11. DERIVATIVES

(Amounts in EUR x 1,000)	2017		2016
	Kreos	Investors	
Balance as at January 1,	**-**	**-**	**-**
Initial recognition upon issue	1,130	2,313	-
Changes in fair value included in 'finance income':			
- Gain from change in fair value	-	(351)	-
- Loss from change in fair value	315	-	
Reclassification to equity (warrant reserve)	-	(1,962)	-
Balance as at December 31,	**1,445**	**-**	**-**

In June 2017, the Company issued 746,269 warrants to the investors who participated in the private placement of ordinary shares. The warrants issued in this private placement contained a so-called ratchet clause, meaning that the exercise price of the warrants could be adjusted once based upon a future dilutive financing event taking place within twelve months after the grant date. Therefore, the warrants initially did not meet the fixed-for-fixed criteria and were classified as a financial liability (derivatives). The fair value of these warrants at initial recognition of EUR2.3 million was deducted from equity. See also Note 8 'Shareholders' equity'.

On August 17, 2017, Kiadis Pharma entered into a loan agreement with Kreos Capital V (UK) Ltd. The first tranche of EUR10 million was drawn down immediately and the second tranche of EUR5 million was drawn down on October 16, 2017. As part of this loan agreement, Kiadis Pharma issued a new series of warrants to Kreos on August 17 and October 16 with a combined fair value of EUR1.1 million at initial recognition.

As a consequence of the issuance of the warrants to Kreos in August 2017, the exercise price of the warrants previously issued to investors in connection with the private placement in June 2017 became fixed and, as a result, this change led to a reclassification from liabilities to equity. Immediately prior to this reclassification the warrants were remeasured at a fair value of EUR2.0 million and a gain of EUR351 thousand was recorded in finance income.

The warrants issued to Kreos were remeasured at the reporting date at EUR1.4 million and the corresponding change in fair value of EUR315 thousand was charged to the income statement.

For calculating the fair value at year-end 2017 of the warrants issued to Kreos, the Black, Scholes and Merton option valuation formula ('Black and Scholes') has been applied. As there is a potential downward adjustment in the exercise price depending on a future share price at a potential estimated moment of issuing additional equity instruments, a Monte Carlo simulation model has been applied to model the share price forward. Based on these projected share prices at potential moments of issuing additional equity instruments, an average Black and Scholes value was determined. Parameters used in the model are an exercise price of EUR6.358, an expected volatility of 61%, a risk-free interest rate of 0.49%, a dividend-yield of 0%, and a forfeiture rate of 0%. Furthermore, different possible scenarios were taken into account with regard to the potential situations of issuing additional equity instruments and the potential moments thereof.

12. TRADE AND OTHER PAYABLES

(Amounts in EUR x 1,000)	2017	2016
Suppliers	1,366	1,268
Salaries, bonuses and vacation	788	339
Payroll tax and social premium contributions	235	206
Accrued clinical costs	307	426
Accrued manufacturing costs	393	137
Accrued audit fees	73	95
Other	293	144
	3,455	**2,615**

13. REVENUES

No revenues were recorded in 2017 and 2016.

14. OTHER INCOME

No other income was recorded in 2017 and 2016.

15. EMPLOYEE BENEFITS

(Amounts in EUR x 1,000)	2017	2016
Wages and salaries	5,027	2,956
Compulsory social security contributions	473	281
Contributions to defined contribution plans	198	127
Equity-settled share-based payment	648	447
Cash-settled share-based payment	540	-
Company cars	4	5
Other employee benefits	76	61
Total	**6,966**	**3,877**

Headcount and Full Time Equivalents (FTEs)

	2017	2016
Number of employees (headcount) as at December 31,		
Research & development positions	49	33
General & administrative positions	12	6
	61	**39**
Average FTEs during the year		
Research & development positions	40.7	24.2
General & administrative positions	7.5	5.6
	48.2	**29.8**

At the end of 2017, the Group employed 58 people in The Netherlands (2016: 37), 2 people in Germany (2016: 2) and 1 person in the United States of America (2016: nil).

Share-based payments

The Group has a share option program in place that entitles employees to purchase shares in the Company. On December 31, 2017, a total of 428,477 share options with an average exercise price of EUR9.04 were issued and outstanding. On this date, none of these share options were exercisable.

Each of the option rights granted entitles the option holder to purchase 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. Options granted to members of the Management Board are exercisable from the third anniversary of the grant date. Non-vested option rights forfeit if the employee ceases to be employed with the Group and lapse 10 years after the grant date.

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

Cash-settled share-based payment expenses relate to stock appreciations rights (SARs) granted under the Kiadis Pharma 2017 stock appreciation right plan. Under this plan 300,000 SARs were granted to Mr. Arthur Lahr, CEO of the Company, on April 4, 2017. On December 31, 2017, all 300,000 SARs were issued and outstanding. None of these SARs were exercisable on this date.

SARS granted are conditional on the employee completing a pre-defined number of years of service ("the vesting period"). Each installment of these awards is treated as a separate grant. Consequently, the vesting periods for the individual installments of these awards vary between 1 and 3 years for SARS granted on or after February 17, 2017. SARS granted to members of the Management Board are exercisable from the third anniversary of the grant date. Non-vested SARS forfeit if the employee ceases to be employed with the Group and lapse 10 years after the grant date.

For calculating the fair value of the employee share based options granted in 2017 and of the Stock Appreciation Rights, the Hull and White option valuation model is applied. Parameters used in the model; Exercise prices between EUR 5.42 and EUR 9.85, expected volatilities between 61% and 63%, risk-free interest rates between 0.42% and 0.53%, exercise multiple of 2, dividend yield 0%, estimated forfeiture rates between 0% and 5% per year.

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

	For the year ended			
	December 31, 2017		December 31, 2016	
	Average exercise price (EUR per share)	Number of options	Average exercise price (EUR per share)	Number of options
At January 1	**12.35**	**169,515**	**-**	**-**
Granted	7.71	311,500	12.35	169,515
Forfeited	11.81	(52,538)	-	-
Exercised	-	-	-	-
Lapsed	-	-	-	-
At December 31	**9.04**	**428,477**	**12.35**	**169,515**

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

	Average exercise price (EUR per share)	Share options as at	
		December 31, 2017	December 31, 2016
2026	12.35	124,311	169,515
2027	7.69	304,166	-
	9.04	**428,477**	**169,515**

16. EXPENSES

(Amounts in EUR x 1,000)	2017	2016
Employee benefits (see Note 15)	6,966	3,877
Depreciation expense	177	150
Facilities	407	353
Consultancy	2,444	1,553
Telecom & IT	207	95
Travel	471	489
Insurance	94	78
Clinical costs	1,999	670
Manufacturing	2,235	3,380
Other	1,120	763
Total operating expenses	**16,120**	**11,408**

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)	2017	2016
Research and development expenses	11,215	8,206
General and administrative expenses	4,905	3,202
Total operating expenses	**16,120**	**11,408**

Auditor's fees

The following fees were charged by KPMG Accountants N.V. to the Company and its subsidiaries, 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
2017			
Audit of the financial statements	134	-	134
Other audit engagements	64	-	64
Tax-related advisory services	-	4	4
Other non-audit services	-	-	-
	198	**4**	**202**
2016			
Audit of the financial statements	133	-	133
Other audit engagements	7	-	7
Tax-related advisory services	-	4	4
Other non-audit services	-	-	-
	140	**4**	**144**

17. FINANCE INCOME AND EXPENSES

(Amounts in EUR x 1,000)	2017	2016
Finance income		
Interest income	-	13
Net foreign exchange gain	722	386
Gain from adjustments of loans	614	-
Net gain from changes in fair value of derivatives	36	-
	1,372	**399**
Finance expenses		
Bank borrowings, and other debt	(2,285)	(1,571)
Loss from adjustments of loans	-	(2,213)
	(2,285)	**(3,784)**

Finance income for the year includes EUR0.7 million from foreign currency exchange gains and EUR0.6 million from the adjustment of the carrying value of the loan from Hospira Inc. (see also Note 10 'Loans and Borrowings'). The net foreign exchange gain includes exchange gains of EUR1.4 million on loans denominated in US dollars which were partly offset by exchange losses on the Canadian dollar of EUR0.7 million on intragroup loans.

Finance expenses for bank borrowings and other debt include interest on third party loans for EUR1.9 million (2016: EUR868 thousand) and interest on government loans for EUR373 thousand (2016: EUR702 thousand).

18. INCOME TAX EXPENSE IN THE INCOME STATEMENT

(Amounts in EUR x 1,000)	2017	2016
Current tax expense		
Current year	5	1
	5	1
Deferred tax expense		
	-	-
Tax expense	**5**	**1**

Current year tax expense relates to subsidiaries in Germany and USA that charge their expenses with a mark-up to other group companies.

(Amounts in EUR x 1,000)	2017	2016
Reconciliation of effective tax rate		
Loss before income taxes	17,033	14,793
Tax using the Company's domestic tax rate (25.0% for both years)	(4,258)	(3,698)
Effect of tax rates in foreign jurisdictions	(98)	(8)
Tax exempt income	-	(165)
Non-deductible expenses	445	122
Tax incentives	(1)	-
Current year losses for which no deferred tax asset is recognized	3,917	3,750
	5	**1**

19. EARNINGS PER SHARE

Basic earnings per share

(Amounts in EUR x 1,000)	2017	2016
Loss attributable to ordinary shareholders	(17,038)	(14,794)
Issued ordinary shares at January 1,	13,966,501	13,471,644
Effect of shares issued for cash	900,021	112,752
Effect of warrants exercised	84,179	-
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,	14,950,701	13,754,725
Basic earnings per share (EUR)	(1.14)	(1.08)

The calculation of basic earnings per share for the year ended December 31, 2017 has been based on the loss attributable to ordinary shareholders of EUR17,038 thousand and a weighted-average number of ordinary shares outstanding during the year of 14,951 thousand.

Shares have been included in the weighted average number of shares from their issuance date.

Diluted earnings per share

	2017	2016
Weighted average number of ordinary shares (basic)	14,950,701	13,754,725
Effect of share-based payments (share options)	-	-
Effect of warrants outstanding	-	-
Weighted-average number of ordinary shares (diluted) at December 31,	14,950,701	13,754,725
Diluted earnings per share (EUR)	(1.14)	(1.08)

The calculation of diluted earnings per share for the year ended December 31, 2017, has been based on the loss attributable to ordinary shareholders of EUR17,059 thousand and a weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

On December 31, 2017, an aggregate number of 428,477 dilutive options on ordinary shares were outstanding. These options have been awarded as share-based payments to the Management Board (see also Notes 15 'Employee Benefits' and Note 24 'Related Parties') and Kiadis employees.

On December 31, 2017, an aggregate number of 731,229 dilutive warrants on ordinary shares were outstanding.

Both stock options and warrants 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.

20. 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, 2017, the Company did 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. However, the Company raised additional funds in March 2018. See also Note 25 'Subsequent Events'.

A debt repayment schedule is included in Note 10 'Loans and Borrowings'. Also refer to the Going concern assessment in Note 2.1 'Basis of Preparation' 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 0.0% on average for 2017 (2016: 0.1%). An increase of 25 basis points in interest rates would have increased equity and profit by EUR4 thousand. A decrease of 25 basis points in interest rates would have decreased equity and profit by EUR4 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 functional currency of the US subsidiary is the US 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 its exposure to exchange rate fluctuations.

A strengthening of the Canadian and US dollar against the euro at December 31, 2017 of 5% would have increased equity by EUR22 thousand and increased the loss for the year by EUR15 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 2016. A strengthening of the Canadian dollar 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 EUR99 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.

(Amounts in EUR x 1,000)	Carrying amount				Fair value			
	Non-current assets	Current assets						
		Trade and other receivables	Cash and cash equivalents	Total	Level 1	Level 2	level 3	Total
December 31, 2017								
Financial assets not measured at fair value								
VAT and other receivables		582		582				
Cash and cash equivalents			29,906	29,906				
		582	**29,906**	**30,488**				
December 31, 2016								
Financial assets not measured at fair value								
VAT and other receivables		230		230				
Cash and cash equivalents			14,559	14,559				
		230	**14,559**	**14,789**				

(Amounts in EUR x 1,000)	Carrying amount					Fair value			
	Non-current liabilities		Current liabilities						
	Derivatives	Loans and borrowings	Trade and other payables	Loans and borrowings	Total	Level 1	Level 2	level 3	Total
December 31, 2017									
Financial liabilities measured at fair value									
Derivatives	1,445				1,445			1,445	1,445
Financial liabilities not measured at fair value									
Government Loan I (RVO NL)		-		-	-		-		-
Government Loan II (RVO NL)		-		-	-		-		-
Loan from Kreos Capital		11,401		1,789	13,190		13,190		13,190
Loan from Hospira Inc.		9,401			9,401			9,401	9,401
Loan from University of Montreal		797			797		797		797
Trade and other payables			3,455		3,455				
	1,445	**21,599**	**3,455**	**1,789**	**28,288**				
December 31, 2016									
Financial liabilities measured at fair value									
Derivatives	-				-			-	-
Financial liabilities not measured at fair value									
Government Loan I (RVO NL)		2,797		1,019	3,816		3,816		3,816
Government Loan II (RVO NL)		1,729		536	2,265		2,265		2,265
Loan from Kreos Capital		-		-	-		-		-
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**				

21. 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 also Note 10 'Loans and Borrowings') has been repaid, Hospira will thereafter be entitled to receive royalties of 3% on net sales of products derived from the Theralux product platform in a specified territory (all countries except for those in North America and South America, China, and Mongolia) for an unlimited period of time.

22. COMMITMENTS

Lease commitments

The future aggregate minimum lease payments commitments are as follows:

(Amounts in EUR x 1,000)	2017	2016
Less than one year	1,480	177
Between one and five years	5,740	-
More than 5 years	7,175	-
	14,395	**177**

(a) Lease of premises:

The Group has lease commitments regarding office and laboratory space located in Amsterdam with a total liability as of December 31, 2017, of EUR14.4 million (2016: EUR177 thousand).

These commitments mainly relate to the 10-year lease agreement for an existing commercial manufacturing facility, which also hosts the Kiadis headquarters, that the Group signed in December 2017.

(b) Capital commitments

In December 2017, the Group entered into two contracts for leasehold improvements to be completed in 2018 for a total amount of EUR106 thousand (2016: nil).

23. BUSINESS COMBINATIONS

There were no business combinations in 2017.

24. 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 significant 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 2017 and 2016.

(Amounts in EUR x 1,000)	2017	2016
Salaries and other short-term employee benefits	909	668
Pensions	14	19
Share-based payment	820	447
Social securities	31	28
Other emoluments	5	12
Total	**1,779**	**1,174**

Salaries and other short-term employee benefits include EUR315 thousand in severance pay for Dr. Rüdiger who left the Company effective April 1, 2017.

The table below shows the remuneration received by the individual members of the Management Board for the year ended December 31, 2017.

(Amounts in EUR)	Base salary	Cash bonus	Share-based payment	Pension contributions	Social security costs	Other benefits	Total remuneration
Mr. Arthur Lahr	232,500	70,000	539,603	5,535	9,559	-	857,197
Dr. Manfred Rüdiger	78,750	-	186,480	1,809	12,129	319,742	598,910
Mr. Robbert van Heekeren	173,350	39,000	94,331	6,504	9,559	-	322,744
	484,600	**109,000**	**820,414**	**13,848**	**31,247**	**319,742**	**1,778,851**

Expenses of share-based payments incurred in 2017 relate to the stock appreciation rights (SARs) granted to Mr. Arthur Lahr on April 4, 2017 and share options granted to Dr. Rüdiger and Mr. Van Heekeren on July 1, 2016.

The remuneration of the Supervisory Board members included in the table below relates to the compensation for 5 members in 2017 (2016: 6).

(Amounts in EUR x 1,000)	2017	2016
Remuneration	80	44
Share-based payment	-	-
Total	**80**	**44**

The table below shows the remuneration received by the individual members of the Supervisory Board for the year ended December 31, 2017. Only independent board members receive financial compensation for their services.

(Amounts in EUR)	Base Salary	Cash bonus	Share-based payment	Pension contributions	Social security costs	Other benefits	Total renumeration
Mr. Mark Wegter	-	-	-	-	-	-	-
Mr. Martijn Kleijwegt	-	-	-	-	-	-	-
Mr. Stuart Chapman	-	-	-	-	-	-	-
Dr. Robert Soiffer	40,000	-	-	-	-	-	40,000
Mr. Berndt Modig	40,000	-	-	-	-	-	40,000
	80,000	-	-	-	-	-	80,000

(b) Transactions of shares in the Company

No such transactions took place in 2017 and 2016.

(c) Options held in the Company

On April 4, 2017, stock appreciation rights (SARs) were granted to Mr. Arthur Lahr, the Company's new CEO who took over from Dr. Rüdiger effective April 1, 2017. No SARs or options have been granted to Supervisory Board members.

Share options held by the Management Board (including former members) are as follows:

Share options held by	Number of options held as at		Exercise price in EUR	Conditions
	December 31, 2017	December 31, 2016		
Dr. Manfred Rüdiger	90,408	135,612	12.35	Granted July 1, 2016. Vested March 31, 2017. Expiration date July 1, 2026.
Mr. Robbert van Heekeren	33,903	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.

Stock appreciation rights held by the Management Board are as follows:

Stock appreciation rights held by	Number of rights held as at		Exercise price in EUR	Conditions
	December 31, 2017	December 31, 2016		
Mr. Arthur Lahr	300,000	-	9.10	Granted April 4, 2017. Vesting dates April 4, 2018, April 4, 2019 and April 4, 2020. Expiration date April 4, 2027.

25. SUBSEQUENT EVENTS

In January 2018, an aggregate number of 48,900 stock options were granted to Kiadis Pharma employees.

In January and February 2018, the Company issued an aggregate number of 227,695 shares upon the exercise of the same number of warrants and received EUR1.7 million in cash.

In March 2018, the Company completed a private placement of 2.6 million new shares raising a total of EUR23.4 million in gross proceeds.

COMPANY FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

(Amounts in EUR x 1,000)	Note	As at December 31, 2017	2016
Assets			
Property, plant and equipment	1	-	1
Intangible assets *	2	-	-
Financial non-current assets *	3	12,900	13,885
Total non-current assets		**12,900**	**13,886**
Trade, other receivables and prepayments	4	170	118
Cash and cash equivalents	5	29,562	13,841
Total current assets		**29,732**	**13,959**
Total assets		**42,632**	**27,845**
Equity			
Share capital		1,729	1,397
Share premium		124,413	103,200
Translation reserve		295	307
Warrant reserve		1,275	-
Accumulated deficit		(111,853)	(95,463)
Equity attributable to owners of the Company	6	**15,859**	**9,441**
Liabilities			
Loans and borrowings	7	21,599	15,605
Derivatives	8	1,445	-
Employee benefits	9	540	-
Provisions *		980	915
Total non-current liabilities		**24,564**	**16,520**
Loans and borrowings	7	1,789	1,555
Trade and other payables	10	420	329
Total current liabilities		**2,209**	**1,884**
Total liabilities		**26,773**	**18,404**
Total equity and liabilities		**42,632**	**27,845**

* In the 2017 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 'Financial Non-current Assets'.

COMPANY INCOME STATEMENT

(Amounts in EUR x 1,000)	For the year ended December 31, 2017	2016
Share in results from participating interests, after taxation	(13,530)	(9,025)
Other results, after taxation	(3,508)	(5,769)
Loss for the period	**(17,038)**	**(14,794)**

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 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.

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 'Basis of Preparation' of the consolidated financial statements.

1. PROPERTY, PLANT AND EQUIPMENT

In 2017, the Company disposed of its fully depreciated computer equipment which had a book value of EUR1 thousand as at December 31, 2016.

2. INTANGIBLE ASSETS

(Amounts in EUR x 1,000)	Goodwill	In-process Research & Development	Total
Balance as at January 1, 2016			
Cost	-	-	-
Amortisation / Impairment	-	-	-
Book value as at January 1, 2016	**-**	**-**	**-**
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	4,283	9,257	13,540
Amortisation / Impairment	-	-	-
Book value as at December 31, 2016	**4,283**	**9,257**	**13,540**
Changes in book value 2017			
Effect of movement in foreign exchange rates	(224)	(486)	(710)
Total changes in book value 2017	**(224)**	**(486)**	**(710)**
Balance as at December 31, 2017			
Cost	4,059	8,771	12,830
Amortisation / Impairment	-	-	-
Book value as at December 31, 2017	**4,059**	**8,771**	**12,830**

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 'Financial Non-current Assets'.

3. FINANCIAL NON-CURRENT ASSETS

(Amounts in EUR x 1,000)	2017	2016
Participating interests in group companies	**(81,756)**	**(69,294)**

The movements in participating interests can be shown as follows:

(Amounts in EUR x 1,000)	Kiadis Pharma Netherlands B.V.	Kiadis Pharma Intellectual Property B.V.	Kiadis Pharma Germany GmbH	Kiadis Pharma Canada Inc.	Kiadis Pharma US Corp.	Total
Balance as at December 31, 2016	**(55,177)**	**(1,310)**	**31**	**(12,838)**	**-**	**(69,294)**
Changes in 2017						
Investments / (Divestments)	297	-	-	-	71	368
Share in result	(12,230)	(108)	7	(1,132)	(67)	(13,530)
Effect of changes in foreign exchange rates	-	-	-	700	-	700
Total changes in 2017	**(11,933)**	**(108)**	**7**	**(432)**	**4**	**(12,462)**
Balance as at December 31, 2017	**(67,110)**	**(1,418)**	**38**	**(13,270)**	**4**	**(81,756)**

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 Netherlands B.V.	Kiadis Pharma Intellectual Property B.V.	Kiadis Pharma Germany GmbH	Kiadis Pharma Canada Inc.	Kiadis Pharma US Corp.	Total
Participating interests as at December 31, 2017	**(67,110)**	**(1,418)**	**38**	**(13,270)**	**4**	**(81,756)**
Net value of subsidiaries in 2017						
Receivable due by group companies	66,280	1,268	-	13,283	15	80,846
Goodwill related to subsidiaries	-	-	-	4,059	-	4,059
In-process R&D related to subsidiaries	-	-	-	8,771	-	8,771
Provisions	830	150	-	-	-	980
Net financial non-current assets as at December 31, 2017	**-**	**-**	**38**	**12,843**	**19**	**12,900**

4. GROUP, VAT AND OTHER RECEIVABLES AND DEFERRED EXPENSES

(Amounts in EUR x 1,000)	2017	2016
Receivable from group companies	80,846	68,724
Interest receivable	-	8
VAT receivable	84	20
Deferred expenses	86	90
	81,016	**68,842**

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

5. CASH AND CASH EQUIVALENTS

(Amounts in EUR x 1,000)	2017	2016
Cash at bank and in hand	29,562	291
Short-term bank deposits	-	13,550
Cash and cash equivalents	**29,562**	**13,841**
Bank overdrafts used for cash management purposes	-	-
Net cash as per balance sheet	**29,562**	**13,841**

6. EQUITY

(Amounts in EUR x 1,000)	Share Capital	Share Premium	Translation Reserve	Warrant Reserve	Retained Earnings	Total Equity
Balance as at January 1, 2016	**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)	-
Equity-settled share based payment	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**
Changes in 2017						
Profit (loss) for the period	-	-	-	-	(17,038)	(17,038)
Issue of shares for cash	300	22,700	-	-	-	23,000
Transaction costs		(2,367)	-	155	-	(2,212)
Fair value of warrants issued		(2,313)	-	-	-	(2,313)
Equity-settled share based payment	-	-	-	11	648	659
Reclassification of warrants from derivatives	-	-	-	1,962	-	1,962
Exercise of warrants	32	3,193	-	(853)	-	2,372
Translation difference	-	-	(12)	-		(12)
Balance as at December 31, 2017	**1,729**	**124,413**	**295**	**1,275**	**(111,853)**	**15,859**

7. LOANS AND BORROWINGS

(Amounts in EUR x 1,000)	2017	2016
Non-current liabilities		
Government Loans (RVO NL)	-	4,526
Loan from Kreos Capital V (UK) Ltd	11,401	-
Loan from Hospira Inc.	9,401	10,206
Loan from University of Montreal	797	873
	21,599	**15,605**

(Amounts in EUR x 1,000)	2017	2016
Current liabilities		
Government Loans (RVO NL)	-	1,555
Loan from Kreos Capital V (UK) Ltd	1,789	-
	1,789	**1,555**

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

8. DERIVATIVES

	2017		2016
(Amounts in EUR x 1,000)	Kreos	Investors	
Balance as at 1 January	**-**	**-**	**-**
Initial recognition upon issue	1,130	2,313	-
Changes in fair value:			
- Gain from change in fair value	-	(351)	-
- Loss from change in fair value	315	-	-
Reclassification to equity	-	(1,962)	-
Balance as at December 31,	**1,445**	**-**	**-**

See also Note 11 'Derivatives' of the consolidated financial statements.

9. EMPLOYEE BENEFITS

See last paragraph of Note 15 'Employee Benefits' and Note 24 'Related Parties' of the consolidated financial statements.

10. TRADE AND OTHER PAYABLES

(Amounts in EUR x 1,000)	2017	2016
Suppliers	46	40
Salaries, bonuses and vacation	156	74
Tax and social premium contributions	24	46
Payable to group companies	33	28
Accrued audit fees	70	95
Accrued consultancy costs	71	36
Other	20	10
	420	**329**

11. FINANCIAL INSTRUMENTS

See Note 20 'Financial Instruments' of the consolidated financial statements.

12. 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.

13. EMOLUMENTS OF SENIOR MANAGEMENT

See Note 24 'Related Parties' of the consolidated financial statements.

April 13, 2018

Management Board:
Arthur Lahr, 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 articles of association in respect of result 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, if any, shall be added to the Company's reserves. Any remaining profits are at the disposition of the shareholders' meeting.

Proposed appropriation of the net loss for the year

The Management Board proposes that the loss for the year of EUR17,038 thousand will be charged to accumulated deficit. This proposal is reflected in the financial statements.

INDEPENDENT AUDITOR'S REPORT

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

Independent auditor's report

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

Report on the audit of the financial statements 2017 included in the annual report

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 2017 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch 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 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2017 of Kiadis Pharma N.V. based in Amsterdam, the Netherlands. 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 2017;

2 the following consolidated statements for 2017: 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 2017;
2 the company income statement for 2017; and
3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

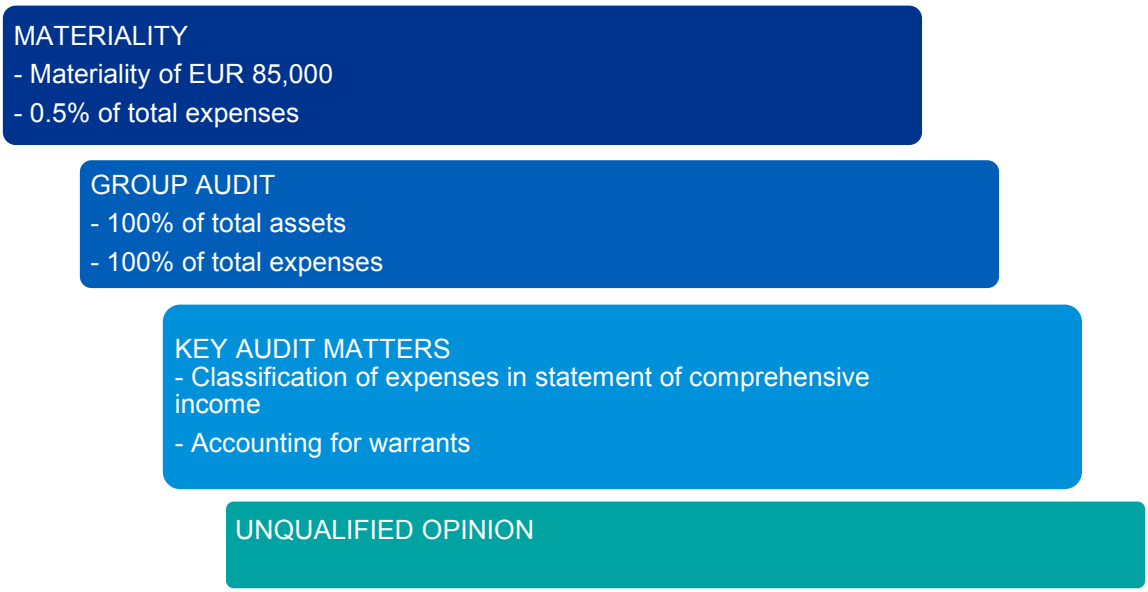
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Kiadis Pharma N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary



Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 85,000 (2016: EUR 157,500).The materiality is determined with reference to total expenses (0.5%). Given requests from management, we have decreased our percentage compared to prior year (2016: 1.5% of recurring total operating expenses). We have further refined the benchmark compared to prior year when we used recurring total operating expenses, as there are no material non-recurring expenses in 2017. We consider total expenses as the most appropriate benchmark because 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 the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 4,250 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 at the 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. We identified Kiadis Pharma Netherlands B.V. and Kiadis Pharma N.V. as significant entities. We performed audit procedures over any significant balances in any of the other entities. All audit procedures were performed by the group team.

By performing the procedures mentioned above, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements. The coverage of our procedures was 100% of total assets and 100% of total expenses.

Our key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification of expenses in statement of comprehensive income
Description
There is a risk to inaccurately classify expenses as Research and Development ("R&D") within the statement of comprehensive income. Kiadis is a biotech start-up Company and R&D expenses are not capitalized until there is regulatory approval for a medicine. There is a risk of fraud related to the nature of the entity and the pressure

management might feel to present a relatively high amount of R&D expenses as this suggests the study is making sufficient progress.

Our response

Our audit procedures included, amongst others, assessment of the appropriateness of the Company's accounting policies relating to the classification of R&D expenses and validate compliance with EU-IFRS. We tested the Company's allocation to R&D expenses within the statement of comprehensive income in detail. We evaluated key assumptions within the allocation through discussions with management and by reconciling to supporting documentation. We critically assessed and challenged allocation key's used by management in the classification and the consistency of allocations compared to prior year. Finally, we tested individual journal entries based on selection criteria which were specifically designed for the risk identified.

Our observation

The results of our procedures performed on management's accounting for R&D expenses are satisfactory.

Accounting for warrants

Description

The Company issued warrants as part of two different finance rounds during the year. The first round was a private placement in June 2017. The second round of warrants were issued in August and October 2017, in respect to the loans with Kreos Capital V (UK) Limited. These warrants are derivatives, each contains a clause that provides the right to buy for a certain price in case a new finance round of shares takes place against a lower price, compared to the initial finance round in which the warrants were issued, for a certain period of time. The accounting policies state that these warrants should either be classified as equity or as a liability. The accounting rules related to the classification and subsequent measurement of these warrants are complex and we therefore identified this as a key audit matter. We refer to Notes 8 and 11 in the consolidated financial statements.

Our response

Our audit procedures included, amongst others, assessing whether the accounting and presentation of the warrants is in accordance with EU-IFRS accounting standards. We have assessed the appropriateness of management's accounting in respect to these warrants and determined whether the accounting standard were correctly interpreted. We involved a technical accounting specialist in assessing managements accounting treatment. We have assessed each of the individual warrant contracts for their respective terms and conditions. Furthermore, we have assessed the initial accounting of each of the different types of warrants and also the subsequent measurement and accounting of these warrants. Finally we assessed whether the adequacy of the disclosure notes are in compliance with EU-IFRS standards.

Our observation

The results of our procedures performed on management's accounting for these warrants are satisfactory. The disclosures in Notes 8 and 11 are in accordance with EU-IFRS.

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:

— the business section (including the report of the Management Board);
— the corporate governance and risk assessment and internal control systems section; and
— the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following 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 Dutch 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 Dutch 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 of Kiadis Pharma N.V. 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 Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged 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 8 June 2017, for the audit of 2017.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of the Management and the Supervisory Board of Kiadis Pharma N.V. 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 Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Management Board is responsible for assessing Kiadis Pharma N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate Kiadis Pharma N.V. 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 Kiadis Pharma N.V.'s financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us 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 detect all material errors and fraud during our audit.

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

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our independent auditor's report.

Amstelveen, 13 April 2018

KPMG Accountants N.V.

H.A.P.M. van Meel RA

NOTES

NOTES

SAVING LIVES WITH INNOVATIVE CELL-BASED THERAPY

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