Ludwig Institute for Cancer Research Ltd, Zurich

Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of Shareholders

Consolidated Financial Statements 2014

KPMG AG
Zurich, 19 May 2015

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Report of the Statutory Auditor to the General Meeting of Shareholders of

Ludwig Institute for Cancer Research Ltd, Zurich

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Ludwig Institute for Cancer Research Ltd, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2014.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Report on Other Legal Requirements

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

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

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

KPMG AG

Michael Herzog
Licensed Audit Expert
Auditor in Charge

Marc Sterchi
Licensed Audit Expert

Zurich, 19 May 2015

Enclosure:
- Consolidated financial statements (balance sheet, income statement, cash flow statement, statement of changes in equity and notes)

Ludwig Institute for Cancer Research Ltd, Zurich

Consolidated Balance Sheet as at December 31, 2014

	USD		CHF	
	2014	**2013**	**2014**	**2013**
Assets				
Current assets				
Liquid funds (Notes 2 & 3)	16,719,547	20,399,325	16,614,223	18,143,221
Short-term cash deposits (Notes 2 & 3)	12,974,531	8,219,944	12,892,791	7,310,908
Investments (Notes 2 & 4)	1,308,185,309	1,304,921,487	1,299,943,742	1,160,597,171
Interest & dividends receivable	452,871	648,196	450,018	576,505
Research external funding receivables (Note 2)	2,886,921	2,757,154	2,868,715	2,452,238
Other receivables - Third parties (Note 5)	2,419,379	2,683,128	2,404,126	2,386,400
Prepayments	2,715,469	2,684,125	2,698,372	2,387,270
Total current assets	1,346,354,027	1,342,313,359	1,337,871,987	1,193,853,713
Fixed assets				
Financial fixed assets -				
Investments (Notes 1, 2 & 6)	18,193,695	19,780,920	18,079,114	17,593,161
Other (Notes 2 & 7)	1,758,805	980,890	1,747,713	872,430
Total fixed assets	19,952,500	20,761,810	19,826,827	18,465,591
Total assets	1,366,306,527	1,363,075,169	1,357,698,814	1,212,319,304
Liabilities and net worth				
Current liabilities				
Accounts payable (Note 13)	10,345,519	9,532,115	10,280,347	8,477,912
Accruals (Note 2)	3,947,053	6,944,423	3,922,169	6,176,440
Provisions (Notes 2 & 14)	5,663,067	7,507,928	5,627,413	6,677,567
Deferred income (Notes 2 & 8)	5,988,361	5,195,543	5,950,612	4,621,028
Total current liabilities	25,944,000	29,180,009	25,780,541	25,952,947
Long term liabilities				
Accounts payable	443,641	245,274	440,846	218,147
Accruals (Notes 2)	45,331	90,483	45,045	80,477
Provisions (Notes 2 & 14)	0	271,181	0	241,201
Total long term liabilities	488,972	606,938	485,891	539,825
Total liabilities	26,432,972	29,786,947	26,266,432	26,492,772
Net worth				
Share capital	33,722	33,722	50,000	50,000
Legal reserve	6,744	6,744	10,000	10,000
Donated capital	572,000,000	572,000,000	773,352,000	773,352,000
Cumulative excess of income over expenditure	767,769,217	761,227,528	986,918,339	978,199,311
Cumulative translation adjustment (Note 1)	63,872	20,228	(428,897,957)	(565,784,779)
Net worth	1,339,873,555	1,333,288,222	1,331,432,382	1,185,826,532
Total liabilities and Net worth	1,366,306,527	1,363,075,169	1,357,698,814	1,212,319,304

Ludwig Institute for Cancer Research Ltd, Zurich

Consolidated Statement of Income and Expenditure for the year ended December 31, 2014

	USD		CHF	
	2014	2013	2014	2013
Investment income				
Interest	5,458,053	5,024,511	5,001,158	4,718,515
Dividends	1,667,187	2,612,477	1,527,643	2,453,377
Other income	4,501	363,821	4,124	341,664
Total investment income	7,129,741	8,000,809	6,532,925	7,513,556
Other gains from investment activities				
Net realised gains on investment transactions (Notes 2 & 4)	91,656,661	83,805,926	83,983,684	78,702,145
Net unrealised appreciation of investments (Notes 2 & 4)	(21,992,033)	94,103,156	(20,162,848)	88,020,203
Unrealised foreign exchange gains (Note 2)	(1,415,996)	815,029	1,447,310	458,747
Share of profit and capital contribution in associated entities (Note 6)	(1,065,010)	1,249,432	(976,161)	1,173,339
Total other gains from investment activities	67,183,622	179,973,543	64,291,985	168,354,434
Expenditure related to investment activities				
Asset management, custodian & other fees	8,124,233	6,774,708	7,444,235	6,362,129
Other administration expenses	1,068,525	969,438	979,089	910,399
Total expenditure related to investment activities	9,192,758	7,744,146	8,423,324	7,272,528
Net gain from investment activities	65,120,605	180,230,206	62,401,586	168,595,462
Medical research related income				
External funding (Notes 2 & 8)	34,653,642	31,246,595	32,350,881	29,248,028
Licenses and patents	5,456,766	4,727,046	4,998,110	4,438,641
Contributions	3,000,000	3,000,000	2,749,025	2,817,425
Other (Note 9)	421,239	300,319	385,981	282,029
Total medical research related income	43,531,647	39,273,960	40,483,997	36,786,123
Medical research related expenditure				
Salaries & social benefits (Notes 13 & 15)	50,163,789	50,031,280	45,959,405	46,982,416
Laboratory expenditure	12,176,763	12,122,229	11,156,790	11,383,462
Equipment & other assets and Leasehold improvements (Notes 2 & 9)	3,617,233	3,048,237	3,314,340	2,862,685
Collaborative research programs	19,509,912	24,324,759	17,873,516	22,842,674
Other	15,850,048	18,387,585	14,532,920	17,270,297
Total medical research related expenditure	101,317,745	107,914,090	92,836,971	101,341,534
Excess of income over expenditure				
Excess of income over expenditure for the year	7,334,507	111,590,076	10,048,612	104,040,051
Excess of income over expenditure at the beginning of the year	761,227,528	647,945,571	978,199,311	872,475,369
Net change in restricted funds (Note 8)	(792,818)	1,691,881	(1,329,584)	1,683,891
Excess of income over expenditure at the end of the year	767,769,217	761,227,528	986,918,339	978,199,311

Ludwig Institute for Cancer Research Ltd, Zurich

Consolidated Statement of Cash Flows
for the year ended December 31, 2014

	USD		CHF	
	2014	**2013**	**2014**	**2013**
Operating activities				
Medical research related income	43,531,647	39,273,960	40,483,997	36,786,123
Medical research related expenditure	(101,317,745)	(107,914,090)	(92,836,971)	(101,341,534)
Excess of operating expenditure over income	(57,786,098)	(68,640,130)	(52,352,974)	(64,555,411)
Net change in receivables and payables relating to operations	(6,306,144)	1,966,676	(5,737,034)	1,831,462
Net cash used by operating activities	(64,092,242)	(66,673,454)	(58,090,008)	(62,723,949)
Investment activities				
Net gain from investment activities	65,120,605	180,230,206	62,401,586	168,595,462
Net realised gain on investment transactions (Notes 2 & 4)	(91,656,661)	(83,805,926)	(83,984,998)	(78,702,145)
Net unrealised depreciation / (appreciation) of investments (Notes 2 & 4)	21,992,033	(94,103,156)	20,162,848	(88,020,203)
Net unrealised loss / (gain) on forward foreign currency contracts (Note 10)	593,454	(719,717)	543,782	(675,886)
Share of profit and capital contribution in associated entities (Note 6)	1,065,010	(1,249,432)	976,161	(1,173,339)
Net change in receivables and payables relating to investing activities	2,160,425	1,654,365	1,979,597	1,553,614
Purchase of securities	(488,006,978)	(623,069,197)	(447,160,794)	(585,124,283)
Proceeds from sale of securities	551,949,688	687,743,974	505,751,499	645,860,366
Effects of exchange movements	1,949,475	(37,853)	1,473,212	(361,729)
Net cash generated by investment activities	65,167,051	66,643,264	62,142,893	61,951,857
Net increase / (decrease) in liquid funds and cash deposits	1,074,809	(30,190)	4,052,885	(772,092)
Liquid funds and cash deposits at the beginning of the year	28,619,269	28,649,459	25,454,129	26,226,221
Liquid funds and cash deposits at the end of the year	29,694,078	28,619,269	29,507,014	25,454,129

Ludwig Institute for Cancer Research Ltd, Zurich

Consolidated Statement of Capital Changes for the year ended December 31, 2014

Net worth

The share capital consists of 50 fully paid shares of nominal value CHF 1,000 each. The shareholders do not have any interest in the assets or income of the Ludwig Institute for Cancer Research Ltd (the Institute). Their sole power is to vote the shares in accordance with the exclusively charitable and scientific purposes of the Institute.

USD	Share Capital	Legal reserve	Donated capital	Cumulative excess of income	Cumulative translation adjustment	Total net worth
Balance at December 31, 2012	33,722	6,744	572,000,000	647,945,571	25,274	1,220,011,311
Excess of income over expenditure	0	0	0	111,590,076	(5,046)	111,585,030
Net change in restricted funds	0	0	0	1,691,881	0	1,691,881
Balance at December 31, 2013	33,722	6,744	572,000,000	761,227,528	20,228	1,333,288,222
Excess of income over expenditure	0	0	0	7,334,507	43,644	7,378,151
Net change restricted funds	0	0	0	(792,818)	0	(792,818)
Balance at December 31, 2014	33,722	6,744	572,000,000	767,769,217	63,872	1,339,873,555

CHF	Share Capital	Legal reserve	Donated capital	Cumulative excess of income	Cumulative translation adjustment	Total net worth
Balance at December 31, 2012	50,000	10,000	773,352,000	872,475,369	(529,088,779)	1,116,798,590
Excess of income over expenditure	0	0	0	104,040,051	(36,696,000)	67,344,051
Net increase in restricted funds	0	0	0	1,683,891	0	1,683,891
Balance at December 31, 2013	50,000	10,000	773,352,000	978,199,311	(565,784,779)	1,185,826,532
Excess of income over expenditure	0	0	0	10,048,612	136,886,822	146,935,434
Net change in restricted funds	0	0	0	(1,329,584)	0	(1,329,584)
Balance at December 31, 2014	50,000	10,000	773,352,000	986,918,339	(428,897,957)	1,331,432,382

Donated capital

Universe Tankships, Inc. made the following donations to LICR Fund, Inc.: -

	Year	Currency	Amount	Currency	Amount
Initial donation	1990	USD	500,000,000	CHF	673,500,000
Second donation	1991	USD	24,000,000	CHF	36,588,000
Third donation	1992	USD	48,000,000	CHF	63,264,000
Total		USD	572,000,000	CHF	773,352,000

Cumulative excess of income over expenditure

The Statutes of the Institute stipulate that the cumulative excess of income over expenditure is not to be distributed to shareholders and accordingly the available cumulative excess of income over expenditure is carried forward.

Notes to the Consolidated Financial Statements as of December 31, 2014

1. Accounting principles and scope of consolidation

Basis of presentation

The accompanying consolidated financial statements of the Institute are presented in accordance with generally accepted accounting principles in Switzerland (Financial Reporting Standards - Swiss GAAP FER). The Consolidated Statement of Cash Flows reflects the combination of the two principal activities – medical research carried out by the Institute and the investment activities of LICR Fund, Inc. (the Fund). In accordance with Swiss GAAP FER 21, paragraphs 28 and 56, the Institute adapted the terms and presentation of the Consolidated Statement of Cash Flows to reflect the purpose and activities of the organisation.

Scope of consolidation

The consolidated financial statements include the financial results of the Ludwig Institute for Cancer Research Ltd (the Institute), a not for profit organisation incorporated in Switzerland, LICR Fund, Inc., a not for profit membership corporation incorporated in Delaware, U.S.A, which was established to receive, hold and invest funds on behalf of the Institute and which is effectively controlled by the Institute, and TC Metrix Sàrl (TC Metrix), Epalinges, Switzerland a commercial spin-off company set up with the assistance of the Institute during 2012 in which the Institute holds a 80% interest. The consolidation is based on the audited financial statements of the Institute, the Fund and TC Metrix. All inter-company transactions and balances have been eliminated. No minority interests exist for the Fund. Due to TC Metrix reporting a cumulative net loss in 2014, no minority interests are shown for TC Metrix.

Universe Tankships, Inc., Marshall Islands, (UTI), a wholly owned subsidiary of the Institute, which engages in substantially different activities than the Institute, has been accounted for on the net worth basis.

iTeos Therapeutics SA (iTeos), Ottignies-Louvain-La-Neuve, Belgium has been accounted for on the net worth basis.

Ludwig Technologies, Inc., Delaware, a wholly owned subsidiary of the Institute, has been accounted for at acquisition cost.

Nature of operations

The Institute carries out its scientific and clinical activities at various branches and a centre in conjunction with hospitals in university medical centres. During 2014 the Institute’s research branches and centre were situated in Brussels, Lausanne, Melbourne, Oxford, San Diego, Sao Paulo, Stockholm and Uppsala. In addition, administrative offices were maintained in New York and Zurich. The Institute has a broadly based research program that addresses the challenge of cancer using the disciplines of cell biology, genetics, immunology, molecular biology and virology.

Foreign currency translation

Swiss franc financial statements

The consolidated accounts presented in Swiss Francs (CHF) include the Institute's financial statements denominated in CHF, the Fund's financial statements denominated in US Dollars (USD) and the financial statements of TC Metrix denominated in CHF. Translation of the Fund's Balance Sheet into CHF is achieved by using the London closing rates of exchange at year-end with the exception of donated capital and accumulated excess of income over expenditure, which are translated at historical rates. The Fund's income and expenditure are translated at the yearly average rates provided by the Swiss Federal Tax Administration. The resulting translation difference is shown as a separate component of net worth. The currency translation adjustment, which arises on the translation of the Fund's USD based financial statements into CHF is being accumulated with effect from January 1, 1994 and has not been calculated retrospectively.

US Dollar financial statements

The consolidated accounts presented in USD include the Institute's financial statements denominated in USD and the Fund's financial statements denominated in USD. The Balance Sheet of TC Metrix is translated into USD using the London closing rates of exchange at year-end. The Statement of Income over Expenditure is translated using the yearly average rates provided by the Swiss Federal Tax Administration. As the Institute has historically maintained USD accounts in addition to its CHF accounts, there is no need to perform a translation for the purposes of preparing a consolidation in USD. Accordingly, there is no translation effect in the consolidated USD accounts apart from Share capital and Legal reserve. Share capital and Legal reserve are translated into USD at rates ruling on January 1, 1994, being the initial year in which consolidated financial statements were prepared. The resulting translation difference is shown as a separate component of net worth.

Foreign exchange differences, which arise from foreign exchange in preparing the Institute's USD accounts, are included on a yearly basis in the excess of income over expenditure for the year.

2. Accounting policies and valuation standards

Liquid funds and Short-term cash deposits

Cash on hand and at banks and funds on call available within 48 hours are classified as Liquid funds. Cash deposits fixed for periods of longer than 48 hours are classified as Short-term cash deposits.

Investments and related income

Investments are valued at fair value for the year, as quoted on major securities exchanges. Securities that are not traded on major securities exchanges are valued based on quotations received from leading brokers. Forward foreign currency contracts are valued based on the average of closing bid and ask quotations from banks and brokers. Investments in limited partnerships are valued based on the Fund’s underlying holdings in these partnerships, which represent market values as determined by the general partners of the partnership. Unrealised appreciation and depreciation on investments as of the year-end are included in the excess of income over expenditure for the year.

Securities transactions are recorded on the trade date. Realised gains and losses on security transactions are calculated on the average cost basis.

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and could materially affect the amounts reported in the balance sheets.

Foreign exchange transactions

Assets and liabilities denominated in foreign currencies are translated into the reporting currencies at the London closing rates of exchange at year-end. Income and expenditure denominated in foreign currencies are translated into the reporting currencies on the following basis: -

i) Dividend income and contributions are translated at the average monthly rates as published by the Swiss Federal Tax Administration of the month in which the dividends and contributions have been received.

ii) Research expenditure and research external funding income are translated at the yearly average of the monthly rates as published by the Swiss Federal Tax Administration.

iii) Purchases and sales of investment securities are translated at the rates of exchange prevailing on the respective dates of such transactions.

iv) All other income and expenditure are translated at the yearly average of the monthly rates as published by the Swiss Federal Tax Administration.

Net realised and unrealised foreign exchange differences include gains and losses on foreign currency positions and changes in the value of other assets and liabilities arising as a result of changes in exchange rates.

Research external funding

External funding received from any outside source, whether of a cash or a non-cash nature, is recorded in the books of the Institute upon receipt. External funding received (in terms of restricted funds) is taken to income when the corresponding expenditure is incurred. Any unspent restricted funds are deferred to future accounting periods. Unrestricted funds received are taken to income in the year of receipt. External funding pledged, but not received where expenditure has been incurred, is taken to account as income and is accounted for as Research external funding receivables.

Tangible and intangible assets

Expenditure on equipment & other assets and leasehold improvements is expensed in the year it is incurred in accordance with accepted practice for cancer research organisations. The resale value of research equipment is minimal and no significant income is generated therefrom.

The value of intangible assets is not recorded in the balance sheet. All research expenditure, including the cost of patenting and licensing intellectual property is expensed in the year it is incurred.

Taxes

The Institute and the Fund are tax-exempt organisations and accordingly are not subject to income and capital taxes. Withholding taxes on foreign dividends and interest have been provided for in accordance with the applicable countries' tax rates. TC Metrix is subject to Swiss income and capital taxes.

3. Pledged assets

The Institute has pledged all its assets with a financial institution as collateral for a letter of credit of USD 0.8 Mio. (CHF 0.8 Mio.). The letter of credit has been issued to the lessor of the New York office premises and as per December 31, 2014 and 2013 these assets amounted to USD 19.9 Mio. (CHF 19.9 Mio.) and USD 10.5 Mio. (CHF 9.4 Mio.) respectively.

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4. Current assets - Investments

Investments, at fair value, held at December 31, 2014 and 2013 were as follows: -

	USD		CHF	
Description	**2014**	**2013**	**2014**	**2013**
Invested cash and cash equivalent				
- USD	10,202,039	21,144,145	10,137,766	18,805,603
- Non-USD currencies	1,639,226	917,840	1,628,899	816,327
Equity investments	579,809,177	618,768,606	576,156,380	550,332,799
Fixed income investments				
- Government	26,011,680	23,679,164	25,847,806	21,060,248
- Other	157,389,751	146,917,062	156,398,196	130,668,035
Alternative investments (limited partnerships)	538,017,600	481,842,769	534,628,089	428,550,959
Due (to) / from brokers	(5,069,917)	10,872,694	(5,037,977)	9,670,173
Net unrealised gain on foreign currency contracts	185,753	779,207	184,583	693,027
Investments, at fair value	1,308,185,309	1,304,921,487	1,299,943,742	1,160,597,171

The Fund obtained a revolving line of credit USD 25 Mio. (CHF 24.8 Mio.) through a financial institution on May 20, 2008. The applicable interest rate of any amount drawn upon is LIBOR plus 0.75%. There is no expiration date and the agreement may be terminated by either party with written notice. At December 31, 2014, there was USD 5 Mio. (CHF 5 Mio.) oustanding under this agreement. This amount was settled in January, 2015. There were no amounts outstanding under this agreement during the year 2013 or at December 31, 2013. The line of credit is collateralised by qualifying assets with a fair value of approximately USD 96 Mio. (CHF 95.4 Mio.) at December 31, 2014

5. Other Receivables - Third parties

Other Receivables - Third parties of USD 2,419,379 (CHF 2,404,126) as of December 31, 2014 and USD 2,683,128 (CHF 2,386,400 as of December 31, 2013 included doubtful debts, which have been fully provided for, in the amount of USD 546,702 (CHF 543,258) and USD 550,388 (CHF 489,514) respectively.

6. Financial fixed assets - Investments

	USD		CHF	
Description	**2014**	**2013**	**2014**	**2013**
Universe Tankships, Inc.				
Share capital	5,103,000	5,103,000	5,070,851	4,538,608
Percentage owned	100%	100%	100%	100%
Net investment at January 1	17,672,000	16,433,000	15,717,477	15,042,768
Dividends paid to the Institute	0	0	0	0
Net (loss) / income for the year	(1,454,000)	1,239,000	(1,332,300)	1,163,545
Translation adjustment	0	0	1,730,650	(488,836)
Net investment at December 31	16,218,000	17,672,000	16,115,827	15,717,477
iTeos Therapeutics SA				
Share capital	2,641,175	2,854,525	2,624,586	2,538,829
Share premium	2,811,643	1,384,889	2,793,985	1,231,727
Capital contribution	2,656,831	1,251,980	2,640,145	1,113,517
Operational loss	(2,801,494)	(1,252,359)	(2,783,899)	(1,113,854)
percentage owned	37.22%	49.75%	37.22%	49.75%
Net investment at January 1	2,108,920	2,007,305	1,875,684	1,837,543
Sale of shares	(251,689)	0	(230,433)	0
Share of premium	448,601	0	410,716	0
Share of capital contribution	643,229	470,536	588,908	441,781
Share of net operational loss for the year	(702,840)	(460,104)	(643,485)	(431,987)
Translation adjustment	(270,526)	91,183	(38,103)	28,347
Net investment at December 31	1,975,695	2,108,920	1,963,287	1,875,684
Total investments at December 31	18,193,695	19,780,920	18,079,114	17,593,161

Universe Tankships, Inc., Marshall Islands, has been accounted for using the net worth method, as its business activities differ substantially from those of the Institute.

iTeos Therapeutics SA, Ottignies-Louvain-La-Neuve, Belgium, has been accounted for using the net worth method. iTeos Therapeutics SA was founded in 2012 and is a joint spin-off of the Institute and the de Duve Institute at the Catholic University of Louvain. Capital of EUR 3.1 Mio. (USD 4.1 Mio., CHF 3.7 Mio.) was raised from the Institute, Hunza Ventures SCA, Life Sciences Research Partners, VIVES Louvain Technology Fund and several business angels. This financing complements a EUR 6 Mio. non-dilutive grant from the Belgian Walloon Government, which was received in December 2011. iTeos's research program focusses on the development of smallmolecule immunomodulators that can increase the efficacy of cancer immunotherapy, as well as leverage the spontaneous tumour immune response. The Institute initially held 49.75% of the capital of iTeos.

In 2014 Pfizer Inc. acquired 683,790 shares from existing shareholders at EUR 4.30 per share including a capital premium of EUR 4.01 as part of a financing agreement. As part of this arrangement Pfizer acquired 347,103 shares from the Institute, resulting in a realised gain of EUR 1,305,107 (USD 1,752,498, CHF 1,604,499). The Institute currently holds 2,430,674 out of a total of 6,530,792 shares, representing a percentage owned of 37.22%.

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7. Financial fixed assets - Other

	USD		CHF	
Description	**2014**	**2013**	**2014**	**2013**
Ark Therapeutics Group plc				
Net investment	4,520	3,023	4,492	2,688
Percentage owned	0.26%	0.26%	0.26%	0.26%
Circadian Technologies Ltd.				
Net investment	434,317	558,604	431,557	496,849
Percentage owned	2.11%	6.42%	2.11%	6.42%
Life Sciences Pharmaceuticals, Inc.				
Net investment	1,457	1,457	1,448	1,296
Percentage owned	13.65%	13.65%	13.65%	13.65%
Recepta Biopharma S.A.				
Net investment	327	327	325	291
Percentage owned	29.60%	29.60%	29.60%	29.60%
CT Atlantic AG				
Net investment	10,064	11,244	10,000	10,000
Percentage owned	3.75%	3.75%	3.75%	3.75%
Serametrix Corporation				
Net investment	100	100	99	89
Percentage owned	5.00%	5.00%	5.00%	5.00%
Ludwig Technologies, Inc.				
Net investment	100	100	99	89
Percentage owned	100.00%	100.00%	100.00%	100.00%
Cancer Vaccine Acceleration Company, LLC				
Net investment	100	100	99	89
Percentage owned	50.00%	50.00%	50.00%	50.00%
Retroscreen Virology Group plc / Activiomics Ltd				
Net Investment	74,807	1	74,338	1
Percentage owned	0.03%	2.00%	0.03%	2.00%
Loans to staff	789,372	160,660	784,409	142,891
US 457b Pension plan	443,641	245,274	440,847	218,147
Total Financial fixed assets - Other	1,758,805	980,890	1,747,713	872,430

The Institute is committed to disseminating its know-how to the global research community. The investments in the start-up organisations shown above have been acquired or founded as part of licensing arrangements, transferring Institute research knowledge to these companies. Participation in these entities does not form part of the Institute’s long term strategy and the respective investments, if not quoted on a stock exchange, are accounted for at acquisition cost.

With respect to investments with a percentage owned of more than 20%, the following information is provided:

i) The nominal share capital of Recepta Biopharma S.A., Sao Paulo, Brazil, is BRL 1,000. It conducts medical research, develops, produces and commercialises humanized antibodies for the diagnosis of human cancer.

ii) In order to administer intellectual property assets in areas other than cancer, in 2010 the Institute founded Ludwig Technologies, Inc., Delaware, USA. The nominal share capital is USD 100.

iii) In 2010 the Institute entered into a joint venture with the Cancer Research Institute and formed the company Cancer Vaccine Acceleration Company, LLC, Delaware, USA. The purpose of the company is to identify novel opportunities for the development of cancer vaccine and immunotherapy and to obtain, hold and develop intellectual property. The nominal share capital is USD 200.

The Institute has granted various housing loans to Oxford and San Diego Branch staff primarily upon relocation to working at the Branch. The outstanding long term receivables as of December 31, 2014 amounted to USD 789,372 (CHF 784,409) and as of December 31, 2013 amounted to USD 160,660, (CHF 142,891). Short-term receivables for these loans are recorded under Other receivables – Third parties and amounted to USD 40,458 (CHF 40,203) in 2014 and USD 42,068 (CHF 37,416) in 2013.

8. Change in deferred income (restricted funds)

	USD		CHF	
Description	**2014**	**2013**	**2014**	**2013**
Deferred Income at January 1	5,195,543	6,887,424	4,621,028	6,304,919
Usage of deferred income	(4,145,401)	(6,021,514)	(3,687,023)	(5,512,252)
New deferred income	4,967,878	4,380,382	4,936,567	3,896,008
Exchange rate adjustments	(29,659)	(50,749)	80,040	(67,647)
Deferred income at December 31	5,988,361	5,195,543	5,950,612	4,621,028
Net change of deferred income	792,818	(1,691,881)	1,329,584	(1,683,891)

In accordance with the provisions of Swiss GAAP FER 21 as from January 1, 2003, all changes in deferred income (restricted funds) are shown gross in the captions Medical research related income and Excess of income over expenditure in the Consolidated Statement of Income and Expenditure (see note 2, Accounting policies and valuation standards, Research external funding).

9. Tangible fixed assets

During the years ended December 31, 2014 and December 31, 2013 the purchase of equipment & other assets and expenditure on leasehold improvements, amounting to USD 3,617,233 (CHF 3,314,340) and USD 3,048,237 (CHF 2,862,685) respectively, was expensed in the year of acquisition. Receipts arising from the disposal of equipment & other assets amounting to USD 5,899 (CHF 5,405) and USD 3,347 (CHF 3,143) respectively were credited in full to Medical research related income - Other.

10. Forward currency contracts

The Fund and the Institute enter into forward contracts in order to hedge their exposure to changes in foreign currency rates on their assets and liabilities denoted in foreign currencies. In 2014 and 2013 Unrealised gains of USD 281,419 (CHF 279,646) and USD 1,079,138 (CHF 959,786) and unrealised losses of USD 95,666 (CHF 95,063) and USD 299,931 (CHF 266,759) respectively, arising from contracts open at year end, are included in Current assets - Investments and represent the changes in fair value of the investments from the time of the Fund's and the Institute's investment.

The notional values of the forward foreign currency contracts held by the Fund and the Institute translated at the relevant year-end exchange rates were as follows: -

	USD in thousands		CHF in thousands	
Description	**2014**	**2013**	**2014**	**2013**
Forward currency purchases	15,610	26,296	15,511	23,388
Forward currency sales	15,796	27,075	15,696	24,081

11. Lease and leasing commitments

	USD		CHF	
Year	**2014**	**2013**	**2014**	**2013**
2014	0	5,096,560	0	4,532,883
2015	4,712,644	3,902,186	4,682,963	3,470,609
2016	1,527,908	1,551,238	1,518,285	1,379,671
2017	1,326,775	1,328,976	1,318,415	1,181,989
2018	1,146,285	1,138,010	1,139,064	1,012,146
2019	1,138,010	1,138,010	1,130,841	1,012,146
2020-2021	1,043,180	1,043,188	1,036,599	927,808
Lease and leasing commitments not recorded in the balance sheet	10,894,802	15,198,168	10,826,167	13,517,252

All operational lease and leasing commitments with a notice period of three months or more are shown.

12. Fire insurance values

Description	USD 2014	USD 2013	CHF 2014	CHF 2013
Equipment and other assets	47,658,303	64,464,321	47,358,284	57,335,169
Leasehold improvements	4,233,804	5,524,745	4,207,156	4,913,781
Fire insurance values of tangible fixed assets	51,892,107	69,989,066	51,565,440	62,248,950

13. Liabilities to pension funds

Description	USD 2014	USD 2013	CHF 2014	CHF 2013
Current liabilities				
Accounts payable	77,894	49,061	77,403	43,635

The above table illustrates the amount, within the Accounts payable - Third parties balance sheet item, that is payable to pension funds. Institute wide, the annual cost of the employer's contributions in 2014 and 2013 for all plans amounted to USD 3,740,394 (CHF 3,426,843) and USD 3,907,966 (CHF 3,669,811) respectively.

Pension schemes have been established for all Institute branches and offices.

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The following table shows all the pension schemes for which information is required under the application of the revision of FER 16. All amounts are in thousands: -

Name/ (Country)	Net worth 31.12.14**	Share of commit-ment 31.12.14*	Share of commit-ment 31.12.13*	Change in commit-ment*	Contri-butions 2014 incl. change in commit-ment*	Contri-butions 2014	Contri-butions 2013
	USD	USD	USD	USD	USD	USD	USD
Federated Pension Scheme (UK)	881	(1,511)	(1,466)	45	56	11	19
Vita Collective Insurance (CH)	N/A	0	0	0	74	74	70
AXA Foundation for Occupational Benefits (CH)	N/A	0	0	0	294	294	300
	CHF	CHF	CHF	CHF	CHF	CHF	CHF
Federated Pension Scheme (UK)	875	(1,501)	(1,304)	197	207	10	18
Vita Collective Insurance (CH)	N/A	0	0	0	68	68	65
AXA Foundation for Occupational Benefits (CH)	N/A	0	0	0	269	269	282

* Economic commitment

** Net worth at disposal of trustee, does not take account of pension obligations due after the end of the scheme year

The actuarial valuation as of March 31, 2009 of the Federated Pension Scheme for Ludwig Institute for Cancer Research (the FPS scheme) in the United Kingdom revealed a shortfall of assets of USD 3,053,776 (CHF 3,157,025). The Institute entered into a recovery plan with the Trustee of the FPS scheme in December 2009, to finance the deficit plus interest over a six year period. As part of the recovery plan USD 2,404,451 (CHF 2,381,917) has been paid through to May 31, 2013. As per December 31, 2014 and December 2013 the Institute has provided for the estimated total costs of securing liabilities and has closed future accrual to the scheme.

In Switzerland, the Institute operates a scheme with the VITA Collective Insurance Foundation (VITA) for the staff at the Lausanne branch. The invested capital amounted to USD 2.4 Mio. (CHF 2.4 Mio.) as of December 31, 2014 and USD 2.5 Mio. (CHF 2.2 Mio.) as of December 31, 2013. VITA has communicated a funding ratio of 111.3% as of December 2014. In order to finance a funding shortfall VITA may increase future employer and employee contributions.

In addition, the Institute operates in Switzerland a scheme with the AXA Foundation for Occupational Benefits (AXA) for staff employed at the Zurich office. The invested capital as of December 31, 2014 amounted to USD 7.2 Mio. (CHF 7.2 Mio.) and USD 7.7 Mio. (CHF 6.9 Mio.) as of December 31, 2013. The capital invested is guaranteed 100% by AXA.

Described below are all other pension schemes in respect of the Institute's locations outside Switzerland for which the Swiss Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (Occupational Pensions Act) does not apply, but various disclosures are provided.

In Australia, during 2014 and 2013 the Melbourne-Austin branch was a registered employer with the Defined Benefit Division of UniSuper (UniSuper DBD), a pension scheme for Australian universities and associated organisations. All employees at the Melbourne-Austin Branch left the Intitute as at December 31, 2014 and no further liability exists by the Institute versus UniSuper.

In Belgium, a scheme was in place during 2014 and 2013 providing target benefits upon retirement to staff at the Brussels Branch. The plan is administered by and funds are invested with the AG Insurance Company, Brussels. The insurance company recalculates the contributions to be paid to finance the target pension benefits on an annual basis.

In Brazil, during 2014 and 2013 the Institute operated two defined contribution schemes at its Sao Paulo Branch. The Life Free Benefits Generator scheme and the Free Benefits Generator Plan are administered by and funds are invested with the Itau / Unibanco Life and Provident Ltd.

In Sweden, the Institute operates the Optional ITP Plan 1 (Plan 1) a defined contribution scheme, the Optional ITP Plan 2 (Plan 2) a defined benefit scheme and the SPP Alternative ITP plan, a defined contributon scheme, with the SPP Life Insurance Company. The Plans cover different types of income classes. For the defined benefit schemes the insurance company recalculates the contributions to be paid to finance the target pension benefits on an annual basis. In 2014 the Uppsala branch replaced Plan 2 with a new pension plan (Maxplan), a defined contribution scheme which is based on the benefit scheme of the Plan 2 and carries the same costs for the employer.

In the United Kingdom, the Institute is a registered employer with the Universities Superannuation Scheme (the USS scheme) which sets the level of contributions based on the advice of the scheme's actuary. In view of the size of the scheme and the Institute's limited participation in the management of the scheme, this scheme is treated as a defined contribution scheme. The last actuarial valuation took place on March 31, 2011 and this showed under the Technical Provisions basis, as required by the UK Pensions Regulator, a funding level of 92%. An actuarial valuation as of March 31, 2014 is presently being carried out but has not yet been published. However, due to an anticipated reduction in funding level, discussions have been held by the USS Scheme's principal stakeholders represented by Universities UK and the University and College Union on potential responses to the funding issue. The Joint Negotiating Committee, which is the forum responsible for decisions around scheme changes, has decided on a package of proposed benefit reforms to USS' core benefits. These proposals have been put forward to the USS trustee for consideration to allow the commencement of a formal consultation process involving employers and scheme members. The main points of the proposed benefit reforms are that the USS final salary section shall cease taking new contributions from April 1, 2016 and contributions on salaries up to GBP 55,000 (the Threshold) shall in future be made to the USS Career Revalued Benefits section. For salaries over the threshold, members shall become members of a new Defined Contribution section. Under the proposals, employer contribution rates, covering all contributions to the respective sections, shall increase from 16% to 18% of member's salaries. The consultation process is expected to be completed in the summer of 2015. In the event of no agreement, the USS Trustee Board shall be compelled to impose employer contributions of 25% of total salary.

Following legislation introduced in the United Kingdom in September 2005, special provisions apply in the event of either an employer winding up a pension scheme or causing a cessation event to occur as a registered employer of a multi-employer pension scheme. In these cases, the employer is required to make additional funding available to buyout all liabilities with an insurance company (defined either as "buyout-debt" or "Section

75 debt") or, for multi-employer schemes with continuing indirect participation, to enter into an approved withdrawal agreement (AWA). Subject to agreement with the trustee of the pension scheme and the pension regulator, under an AWA, a guarantee is to be provided by the employer to the trustee of the pension scheme and the additional funding requirement is deferred until the trustee requires it to be paid or the scheme commences wind-up.

Liability incurred by buying out debt with insurance companies is invariably significantly greater than that calculated using traditional actuarial valuations.

The Institute's Board of Directors has reviewed the position taking into account the various on-going employment situations in the United Kingdom. As the USS scheme continues to have active members, and it is intended to retain the scheme for active members, the Board has concluded that there is no need to make provision for buyout-debt as of December 2014 and 2013.

In the event that a buyout-debt liability would be incurred for the USS scheme in the United Kingdom, the cost thereof, based on information provided by the respective actuary using the last triennial valuation and current industry experience, is estimated at USD 9.0 Mio. (CHF 9.0 Mio.) as of December 31, 2013 and USD 8.0 Mio. (CHF 7.1 Mio.) as of December 31, 2013.

In the United States of America, the Institute operated The Ludwig Institute for Cancer Research Retirement Savings Plan (the LICRRS Plan). The LICRRS Plan is organised under Section 403(b) of the Internal Revenue Code and is a defined contribution scheme.

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14. Provisions

USD	Tax related	Pension schemes	Restruc-turing	Other	Total
Total provisions as per 31.12.12	2,779,550	1,462,950	1,390,959	1,307,386	6,940,845
Additions	1,741,029	541,478	275,293	395,499	2,953,299
Utilizations	0	(532,104)	(289,788)	(523,000)	(1,344,892)
Dissolutions	(111,170)	(32,808)	(314,624)	(384,386)	(842,988)
Currency adjustments	172,332	26,310	(101,893)	(23,904)	72,845
Total provisions as per 31.12.13	4,581,741	1,465,826	959,947	771,595	7,779,109
thereof current					7,507,928
Additions	580,596	612,646	0	302,809	1,496,051
Utilizations	0	(473,702)	(425,427)	(8,946)	(908,075)
Dissolutions	(1,604,278)	0	(248,014)	(236,382)	(2,088,674)
Currency adjustments	(401,171)	(93,808)	(26,339)	(94,026)	(615,344)
Total provisions as per 31.12.14	3,156,888	1,510,962	260,167	735,050	5,663,067
thereof current					5,663,067

CHF	Tax related	Pension schemes	Restruc-turing	Other	Total
Total provisions as per 31.12.12	2,544,400	1,339,200	1,273,317	1,196,781	6,353,698
Additions	1,635,000	508,378	258,528	371,460	2,773,366
Utilizations	0	(499,577)	(272,140)	(491,149)	(1,262,866)
Dissolutions	(104,400)	(30,803)	(295,520)	(360,977)	(791,700)
Currency adjustments	0	(13,504)	(110,379)	(29,847)	(153,730)
Total provisions as per 31.12.13	4,075,000	1,303,694	853,806	686,268	6,918,768
thereof current					6,677,567
Additions	532,000	561,142	0	277,464	1,370,606
Utilizations	0	(421,307)	(378,393)	(7,957)	(807,657)
Dissolutions	(1,470,000)	0	(227,162)	(216,508)	(1,913,670)
Currency adjustments	0	57,937	10,277	(8,848)	59,366
Total provisions as per 31.12.14	3,137,000	1,501,466	258,528	730,419	5,627,413
thereof current					5,627,413

Tax related

The Institute is registered for value added tax in Switzerland.

In September 2004, the Swiss Federal Tax Administration carried out an audit at the Institute's Zurich office. In an informal report, the Swiss Federal Tax Administration questioned the method used by the Institute in calculating the reduction of the input tax for the years 2000 to 2004.

The report set out three different methods to calculate the input tax reduction with claims ranging for 2003 - the year audited in detail - between USD 782,637 (CHF 889,937) and USD 817,696 (CHF 929,802).

In May 2005 the Swiss Federal Tax Administration revised their initial position and invoiced the Institute for a total amount of USD 1,319,983 (CHF 1,739,606) with amounts ranging between USD 229,051 (CHF 301,866) and USD 284,091 (CHF 374,404) for the years 2000 to 2004.

The Institute's management continues to be not in agreement with these calculations and its tax advisors wrote to the Swiss Federal Tax Administration in June 2005 setting out again the Institute's position. The Swiss Federal Tax Administration has not, as yet, responded to this letter. In order to prevent any limitation of claim by the Institute, the professional tax advisors wrote to the Swiss Federal Tax Administration again in February 2012.

In December 2012 the Swiss Federal Tax Administration informed the Institute that this matter was still pending and notified the Institute of the interruption of the limitation of claim for the years 2007 to 2009.

In the opinion of management, based on professional advice received, the Institute expects a further substantial reduction in the claim by the Swiss Federal Tax Administration. However, taking account of the developments that took place in 2005, for the sake of prudence, a provision of USD 914,333 (CHF 1,205,000) was included in the 2005 Financial statements. As of December 31, 2014 and December 31, 2013, this provision including interest including interest amounted to USD 2,776,492 (CHF 2,759,000) and USD 2,841,241 (CHF 2,527,000) respectively.

As from January 1, 2010 a new value added tax law has been introduced and based on advice from tax advisors, provisions required under the new tax law were considerably reduced. As of December 31, 2012 this provision amounted to USD 114,049 (CHF 104,400). However, due to the subsequently enacted practice by the VAT authorities of denying companies with a commercial income of less than 25% (of total turnover) the right to deduct taxes on imported services and taxable supplies, this provision has been increased to USD 1,740,499 (CHF 1,548,000) as per December 31, 2013. In 2014 the Federal Administration Court has overruled the practice of the VAT authorities and provisions were substantially reduced to USD 380,397 (CHF 378,000) as per December 31, 2014.

The total provisions including interest as of December 31, 2014 and 2013 are USD 3,156,888 (CHF 3,137,000) and USD 4,581,741 (CHF 4,075,000) respectively. Charges have been made against Medical research related expenditure - Other.

Pension schemes

The actuarial valuation as of March 31, 2009 of the FPS in the United Kingdom revealed a shortfall of assets of USD 3,053,776 (CHF 3,157,025). The Institute entered into a recovery plan with the Trustee of the Federated Pension Scheme in December 2009, to finance the deficit plus interest over a six-year period. As part of the recovery plan USD 2,404,451 (CHF 2,381,917) has been paid through to May 31, 2013. As per December 31, 2014 and December 2013 the Institute has provided for the estimated total costs of securing liabilities and has initiated the process of winding up the scheme.

Restructuring

The Institute is in the process of consolidating its research activities at fewer but larger locations to maximize the impact of its resources. As part of this transition, the scientific activities of the Melbourne-Austin branch ceased at the end of 2014. The scientific staff relocated to the Olivia Newton John Cancer Research Institute with financial support from the Ludwig Institute. Provision has been made in the financial statements for redundancy and severance pay due to Institute staff members.

Other

Various claims have been made by former staff against the Institute. Some of the claims have resulted in court filings. Institute management disputes the claims made and shall contest them vigorously. For the purposes of preparing the financial statements, management has carried out an assessment of the claims made giving due consideration to the various outcomes. Provision has been made in the financial statements under Provisions – Other, reflecting the results of this assessment.

15. Directors' emoluments

The members of the Institute's Board of Directors constitute all of the Board of Directors of the Fund. In 2014 and 2013, the President of the Institute and the Fund and the Institute's Scientific Director were members of both Boards of Directors.

Emoluments consist of (i) Directors' fees, (ii) Salaries and social benefits, (iii) Settlement and release payments and (iv) Other remuneration. Directors' fees were paid by the Institute and the Fund; Salaries and social benefits were paid by the Institute and The Ludwig Group, Inc., a subsidiary company; Settlement and release payments and Other remuneration were paid by the Institute.

	USD		**CHF**	
Description	**2014**	**2013**	**2014**	**2013**
Directors' fees	370,372	366,860	339,372	344,518
Salaries & social benefits	1,478,336	1,296,550	1,354,599	1,217,590
Settlement and release payments	0	400,000	0	375,640
Other remuneration	11,347	11,683	10,397	10,971
Total emoluments	1,860,055	2,075,093	1,704,368	1,948,719

The Scientific Director in post in 2012 resigned in October 2012 but continued to serve as a member on both the Institute and the Fund Board of Directors from which point he commenced receiving directors's fees through to his resignation from both Boards in June 2013.

The vacant Scientific Director position was filled in June 2013.

In 2014 and 2013 the President of the Institute and the Fund and the Institute's Scientific Director received salaries and social benefits but did not receive directors' fees. The Chairman and the remaining members of the two Boards including the former Scientific Director received directors' fees but did not receive salaries & social benefits. The former Scientific Director received a Settlement and release payment of USD 400,000 (CHF 375,640) in 2013. One member of the Board of Directors was paid other remuneration in 2014 and 2013.

The remuneration of the two Boards of Directors, the Chairman of the two Boards, the President of the Institute and the Fund and the Institute's Scientific Director are subject to review respectively by the Institute's Board Compensation Committee and the Fund's Board of Directors.

Salaries are benchmarked against objective, third party comparable levels of compensation for fairness and reasonableness. The individual levels of Directors' fees have remained unchanged since 1998.

At December 31, 2014 and 2013, there were ten and nine members of both the Board of Directors of the Institute and the Fund.

16. Related party transactions

Effective January 1, 2006, the Institute and the Fund entered into new administrative service agreements with The Ludwig Group, Inc. (LGI), a wholly owned subsidiary of Universe Tankships, Inc., Delaware, USA. These agreements replace the former contracts between the two parties, which were in effect as from January 1, 1996.

Fees paid by the Institute and the Fund under the service agreements including occupancy related costs amounted to USD 4.9 Mio. (CHF 4.6 Mio.) in 2014 and USD 4.8 Mio. (CHF 4.5 Mio.) in 2013.

Payables in favor of LGI by the Institute and the Fund as of December 31, 2014 and December 31, 2013 amounted to USD 1.3 Mio. (CHF 1.2 Mio.) and USD 1.3 Mio. (CHF 1.1 Mio.) respectively.

Effective October 22, 2012, the Institute entered into a Research Collaboration and License Agreement with iTeos Therapeutics SA. Collaboration and license fees invoiced to iTeos amounted to USD 0.1 Mio. (CHF 0.1 Mio.) for 2014 and USD 0.1 Mio. (CHF 0.1 Mio.) for 2013.

17. Expenditure analysis

The Institute and the Fund prepare, by entity, various statistical and information returns which require analysis of expenditure between i) program service, ii) management and general and iii) grant writing costs.

Using this analysis, on a consolidated basis, for the year 2013 (the latest year where analysis data is currently available), total expenditure is analysed as program service expenditure - USD 91,009,120 (78%) (CHF 85,466,665); management and general expenditure - USD 22,730,756 (20%) (CHF 21,346,453) and grant writing expenditure - USD 2,125,235 (2%) (CHF 1,995,808).

For 2012, total expenditure is analysed as program service expenditure - USD 95,881,127 (79%) (CHF 90,904,897); management and general expenditure - USD 22,944,909 (19%) (CHF 21,754,068) and grant writing expenditure - USD 2,606,078 (2%) (CHF 2,470,823).

18. System of internal control and the conduct of the annual assessment of risk

The Institute's and the Fund's Board of Directors and management are responsible for determining the system of internal controls operated and for monitoring the adequacy and effectiveness of the control environment. The Institute's and the Fund's internal control over financial reporting is based on the criteria set forth by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and is designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles in Switzerland / Financial Reporting Standards – Swiss GAAP FER.

The Institute and the Fund have adopted a risk-based approach to internal control and accept that it is neither possible nor cost effective to build a control environment that is risk free. Accordingly, the system of internal controls in place is designed to manage rather than to eliminate risk. The system of internal control is an on-going process designed to identify the principal financial reporting risks, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

In 2014, the Institute's and the Fund's management conducted a risk assessment of the key processes already documented in the form of process flowcharts. Risks within those key processes were identified and evaluated as to their likelihood and impact based on predefined scales, incorporating quantitative and qualitative criteria. For each of the identified risks, the risk level was calculated as a multiple of the likelihood and impact. Top risks for each process were identified based on their respective risk level and classified further as financial reporting or operational risks. Key controls were defined and implemented to mitigate those top financial risks. Non-financial reporting risks are considered outside of the ICS through other LICR policies and procedures.

The Institute's and Fund's management assessed the effectiveness of the LICR Internal Control System (ICS) over financial reporting during the year under review and reported thereon to the Institute's and Fund's Audit Committees.

The respective Audit Committees have the delegated responsibility to oversee the development and operation of the internal control system, to receive reports from the Risk and Compliance Officer and External Auditors, to review the internal control system documentation and to agree any actions necessary to implement recommended improvements. The Audit Committees received reports from the Institute's Risk and Compliance Officer with regard to the ICS at four of their respective meetings during the year.

The Boards of Directors of the Institute and the Fund assessed the effectiveness of the ICS for financial reporting throughout the year and believe that the LICR system of internal control for financial reporting was properly in effect as of December 31, 2014.

As part of the system of internal control, the internal audit function continued to operate and verify the adequacy and effectiveness of internal controls, carry out work to test the controls and provide reports to the Audit Committee. The operations of the Brussels Branch, Melbourne-Austin Branch and the New York office were reviewed by internal audit during 2014 and reports were submitted to the Audit Committee.

Risk assessments shall be carried out on an annual basis by the Risk and Compliance Officer reporting to the Audit Committees. They shall be based on annual self-reassessment of risks and controls by the ICS process owners, information obtained by interviews of the Institute's and the Fund's management and key personnel and further evaluation and testing of controls when carrying out internal audits.

19. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements of the Ludwig Institute for Cancer Research Ltd as of December 31, 2014, together with the Report of the Auditors, dated May 19, 2015, are hereby submitted to the General Meeting of Shareholders.

20. Subsequent events

There are no subsequent events to report, which might have a material impact on the Consolidated Financial Statements.

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Ludwig Institute for Cancer Research Ltd, Zurich

Performance Report

Purposes of the organization

The Ludwig Institute for Cancer Research Ltd (the Institute) is an international not-for-profit organisation with a 44-year legacy of pioneering discoveries relating to cancer. The Institute provides its scientists from around the world with the resources and the flexibility to facilitate the realisation of the life-changing potential of their work and advance their discoveries for the benefit of human health. This philosophy, combined with robust translational programs, maximises the potential of breakthrough discoveries.

The Institute conducts its own basic research as well as clinical trials, making it a bridge from the most basic questions of life to the most pressing needs of cancer care. Since its inception, the Institute has invested about USD 1.8 billion of its own resources in cancer research, and has an endowment valued at USD 1.3 billion. The Institute's investment portfolio is held and managed by LICR Fund, Inc. (the Fund).

The Institute now has around 520 scientists, clinicians, postdoctoral fellows, students and support staff located in six countries who are focused on multiple aspects of cancer research. The Institute is part of the larger Ludwig Cancer Research (Ludwig) community, which also includes the Ludwig Centers at six U.S. institutions, all pursuing breakthroughs to alter the course of cancer.

The Institute's research activities are principally organised through Branches and Centres. Each Branch occupies defined space and functions in close association with a local university, research institute and / or not-for-profit hospital. A number of individual investigators, laboratories and centers complement the Institute's Branch network through a wide range of collaborative research programs thereby extending the international reach and research footprint of the Institute.

The Institute continued to attract significant external funding to support its core research programs.

In 2014, the Institute received USD 22.1 million (CHF 20.7 million) from industrial and philanthropic resources. In addition, external funding from Government sources amounting to USD 12.6 million (CHF 11.7 million) was taken to income in 2014. The total amount received of USD 34.7 million (CHF 32.4 million) was 10.9 % (USD) and 10.6% (CHF) higher than the 2013 amount received of USD 31.2 million (CHF 29.2 million). The increase in external funding received is mainly related to an increase of funds from philanthropic resources.

The five highest providers of external funding to the Institute were as follows:-

US National Institutes of Health – USD 8.3 million (CHF 7.6 million); the Catholic University of Louvain, Brussels, Belgium – USD 3.7 million (CHF 3.4 million); the Karolinska Institute, Stockholm, Sweden – USD 2.8 million (CHF 2.6 million); the Victorian State Government, Australia – USD 2.2 million (CHF 2.0 million) and the De Duve Institute, Brussels, Belgium – USD 1.5 million (CHF 1.4 million).

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Managing bodies and senior staff

The Statutes and By-laws of the Institute determine the responsibilities and the authority of the following organs of the company:-

the Board of Directors,
the Management, comprising the Executive Officers and
the Branch Directors.

The Board is elected at the General Meeting of Shareholders held each year in June for a one-year term of office. The members of the Institute's Board of Directors are automatically members of the Board of Directors of the Fund.

The individuals who served as members of the Board of Directors of both the Institute and the Fund during 2014 were as follows: - John L. Notter (Chairman); Alfred Berger; Stephen F. Bollenbach; Olivier Dunant; John D. Gordan III; Samuel Hellman, MD; Adolf E. Kammerer; Sir David Lane, PhD; Edward A. McDermott Jr. and Philip A. Pizzo, MD.

The Executive Officers of the Institute constitute its management and consist of the President; the Scientific Director; the Executive Directors; the Chief Financial Officer and the Secretary to the Board of Directors.

These posts were held as of December 31, 2014, by the following individuals: -

President	Edward A. McDermott Jr.
Scientific Director	Sir David Lane, PhD
Executive Director of Operations	Eric W. Hoffman, PharmD
Executive Director of Technology Development	Jonathan C.A. Skipper, PhD
Executive Director of Collaborative Sciences	Robert L. Strausberg, PhD
Chief Financial Officer and Secretary to the Board	Richard D.J. Walker

The Scientific Director and Executive Directors were supported by: -

Director of Human Resources	Kimberly McKinley-Thomas
Director of Intellectual Property	Pär Olsson, PhD
Director of Communications	Rachel Steinhardt
Director of Clinical Trials Management and Chief Medical Officer	Ralph Venhaus, MD

The Institute has a Scientific Advisory Committee that provides advice to the Scientific Director on scientific matters as well as the review of scientific staff. As of December 31, 2014, the Scientific Advisory Committee was composed of: - Sir David Lane, PhD (Chairman), José Baselga, MD, PhD; Philip D. Greenberg, MD; Lucy Shapiro, PhD; Karen H. Vousden, PhD and Christopher T. Walsh, PhD. Eric W. Hoffman, PharmD was the Secretary.

The Branches and Centres are each managed by a Director or a senior scientist, who is responsible for the scientific program as well as the administration of the Branch.

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The leadership of the Institute's locations as of December 31, 2014 was as follows: -

Brussels	Benoît Van den Eynde, PhD
Lausanne Centre	George Coukos, MD, PhD
Oxford	Xin Lu, PhD
San Diego	Webster K. Cavenee, PhD
Sao Paulo	Anamaria Camargo, PhD
Stockholm	Thomas Perlmann, PhD
Uppsala	Carl-Henrik Heldin, PhD

The Melbourne-Austin Branch closed at the end of 2014. The scientific staff relocated to the Olivia Newton-John Cancer Research Institute and will be supported by the Institute during a transition period.

Some Executive Officers, Branch Directors and other senior staff members hold academic positions within the host institutions with which the Institute is associated.

Results of work on Institute research programs in 2014

Scientific Publications

Laboratory and clinical research to further the understanding and control of cancer is conducted at the Institute's Branches and through collaborations with other institutions. In 2014, progress was made in the study of the cancer genome, cancer biology, cancer genetics, signal transduction, cancer immunology, and therapeutic modalities of cancer vaccines, enzyme therapy, small molecule inhibitors, RNA interference therapy and targeted antibodies.

The Institute is committed to prompt and active dissemination of its research results. In the year 2014, the publication record by location was as follows: -

	Primary Research Articles	Reviews/ Book Chapters/ Commentaries	Total
Brussels	32	4	36
Baltimore Collaborative Laboratory	3	0	3
Lausanne Centre	52	8	60
Melbourne–Austin	58	7	65
Melbourne WEHI Collaborative Laboratory	25	6	31
New York Collaborative Laboratory	7	7	14
Oxford	40	19	59
San Diego	53	8	61
Sao Paulo	24	0	24
Stockholm	15	2	17
Uppsala	15	9	24
Total	***324***	***70***	***394***

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Clinical Trials

Six Institute-sponsored clinical trials were on-going in 2014. Two additional studies were managed by the Institute, but not sponsored directly. Institute investigational study agents were provided for an additional sixteen clinical trials sponsored and managed by local entities. These twenty-four trials were supported by thirteen active Institute regulatory dossiers [Nine Investigational New Drug (IND) applications (USA), one Drug Master File (DMF), and three Clinical Trial Notifications (CTN) in Australia]. Over the year, the Institute made one new regulatory submission and fifty-six supplemental submissions to its active regulatory dossiers in two countries.

Clinical Trial Sites

The following sites had active LICR-managed trials in 2014:

Australia

- Austin Hospital (LICR Melbourne – Austin Branch), Melbourne, VIC, Australia

Europe

- Krankenhaus Nordwest, Frankfurt, Germany
- St. Bartholomew's Hospital, London, UK

North America

- Case Comprehensive Cancer Center, Cleveland, OH, USA
- Cleveland Clinic, Cleveland, OH, USA
- Dana-Farber Cancer Institute, Boston, MA, USA
- Duke University Medical Center, Durham, NC, USA
- Fox Chase Cancer Center, Philadelphia, PA, USA
- Memorial Sloan-Kettering Cancer Center, New York, NY, USA
- Mount Sinai Hospital, New York, NY, USA
- North Shore Long Island Jewish Hospital, Long Island, NY, USA
- Roswell Park Cancer Institute, Buffalo, NY, USA
- University of Pittsburgh Cancer Institute, Pittsburgh, PA, USA
- University of Virginia, Charlottesville, VA, USA

Technology Development

One of the main objectives of the Institute is to bring new discoveries to the public benefit as quickly and effectively as possible. To achieve these ends, the Institute's activities go beyond the initial discoveries to determine how they might impact cancer and how they might be further developed. Given the significant costs involved in drug development, which are beyond the resources available to the Institute, it is very important to attract additional investment from third party drug development partners. To facilitate this work, the Institute has, in addition to building in-house competence to initiate and manage early phase clinical trials, developed a comprehensive patent protection and licensing activity. Several new patents were issued and technology licenses were completed this past year. In 2014, six new US and three European patents were issued and nine new applications filed in the United States of America and a further three new international patent applications were filed.

Immunotherapy has become a centerpiece in the detection and treatment of cancer. This continues to be a focus of the Institute's translational research and is also reflected in the patents issued and filed by the Institute. In addition continued interest in the discovery and patenting of the new genomic methods reflects the Institute's established expertise in the genomics field and an emerging focus in seeking useful applications for its genomics know-how.

In 2014, several new research collaboration and licensing agreements with commercial partners were implemented and significant progress was made in other existing collaborative programs. The Institute's cancer immunotherapy initiative with the Cancer Research Institute was extended to clinical research and development collaborations with two new partners VentiRx Pharmaceutics Inc (VentiRx) and Xcovery LLC.

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Under the clinical collaboration with VentiRx, the Institute is designing and conducting clinical trial with the investigational agent motolimod (VTX-2337), a TLR8 small molecule agonist, combined with other immunotherapy agents available to the Institute's immunotherapy initiative. Additionally together with Xcovery, the Institute is designing and conducting another clinical study with Xcovery's ALK kinase small molecule inhibitor (x-396), in combination with additional immunotherapy agents.

Boehringer Ingelheim obtained a license for the development and commercialization of CureVac's investigational lung cancer vaccine CV9202. CV9202 is based on CureVac's RNA technology (RNActive®) and contain five antigens including NY-ESO-1, MAGE-C1 and MAGE-C2 licensed from the Institute. Under an existing clinical collaboration agreement with CureVac, the Institute plans to conduct a clinical trial with CV9202 in combination with additional immunotherapy agents. This clinical collaboration was assigned to Boehringer by CureVac.

The Institute entered into a clinical collaboration with Daiichi Sankyo and launched a new clinical trial to test the safety, bio-distribution, and tumor uptake of DS-8895a (an anti-EphA2 monoclonal antibody) in patients with advanced, EphA2 Positive solid tumors. The study was opened at the Austin Hospital, Melbourne.

The Institute also restructured its existing antibody discovery collaboration with the Swiss biotechnology company 4-Antibody (now a fully owned subsidiary of Agenus Inc), by signing a license agreement with 4-Antibody (Agenus) for the further development and commercialization of anti-GITR, OX40 and TIM-3 antibodies that were jointly developed through the collaboration. Earlier in the year, the Institute and 4-Antibody (Agenus) had announced the selection of two anti-GITR antibodies as development candidates.

GlaxoSmithKline (GSK) announced in 2014 that Astuprotimut-R (MAGE-A3 cancer vaccine) did not meet the first primary endpoints in a Phase III non small cell lung cancer trial (Magrit trial). This follows the similar outcome of the phase III melanoma (Derma) trial with the MAGE-A3 cancer vaccine in 2013. The MAGE-A3 antigen was licensed by the Institute to GSK in 2006.

Acceleron Pharma continues to develop Dalantercept (ACE-041), a novel angiogenesis inhibitor that targets the activin receptor-like kinase 1 (ALK1) pathway, a technology discovered by the Institute. Five phase II clinical studies of Dalantercept are ongoing.

Genentech continues their phase I/II clinical study of PI3K inhibitor GDC-0941 (RG7321) in combination with cisplatin in patients with receptor negative metastatic breast cancer. GDC-0941 was discovered by Institute start-up company Piramed which was later acquired by Roche/Genentech. Several other phase II clinical studies of GDC-0941 have previously been initiated in different cancers by Genentech.

KaloBios Pharmaceuticals announced the phase II expansion of their KB004 (anti EphA3) antibody in hematological malignancies. The EphA3 antibody was licensed to KaloBios by the Institute and is the subject of a continued research collaboration which also includes Monash University and Queensland Institute of Medical Research.

AbbVie was granted orphan drug designation to investigational compound ABT-414 (an antibody drug conjugate containing the Institute's monoclonal antibody Mab806), by the European Medicines Agency (EMA) and the U.S. Food and Drug Administration (FDA). The anti-epidermal growth factor receptor antibody drug conjugate is being clinically evaluated in patients with GBM.

Institute start-up iTeos Therapeutics SA established a strategic development collaboration with Pfizer Inc., where Pfizer received commercial development rights to iTeos' pre-clinical compounds targeting Indoleamine 2,3-dioxygenase (IDO1) and Tryptophan 2,3-dioxygenase (TDO2) and will make an equity investment in iTeos. The two parties will also collaborate to discover and validate new cancer drug targets.

Material Transfer Agreements

The Institute entered into 123 material transfer agreements during 2014. These were mainly with academic institutions (112 agreements) whereby the Institute supplied reagents free of charge to the academic community, while eleven material transfer agreements were entered into with commercial organisations. One agreement may cover several reagents. The material originated from the following locations: -

	2014	2013
Brussels	24	32
Melbourne – Austin	14	18
Oxford	3	19
San Diego	25	50
Sao Paulo	0	0
Stockholm	0	0
Uppsala	26	15
Affiliates/inventors from several Branches	31	46
Total	***123***	***180***

Licensing / Royalties

In accordance with the objective of making scientific discoveries available to the general public, the Institute enters into agreements with commercial organizations having the substantial financial, management and technological resources necessary to develop Institute discoveries for therapeutic purposes.

The Institute was party to 191 license, sublicense and option agreements with commercial organizations at the beginning of 2014. A further eight agreements were signed during the year, while two agreements expired or were terminated with the result that at year end the portfolio comprised a total of 197 agreements.

Most of these agreements are with companies selling Institute reagents for laboratory research purposes or with companies using Institute-developed reagents for in-house research purposes only.

A total of 41 of these agreements relate to the development of therapeutic and diagnostic products. One agreement relates to a therapeutic product presently on the market, GM-CSF (granulocyte macrophage colony stimulating factor), while the rest relate to products at various stages of development, from pre-clinical testing to Phase I, II and III clinical trials of the products. A total of four therapeutic products which involve Institute intellectual property are currently in Phase III trials.

GM-CSF is a broad stimulator of hematologic progenitor cells for patients with low white blood cell counts and was licensed to Bayer Schering Pharma AG in 1986 under an Invention Administration Agreement with the Institute by Research Corporation Technologies Inc. (RCT), Tucson, Arizona. GM-CSF was co-invented with scientists from the Walter and Eliza Hall Institute for Medical Research (WEHI), Melbourne, with the priority application filed in 1984. Bayer Schering Pharma AG owns the rights to the therapeutic product Leukine. Bayer entered into an exclusive worldwide license for Leukine with Genzyme Corporation in 2009 for all present and future indications. Genzyme was later acquired by Sanofi-Aventis.

The gross income to the Institute from license fees and royalty income totalled USD 6.8 million for 2014 and net income totalled USD 3.2 million after co-owner and inventor sharing.

When appropriate, the Institute looks to facilitate the establishment of new start-up companies to support the further development of Institute-owned technologies emerging from the Institute's own research programs. At the end of 2014, the Institute had holdings in eleven start-up companies with products at various stages of development originating from licenses to Institute technology: Circadian Technologies Ltd (Australia), iTeos Therapeutics SA (Belgium), Recepta Biopharma S.A. (Brazil), CT Atlantic AG and TC Metrix Sàrl (Switzerland), Retroscreen Virology Group Plc and Ark Therapeutics Group Plc (United Kingdom) and Cancer Vaccine Acceleration Company, LLC, Extended Delivery Pharmaceuticals LLC, Life Sciences Pharmaceuticals, Inc and Serametrix Corporation (USA).

Human Resources

An important aspect of the Institute's developing programs is the training of outstanding young scientists who will in time join an emerging new generation of cancer investigators. During the year, thirteen PhD students started their post-graduate training with the Institute and twenty-five completed their training with the Institute. At December 31, 2014, the Institute was acting as sponsor to 97 postdoctoral fellows and 66 PhD students.

Academic Review

One staff member was promoted to the rank of **Associate Member**: -

Gareth Bond, PhD	Oxford Branch

One scientist was appointed as **Associate Member**: -

Sebastian Nijman, PhD	Oxford Branch

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Awards and Distinctions

The quality of the Institute's investigators continued to be internationally recognized. In the last year, the following awards and distinctions were received: -

Brussels

Stefan Constantinescu, PhD, MD	Awarded the 2014 Pierre Stryckmans Award/Lecture of the Belgian Society of Hematology

Melbourne-Austin

Andrew Scott, MD	Awarded the 2014 Austin Medical Research Foundation Distinguished Scientist Award

Melbourne WEHI Collaborative Laboratory

Joan Heath, PhD Matthias Ernst, PhD	Inaugural Colin Geary Visiting Professorship in Pathology, University of Otago, Dunedin, New Zealand

New York Collaborative Laboratory

Jedd D. Wolchok, MD, PhD	Awarded the 2014 AACR Richard and Hinda Rosenthal Memorial Award Awarded the 2014 Giant of Cancer Care in Melanoma Award Awarded the 2014 AICF Prize for Scientific Excellence in Medicine Award

Oxford

Sir Peter J. Ratcliffe, MD FRS	Knighted in the 2014 New Year Honours for services to clinical medicine Awarded the 2014 Wiley Prize for Biomedical Science
Mads Gyrd-Hansen, PhD	Named EMBO Young Investigator 2015-17

San Diego

Webster K. Cavenee, PhD	Awarded the 2014 AACR Margaret Foti Award
Don W. Cleveland, PhD	Awarded the 2014 Leonard Gerson Distinguished Scholar Award by the University of Pittsburgh Awarded the 2014 Essey "Commitment to a Cure" Award by the ALS Association Golden West Chapter
Richard D. Kolodner, PhD	Elected as a Fellow of the American Association for Cancer Research Academy
Pablo A. Lara-Gonzalez, PhD	Selected as a Pew Latin American Fellow
Clotilde Lagier-Tourenne, MD, PhD	Awarded the 2013 Frick Foundation Award for ALS Research Awarded the 6th International Medicine Paulo Gontijo Award

Stockholm

Rickard Sandberg, PhD	Awarded the 2014 Anders Jahre Prize for Young Scientists