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 2016

KPMG AG
Zurich, 26 May 2017

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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, statement of income and expenditure, statement of cash flows, statement of capital changes and notes for the year ended 31 December 2016.

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 2016 give a true and fair view of the financial position, the results of operations and the cash flow 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

Martin Schaad
Licensed Audit Expert
Auditor in Charge

Marc Sterchi
Licensed Audit Expert

Zurich, 26 May 2017

Enclosure:
- Consolidated financial statements (balance sheet, statement of income and expenditure, statement of cash flows, statement of capital changes and notes)

Ludwig Institute for Cancer Research Ltd, Zurich

Consolidated Balance Sheet as at December 31, 2016

	USD		CHF	
	2016	**2015**	**2016**	**2015**
Assets				
Cash & cash equivalents (Notes 2a & 3)	40,528,118	40,625,132	41,780,493	40,230,967
Financial assets (Notes 2b, 4 & 9)	1,296,447,382	1,291,575,105	1,336,507,606	1,279,046,826
External funding receivables (Note 2e)	5,991,331	5,852,520	6,176,464	5,795,750
Other short-term receivables (Note 5)	2,600,820	2,976,049	2,681,190	2,947,988
Prepaid expenses & accrued income	3,312,448	3,749,015	3,414,799	3,711,812
Total current assets	1,348,880,099	1,344,777,821	1,390,560,552	1,331,733,343
Financial assets (Notes 2c & 6)	13,216,670	11,557,845	13,625,131	11,445,695
Investments (Notes 2c & 7)	10,517,651	11,426,876	10,842,960	11,315,885
Net deferred tax assets	4,505,667	4,346,603	4,644,892	4,304,441
Leasehold improvements, equipment & other assets (Note 2f)	84,988	99,381	87,614	98,417
Total non-current assets	28,324,976	27,430,705	29,200,597	27,164,438
Total assets	1,377,205,075	1,372,208,526	1,419,761,149	1,358,897,781
Liabilities and shareholders' equity				
Short-term accounts payable	6,185,758	6,134,962	6,376,940	6,075,398
Other short-term liabilities (Note 11)	3,299,786	1,438,055	3,401,755	1,424,103
Short-term provisions (Note 12)	3,808,981	5,906,909	3,926,678	5,849,601
Accrued short-term expenses	4,425,175	5,312,995	4,561,925	5,261,454
Deferred income (Notes 2e & 13)	17,717,142	11,663,880	18,264,602	11,550,740
Total short-term liabilities	35,436,842	30,456,801	36,531,900	30,161,296
Other long-term liabilities (Note 14)	719,719	864,511	741,958	856,124
Long-term provisions (Note 15)	9,911,299	9,202,518	10,217,558	9,113,254
Accrued long-term expenses	12,610	30,100	13,000	29,808
Total long-term liabilities	10,643,628	10,097,129	10,972,516	9,999,186
Total liabilities	46,080,470	40,553,930	47,504,416	40,160,482
Share capital (Note 1)	48,501	50,490	50,000	50,000
Donated capital (Note 1)	572,000,000	572,000,000	773,352,000	773,352,000
General legal retained surplus (Note 1)	9,700	10,098	10,000	10,000
Voluntary retained surplus (Note 1)	759,164,507	759,594,855	979,280,113	978,913,953
Translation adjustment (Note 1)	(98,103)	(847)	(380,435,380)	(433,588,654)
Total shareholders' equity	1,331,124,605	1,331,654,596	1,372,256,733	1,318,737,299
Total liabilities and shareholders' equity	1,377,205,075	1,372,208,526	1,419,761,149	1,358,897,781

Consolidated Statement of Income and Expenditure
for the year ended December 31, 2016

	USD		CHF	
	2016	**2015**	**2016**	**2015**
Contributions, dividends & interest income (Note 2di)	7,600,746	7,555,185	7,549,057	7,331,453
External funding (Notes 2dii, 2e & 13)	40,293,438	33,522,883	40,721,407	32,623,275
License fees & royalties	2,755,900	6,754,123	2,737,172	6,554,251
Other income (Note 8)	894,656	554,531	888,572	538,118
Total operating income	51,544,740	48,386,722	51,896,208	47,047,097
Salaries & social benefits (Note 10)	44,770,507	45,157,003	44,466,346	43,820,463
Laboratory expenditure	9,683,316	9,836,573	9,617,547	9,545,436
Equipment & other assets & leasehold improvements (Notes 2f & 8)	2,227,375	2,360,248	2,212,239	2,290,388
Collaborative research programs	27,207,496	25,287,326	27,022,157	24,538,957
Depreciation (Note 2f)	33,284	34,045	33,058	33,038
Other operating expenses	22,398,715	19,997,810	22,235,869	19,384,773
Total operating expenses	106,320,693	102,673,005	105,587,216	99,613,055
Share of net (loss) / profit & capital contribution in associated entity (Note 7)	(545,991)	9,946,866	(542,301)	9,652,570
Gain on foreign exchange (Notes 2b & 4)	2,341,320	1,333,265	2,748,696	896,148
Loss on foreign exchange (Notes 2b & 4)	(4,255,498)	(3,680,843)	(3,827,111)	(3,271,563)
Gain on financial assets & investments (Note 2b)	129,619,845	177,929,692	128,739,009	172,667,336
Loss on financial assets & investments (Note 2b)	(66,201,518)	(133,467,501)	(65,791,771)	(129,516,863)
Extraordinary result (Note 17)	(378,935)	0	(376,358)	0
Total other items	60,579,223	52,061,479	60,950,164	50,427,628
Surplus / (deficit) for the year before tax	5,803,270	(2,224,804)	7,259,156	(2,138,330)
Current income tax (expense) / benefit	(65,319)	45,246	(64,877)	43,906
Deferred income tax expense	(115,037)	(319,285)	(114,257)	(309,834)
Surplus / (deficit) for the year after tax	5,622,914	(2,498,843)	7,080,022	(2,404,258)
Voluntary retained surplus at the beginning of the year	759,594,855	767,769,217	978,913,953	986,918,339
Net change in restricted funds (Notes 2e & 13)	(6,053,262)	(5,675,519)	(6,713,862)	(5,600,128)
Voluntary retained surplus at the end of the year	759,164,507	759,594,855	979,280,113	978,913,953

Ludwig Institute for Cancer Research Ltd, Zurich

Consolidated Statement of Cash Flows
for the year ended December 31, 2016

	USD		CHF	
	2016	**2015**	**2016**	**2015**
Operating activities				
Surplus / (deficit) for the year after tax	5,622,914	(2,498,843)	7,080,022	(2,404,258)
Net change in restricted funds (Note 13)	(6,053,262)	(5,675,519)	(6,713,862)	(5,600,128)
Adjustments for non-cash items				
Share of loss / (profit) & capital contribution of equity-accounted investees	545,991	(9,946,866)	542,301	(9,652,570)
Net gains on financial assets	(63,418,327)	(44,462,191)	(62,947,238)	(43,150,473)
Deferred tax expense	(159,064)	(146,603)	(340,451)	(130,900)
Forex (gain) / loss on cash & cash equivalents	(255,265)	1,787,510	(1,900,633)	1,840,058
Other items	887,595	581,457	(1,516,024)	(659,567)
Depreciation & amortisation (Note 2f)	33,284	34,045	33,058	33,038
Other movements in operating assets and liabilities				
(Decrease) / increase in provisions	(1,389,147)	219,515	(818,619)	166,726
(Increase) / decrease in non-current financial assets	(902,333)	816,199	(1,329,042)	844,456
Decrease / (increase) in receivables	236,418	(3,041,973)	(113,916)	(2,993,626)
Decrease / (increase) in prepayments & accrued income	436,567	(870,291)	297,013	(851,213)
Increase / (decrease) in current liabilities	1,912,527	(1,181,255)	2,279,155	(1,199,627)
Increase in accrued liabilities & deferred income	5,165,442	6,938,710	6,014,333	6,837,309
(Decrease) / increase in long-term liabilities & long-term accrued expenses	(162,282)	123,014	(130,974)	119,197
Cash flow from operating activities	(57,498,942)	(57,323,091)	(59,564,877)	(56,801,578)
Investing activities				
Investment in tangible fixed assets (Note 2f)	(18,891)	(3,820)	(22,255)	(2,666)
Investment in financial assets	(382,282,272)	(555,494,739)	(393,761,628)	(550,104,640)
Sale of financial assets	439,447,826	616,017,439	452,997,653	610,010,104
Cash flow from investing activities	57,146,663	60,518,880	59,213,770	59,902,798
Net cash (outflow) / inflow	(352,279)	3,195,789	(351,107)	3,101,220
Cash & cash equivalents at January 1	40,625,132	39,216,853	40,230,967	38,969,805
Forex effect on cash & cash equivalents	255,265	(1,787,510)	1,900,633	(1,840,058)
Net cash (outflow) / inflow	(352,279)	3,195,789	(351,107)	3,101,220
Cash & cash equivalents at December 31	40,528,118	40,625,132	41,780,493	40,230,967

Ludwig Institute for Cancer Research Ltd, Zurich

Consolidated Statement of Capital Changes
for the year ended December 31, 2016

Shareholders' equity

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. Their sole power is to exercise their voting rights in accordance with the exclusively charitable and scientific purposes of the Institute.

USD	Share Capital	General legal retained surplus	Donated capital	Voluntary retained surplus	Translation adjustment	Share-holders' equity
Balance at December 31, 2014	50,317	10,063	572,000,000	767,769,217	43,958	1,339,873,555
Deficit for the year	0	0	0	(2,498,843)	0	(2,498,843)
Translation adjustment	173	35	0		(44,805)	(44,597)
Net change in restricted funds	0	0	0	(5,675,519)	0	(5,675,519)
Balance at December 31, 2015	50,490	10,098	572,000,000	759,594,855	(847)	1,331,654,596
Surplus for the year	0	0	0	5,622,914	0	5,622,914
Translation adjustment	(1,989)	(398)	0	0	(97,256)	(99,643)
Net change restricted funds	0	0	0	(6,053,262)	0	(6,053,262)
Balance at December 31, 2016	48,501	9,700	572,000,000	759,164,507	(98,103)	1,331,124,605

CHF	Share Capital	General legal retained surplus	Donated capital	Voluntary retained surplus	Translation adjustment	Share-holders' equity
Balance at December 31, 2014	50,000	10,000	773,352,000	986,918,339	(428,897,957)	1,331,432,382
Deficit for the year	0	0	0	(2,404,258)	(4,690,697)	(7,094,955)
Net change in restricted funds	0	0	0	(5,600,128)	0	(5,600,128)
Balance at December 31, 2015	50,000	10,000	773,352,000	978,913,953	(433,588,654)	1,318,737,299
Surplus for the year	0	0	0	7,080,022	53,153,274	60,233,296
Net change in restricted funds	0	0	0	(6,713,862)	0	(6,713,862)
Balance at December 31, 2016	50,000	10,000	773,352,000	979,280,113	(380,435,380)	1,372,256,733

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

Voluntary retained surplus

The Statutes of the Ludwig Institute for Cancer Research Ltd stipulate that the surplus for the year is not to be distributed to shareholders and accordingly the available voluntary retained surplus is carried forward.

Notes to the Consolidated Financial Statements as at December 31, 2016

1. Accounting principles and scope of consolidation

Basis of presentation

The accompanying consolidated financial statements of the Ludwig Institute for Cancer Research Ltd (the Institute) are presented in accordance with generally accepted accounting principles in Switzerland (Financial Reporting Standards - Swiss GAAP FER). A new law on accounting and financial reporting became effective on January 1, 2013 and is applicable to consolidated financial statements as of and for the financial year 2016. Some prior year figures have been reclassified and the statements have been adapted to reflect the new law.

Scope of consolidation

The consolidated financial statements include the financial results of the Institute, a not-for-profit organisation incorporated in Zurich, Switzerland, LICR Fund, Inc. (the Fund), 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, Universe Tankships, Inc. (UTI), Marshall Islands, a wholly-owned subsidiary of the Institute and TC Metrix Sàrl in liquidation (TC Metrix), Epalinges, Switzerland, a commercial spin-off company in which the Institute holds an 80% interest.

In compliance with the revised Swiss GAAP FER 21, effective Jan 1, 2016, UTI has been fully consolidated for the first time. Prior year figures have been restated accordingly. In prior years UTI had been accounted for using the equity method because it engaged in substantially different activities to those of the Institute.

All inter-company transactions and balances have been eliminated. No minority interests exist either for the Fund or UTI. Due to TC Metrix reporting a cumulative net loss in 2016, no minority interests are shown. At the meeting of September 27, 2016, the Board of Directors of TC Metrix resolved to liquidate the company and initiated the necessary legal proceedings.

iTeos Therapeutics SA (iTeos), Ottignies-Louvain-La-Neuve, Belgium, in which the Institute owns 37.22% of the shares and of the voting rights, has been accounted for using the equity method.

Ludwig Technologies, Inc., Delaware, USA, a wholly-owned subsidiary of the Institute, has been accounted for at acquisition cost. Similarly, investments of insignificant value or negative equity, in which the Institute holds at least 20% but not more than 50%, have been accounted for at acquisition cost and, if applicable, adjusted for impairment losses.

Nature of operations

The Institute carries out its scientific and clinical activities at various branches in conjunction with hospitals in university medical centres. During 2016 the Institute's research branches were situated in Brussels, Lausanne, 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 financial statements presented in Swiss Francs (CHF) include the Institute's financial statements denominated in CHF, the Fund's and UTI's financial statements denominated in US Dollars (USD) and the financial statements of TC Metrix denominated in CHF. Translation of the Fund's and UTI's Balance Sheets into CHF is achieved by using the closing rates of exchange at year-end provided by the Swiss Federal Tax Administration with the exception of Donated capital and Voluntary retained surplus, which are translated at historical rates. The Fund's and UTI'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 equity. The currency translation adjustment, which arises on the translation of the Fund's and UTI'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 USD consolidated financial statements include the Institute's, the Fund's and UTI'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 Consolidated 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 USD equivalents of the consolidated financial statements apart from Share capital and General legal retained surplus. Share capital and General legal retained surplus are translated into USD at the closing rates of exchange at year-end provided by the Swiss Federal Tax Administration with the exception of Donated Capital and Voluntary retained surplus, which are translated at historical rates. The resulting translation difference is shown as a separate component of equity.

Foreign exchange differences, which arise from foreign exchange in preparing the Institute's USD accounts, are included on a yearly basis in the surplus or deficit for the year.

2. Accounting policies and valuation standards

a) Cash and cash equivalents

Cash on hand and at banks, funds on call and cash deposits are classified as Cash and cash equivalents.

b) Current assets - Financial assets

Investment instruments included in the Financial assets caption are stated at fair value. Publicly traded investments are valued at the last reported sales price on the date of valuation, as quoted on major securities exchanges. Securities that are not traded on major securities exchanges are valued based on quotations received from leading vendors. Forward foreign currency contracts are valued at the average of closing bid and ask quotations from banks and brokers. Pooled investments are funds that are not held at the Fund's custodian bank. These funds are part of multiple investors' commingled funds, which are invested in one or more asset classes by a fund manager. These investments are valued at their closing net asset value per share on the valuation date, which is their redeemable value.

The Fund invests in limited partnerships formed for the purpose of earning returns from alternative investment strategies. Investments in limited partnerships held by the Fund are reported at net asset value as a practical expedient for fair value, which generally represent the Fund's proportionate share of the net assets of the investee partnerships as reported by them and reviewed by management for reasonableness. The underlying partnerships in which the Fund invests may hold nonmarketable securities, the fair value of which has been determined by the general partners of the respective partnerships. The Fund's proportionate share of net asset values may differ significantly from the fair values that would have been used had a ready market existed. The Fund's proportionate share of the change in values of the investee partnerships is recorded as a gain or loss on financial assets & investments in the Consolidated Statement of Income and Expenditure. Investments in mutual funds are valued at their closing net asset value per share on the valuation date, which is their redeemable value.

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 Sheet.

c) Non-current assets – Financial assets and Investments

Financial assets, which are traded on a stock exchange, are valued at the stock market price prevailing at the end of the year. Investments in companies where the holding is greater than 20% of the share capital are valued using the equity method, unless they are of insignificant value or have negative equity.

All other financial assets and investments are accounted for at acquisition cost and, if applicable, adjusted for impairment losses.

d) Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated into the reporting currencies at the closing rates of exchange at year-end provided by the Swiss Federal Tax Administration. Income and expenditure denominated in foreign currencies are translated into the reporting currencies on the following basis: -

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

ii) Operating expenditure and 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.

e) 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. Unspent restricted funds are deferred to future accounting periods and are accounted for as Deferred income. Unrestricted funds received are taken to income in the year of receipt. External funding pledged but not received in respect of expenditure that has been incurred is taken to account as income and is accounted for as External funding receivables.

f) Tangible and intangible assets

The Institute’s and TC Metrix’s expenditure on research 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. With respect to UTI, purchases of equipment and leasehold improvements are capitalised and depreciated.

All operating expenditure, including the cost of patenting and licensing intellectual property, is expensed in the year it is incurred.

g) Taxes

The Institute and the Fund are tax-exempt organisations and accordingly are not subject to income and capital taxes. UTI and TC Metrix are 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.

3. Pledged assets

The Institute has pledged all its assets deposited with a financial institution included under Cash and cash equivalents 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 at December 31, 2016 and 2015 these assets amounted to USD 5.7 Mio. (CHF 5.9 Mio.) and USD 17.4 Mio. (CHF 17.3 Mio.) respectively.

The Fund obtained a revolving line of credit of USD 25.0 Mio. (CHF 25.8 Mio.) through a financial institution on May 20, 2008. The applicable interest rate charged for 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, 2016 and 2015, there were no amounts outstanding under this agreement. The line of credit is collateralised by qualifying assets with a fair value of approximately USD 85.0 Mio (CHF 87.6 Mio.) as at December 31, 2016.

4. Current assets – Financial assets

Financial assets held as current assets as at December 31, 2016 and 2015 were as follows: -

	USD		CHF	
Description	**2016**	**2015**	**2016**	**2015**
Financial assets at fair value				
Invested cash and cash equivalents				
- US Dollars	30,366,675	25,548,405	31,305,005	25,300,585
- Other currencies	781,479	2,257,958	805,627	2,236,056
Equity investments	86,418,517	89,550,365	89,088,849	88,681,727
Fixed income investments				
- Government	26,357,523	21,142,758	27,171,970	20,937,673
- Corporate	11,901,251	16,519,010	12,269,000	16,358,776
Investments at published net asset value	159,111,438	188,457,562	164,027,981	186,629,524
Due from brokers	24,982,460	1,271,119	25,754,418	1,258,789
Net unrealised (loss) / gain on forward contracts	(224,475)	47,665	(231,411)	47,201
Financial assets at fair value	339,694,868	344,794,842	350,191,439	341,450,331
Financial assets at net asset value				
Pooled equity investments	331,805,456	310,140,912	342,058,245	307,132,545
Pooled fixed income investments				
- Corporate	84,804,974	84,065,801	87,425,448	83,250,363
Alternative investments (principally limited partnerships)	540,142,084	552,573,550	556,832,474	547,213,587
Financial assets at net asset value	956,752,514	946,780,263	986,316,167	937,596,495
Total financial assets	1,296,447,382	1,291,575,105	1,336,507,606	1,279,046,826

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Net asset value is the value of an entity's assets minus the value of its liabilities, often in relation to open-end or mutual funds, since shares of such funds registered with the U.S. Securities and Exchange Commission are re-deemed at their net asset value.

5. Other short-term receivables

Other short-term receivables of USD 2,600,820 (CHF 2,681,190) as at December 31, 2016 and USD 2,976,049 (CHF 2,947,988) as at December 31, 2015 included doubtful debts, which have been fully provided for, in the amount of USD 596,543 (CHF 614,974) and USD 543,814 (CHF 538,538) respectively.

6. Non-current assets – Financial assets

	USD		CHF	
Description	**2016**	**2015**	**2016**	**2015**
CT Atlantic AG				
Net investment	9,700	10,098	10,000	10,000
hVIVO plc				
(formerly Retroscreen Virology Group plc)				
Net Investment	0	81,052	0	80,265
iOx Therapeutics Ltd				
Net investment	31	37	32	37
Life Sciences Pharmaceuticlas, Inc.				
Net investment	1,457	1,457	1,502	1,443
Opthea Limited				
(formerly Circadian Technologies Ltd.)				
Net investment	1,921,069	910,651	1,980,514	901,784
Premier Veterinary Group plc				
(formerly Ark Therapeutics Group plc)				
Net investment	9,063	13,814	9,343	13,680
Serametrix Corporation				
Net investment	100	100	103	99
Other				
Fixed income securities	4,823,216	4,377,440	4,972,253	4,334,979
Mutual funds	5,182,755	4,848,781	5,342,902	4,801,748
Loans to staff	549,560	717,279	566,524	710,316
US 457b Pension plan (see Note 15 Other long-term liabilities)	719,719	597,136	741,958	591,344
Total financial assets	13,216,670	11,557,845	13,625,131	11,445,695

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 and, if applicable, adjusted for impairment losses.

In 2015 iOx Therapeutics Ltd was launched to develop novel cancer immunotherapies discovered through a collaboration between the Institute and the University of Oxford. The company was granted a bearing license from the Institute, providing rights to intellectual property. The nominal share capital of iOx Therapeutics Ltd, Oxford, United Kingdom is GBP 253.

The Institute has granted various housing loans to Oxford and San Diego Branch staff primarily upon moving to the respective Branch locations. The outstanding long term receivables amounted to USD 549,560 (CHF 566,524) as at December 31, 2016 and USD 717,279 (CHF 710,316) as at December 31, 2015. Short-term receivables for these loans are recorded under Other short-term receivables and amounted to USD 31,487 (CHF 32,459) in 2016 and USD 39,317 (CHF 38,936) in 2015.

7. Non-current assets - Investments

	USD		CHF	
Description	**2016**	**2015**	**2016**	**2015**
Investment in iTeos Therapeutics SA				
Share capital	2,300,469	2,381,880	2,371,622	2,358,745
Share premium	2,448,948	2,535,614	2,524,693	2,510,985
Capital contribution	2,695,863	4,000,450	2,779,245	3,961,593
Cumulated results	20,811,367	21,781,543	21,455,058	21,569,975
percentage owned and voting rights	37.22%	37.22%	37.22%	37.22%
Net investment at January 1	11,426,349	1,975,695	11,315,363	1,963,287
Share of capital contribution - change	(457,564)	615,891	(454,471)	597,670
Share of net (loss) / profit	(88,427)	9,330,975	(87,830)	9,054,901
Translation adjustment	(363,234)	(496,212)	69,354	(300,495)
Net investment at December 31	10,517,124	11,426,349	10,842,416	11,315,363
Miscellaneous investments	527	527	544	522
Total investments at December 31	10,517,651	11,426,876	10,842,960	11,315,885

iTeos Therapeutics SA, Ottignies-Louvain-La-Neuve, Belgium, has been accounted for using the equity 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 focuses on the development of small molecule immunomodulators that can increase the efficacy of cancer immunotherapy, as well as leverage the spontaneous tumour immune response.

With respect to miscellaneous investments in which the Institute holds at least 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 humanised antibodies for the diagnosis of human cancer. The Institute holds 29.6% of the shares and of the voting rights.

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. Ludwig Technologies, Inc. holds 14.05% of the shares and of the voting rights in the company Extended Delivery Pharmaceuticals, LLC, Connecticut, USA. This biotechnology company is developing a long-acting type of insulin.

iii) In 2010 the Institute entered into a joint venture with The Cancer Research Institute, New York, USA 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 of which the Institute holds 50% of the shares and of the voting rights.

8. Tangible fixed assets

During the years ended December 31, 2016 and December 31, 2015 the purchase of equipment and other assets and expenditure on leasehold improvements, amounting to USD 2,227,375 (CHF 2,212,239) and USD 2,360,248 (CHF 2,290,388) respectively, was expensed in the year of acquisition. Receipts arising from the disposal of equipment & other assets amounting to USD 0 (CHF 0) and USD 2,593 (CHF 2,516) respectively were credited in full to Other operating income.

9. 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 2016 and 2015 unrealised gains of USD 59,949 (CHF 61,801) and USD 286,558 (CHF 283,778) and unrealised losses of USD 2,220,484 (CHF 2,289,097) and USD 331,287 (CHF 328,074) respectively, arising from contracts open at year end, are included in Current assets – Financial assets with respect to the Fund and Current assets – Financial assets and Other short-term liabilities with respect to the Institute. They represent the changes in fair value of the contracts from the time of the Fund’s and the Institute’s conclusion of the contracts.

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	**2016**	**2015**	**2016**	**2015**
Forward currency purchases	30,185	35,397	31,117	35,054
Forward currency sales	28,024	35,352	28,890	35,010

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10. Pension schemes

Pension schemes have been established at all Institute locations.

The annual cost of the employers' contributions in 2016 and 2015 for all plans amounted to USD 2,828,731 (CHF 2,809,513) and USD 2,577,729 (CHF 2,501,436) respectively and is accounted for as Salaries & social benefits.

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

Name / Country	Surplus / (Deficit) 31.12.16 USD	Share of Commit-ment 31.12.2016* USD	Share of Commit-ment 31.12.2015* USD	Net Change in commit-ment USD	Contri-butions 2016 USD	Total (Expense) 2016 USD	Total (Expense) 2015 USD
LGI Qualified plan (USA)	(2,594)	(2,594)	(2,448)	(146)	0	(146)	(8)
LGI Supplemental plan (USA)	(7,317)	(7,317)	(6,754)	(563)	(127)	(690)	(92)
Federated Pension scheme (UK)	0	0	(1,409)	1,409	0	(177)	(7)
Vita Collective Insurance (CH)	N/A	0	0	0	0	0	(63)
AXA Foundation for Occupational Benefits (CH)	N/A	0	0	0	(288)	(288)	(279)
	Surplus / (Deficit) 31.12.16 CHF	**Share of Commit-ment 31.12.2016* CHF**	**Share of Commit-ment 31.12.2015* CHF**	**Net Change in commit-ment CHF**	**Contri-butions 2016 CHF**	**Total (Expense) 2016 CHF**	**Total (Expense) 2015 CHF**
LGI Qualified plan (USA)	(2,674)	(2,674)	(2,424)	(250)	0	(250)	(8)
LGI Supplemental plan (USA)	(7,543)	(7,543)	(6,688)	(855)	(126)	(981)	(89)
Federated Pension scheme (UK)	0	0	(1,395)	1,395	0	(176)	(2)
Vita Collective Insurance (CH)	N/A	0	0	0	0	0	(61)
AXA Foundation for Occupational Benefits (CH)	N/A	0	0	0	(286)	(286)	(270)

* Economic commitment

The actuarial valuation as of March 31, 2009 of the Federated Pension Scheme (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) was paid through to May 31, 2013.

Following the decision in September 2014 by the Institute to wind up the scheme, provision was made for the estimated total costs of securing liabilities as of December 31, 2015 and 2014. During 2016 a final payment of USD 1,586,096 (CHF 1,570,698) was made to settle all liabilities. As of December 31, 2016 there were no liabilities to the FPS pension scheme and the Deed of Termination was executed on February 28, 2017.

All amounts in the preceding paragraph have been converted at the respective exchange rates for the years concerned.

In Switzerland, the Institute operates a scheme with the AXA Foundation for Occupational Benefits (AXA) for staff employed in Switzerland. The invested capital amounted to USD 7.5 Mio. (CHF 7.7 Mio.) as at December 31, 2016 and USD 7.4 Mio. (CHF 7.3 Mio.) as at December 31, 2015. The capital invested is guaranteed 100% by AXA. In addition the Institute operated a scheme with the VITA Collective Insurance Foundation (VITA) for the staff at the Lausanne branch. After the closure of the Lausanne branch the Institute settled all liabilities and left the scheme in 2016.

In Belgium, a scheme was in place during 2016 and 2015 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 2016 & 2015 the Institute operated two defined contribution schemes at the Sao Paulo Branch. After the closure of the branch the Institute settled all liabilities and left the scheme.

For the Stockholm branch, 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 contribution 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.

For the Uppsala branch, the Institute operates a defined contribution scheme (Maxplan).

In the United Kingdom, the Institute is a registered employer with the Universities Superannuation Scheme (the USS scheme) which, under the defined benefits section, sets the level of contributions based on the advice of the schemes' 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, 2014 and this showed, under the Technical Provisions basis as required by the UK Pensions Regulator, a funding level of 89%. Taking account of the underfunding of the scheme, various benefit reforms have been introduced and a recovery plan has been prepared by the Trustee to satisfy the requirements of section 226 of the UK Pensions Act 2004 after obtaining advice of the scheme's actuary. These arrangements have been agreed with Universities UK, the body nominated by the Rules of the scheme to represent the institutions with a liability to the scheme. The main points of the benefit reforms are that the USS final salary section ceased 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 in addition become members of a new Defined Contribution section. To correct the shortfall on the Defined Benefit section, for the period up to April 1, 2016, employers pay deficit contributions of 16% of salaries less the employer future service cost of accrual. On the assumptions made by the actuary, this gives rise to a deficit contribution of 0.7% of salaries for this period. For the period from April 1, 2016 to March 31, 2031, the employers' deficit contributions will amount to 18% of salaries less the employer future service cost of accrual in the Defined Benefit section together with the employer contribution to the Defined Contribution section and the expenses of administering the scheme including Pension Protection Fund (PPF) levies. On the assumptions made and once the salary threshold and Defined Contribution section are introduced, this gives rise to deficit contributions of at least 2.1% of salaries over the period to March 31, 2031. From April 1, 2016 until the salary threshold and Defined Contribution section were introduced in October 2016, the deficit contributions amount to 2.5% of salaries.

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.

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 at December 2016 and 2015.

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 14.4 Mio. (CHF 14.9 Mio.) as at December 31, 2016 and USD 13.2 Mio. (CHF 13.1 Mio.) as at December 31, 2015.

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.

The total of short-term liabilities related to pension schemes is set out in Note 11.

In the United States of America, The Ludwig Group Inc. (LGI), a wholly owned subsidiary of UTI, maintained both a qualified and a supplemental retirement plan. LGI did not make any contributions to the qualified plan in 2016 or 2015, nor does it expect to make any contributions in 2017. Benefits of USD 1,486,089 (CHF 1,475,984) in 2016 and USD 1,447,678 (CHF 1,404,827) in 2015 were paid out in respect of both plans. The qualified plan is funded and the supplemental plan is unfunded. The long-term provisions in respect of the two LGI plans are set out in Note 15.

11. Other short-term liabilities

	USD		CHF	
Description	**2016**	**2015**	**2016**	**2016**
Other short-term liabilities to third parties	3,076,898	1,320,736	3,171,979	1,307,923
Other short-term liabilities to pension funds	95,571	104,295	98,524	103,283
Other short-term liabilities to governing bodies	127,317	13,024	131,252	12,897
Total other short-term liabilities	3,299,786	1,438,055	3,401,755	1,424,103

Other short-term liabilities to third parties include negative replacement values of various forward currency contracts held by the Institute of USD 1,936,060 (CHF 1,995,884) in 2016 and USD 92,394 (CHF 91,497) in 2015.

12. Short-term provisions

USD	Tax related	Pension scheme	Restruc-turing	Other	Total
Provisions as per December 31, 2014	3,156,888	1,510,962	260,167	735,050	5,663,067
Additions	196,825	78,305	736,430	155,029	1,166,589
Utilisations	0	(95,117)	(260,167)	(94,425)	(449,709)
Dissolutions	0	(13,819)	0	0	(13,819)
Currency adjustments	6,885	(71,196)	(148,416)	(246,492)	(459,219)
Provisions as per December 31, 2015	3,360,598	1,409,135	588,014	549,162	5,906,909
Additions	175,191	164,840	0	136,633	476,664
Utilisations	0	(1,586,096)	(563,742)	0	(2,149,838)
Dissolutions	0	0	(27,515)	(368,916)	(396,431)
Currency adjustments	(138,757)	12,121	3,243	95,070	(28,323)
Provisions as per December 31, 2016	3,397,032	0	0	411,949	3,808,981

CHF	Tax related	Pension scheme	Restruc-turing	Other	Total
Provisions as per December 31, 2014	3,137,000	1,501,466	258,528	730,419	5,627,413
Additions	191,000	75,990	714,632	150,440	1,132,062
Utilisations	0	(94,520)	(258,528)	(93,830)	(446,878)
Dissolutions	0	(13,410)	0	0	(13,410)
Currency adjustments	0	(74,071)	(132,321)	(243,194)	(449,586)
Provisions as per December 31, 2015	3,328,000	1,395,455	582,311	543,835	5,849,601
Additions	174,000	163,718	0	135,704	473,422
Utilisations	0	(1,570,698)	(558,276)	0	(2,128,974)
Dissolutions	0	0	(27,328)	(371,442)	(398,770)
Currency adjustments	0	11,525	3,293	116,581	131,399
Provisions as per December 31, 2016	3,502,000	0	0	424,678	3,926,678

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). The Institute's management contested these claims.

In May 2005 the Swiss Federal Tax Administration revised their initial position and invoiced the Institute for a reduced amount of tax.

The Institute's management continues to be not in agreement with these calculations and is contesting the claims. The Swiss Federal Tax Administration has not, as yet, responded to the Institute's correspondence to be able to conclude the matter.

In August / September 2015, the Swiss Federal Tax Administration carried out a further audit at the Institute's Zurich office covering the tax years 2007 to 2014. The Institute is awaiting the outcome of the audit.

Following an assessment carried out by management, the total provisions including interest as of December 31, 2016 and 2015 are USD 3,397,032 (CHF 3,502,000) and USD 3,360,598 (CHF 3,328,000) respectively. Charges for these provisions have been made against Operating expenses - Other operating expenses. The amount of the provisions takes account of the legislation of the new value added tax law effective January 1, 2010.

All amounts in the preceding paragraph have been converted at the respective exchange rates for the years concerned.

Pension scheme

The movements in short-term provisions – pension scheme are in respect of the FPS pension scheme, the details of which are described in Note 10.

Restructuring

The Institute is in the process of consolidating its research activities at fewer, but larger locations to maximise the impact of its resources. Provision and utilisation of redundancy and severance pay due to Institute staff members have been accounted for.

The scientific activities of the Sao Paulo branch ceased at the end of February 2016.

Other

Various claims have been made by former staff and other parties against the Institute. Some of the claims have resulted in court filings. Institute management disputes the claims made and continues to 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 Short–term provisions – Other, reflecting the results of this assessment.

13. Deferred income - change in restricted funds

	USD		CHF	
Description	**2016**	**2015**	**2016**	**2015**
Deferred income at January 1	11,663,880	5,988,361	11,550,740	5,950,612
Usage of deferred income	(7,700,297)	(2,089,197)	(7,625,604)	(2,076,013)
Additional deferred income	13,806,348	7,757,832	14,232,964	7,682,581
Exchange rate adjustments	(52,789)	6,884	106,502	(6,440)
Deferred income at December 31	17,717,142	11,663,880	18,264,602	11,550,740
Net change in restricted funds	6,053,262	5,675,519	6,713,862	5,600,128

In accordance with the provisions of Swiss GAAP FER 21 all changes in deferred income (restricted funds) are shown gross in the captions External funding and Net change in restricted funds in the Consolidated Statement of Income and Expenditure (see Note 2e, Accounting policies and valuation standards - External funding).

14. Other long-term liabilities

Description	USD 2016	USD 2015	CHF 2016	CHF 2015
US 457b Pension plan	719,719	597,136	741,958	591,344
Other long-term liabilities - third parties	0	267,375	0	264,780
Total other long-term liabilities	719,719	864,511	741,958	856,124

The US 457b Pension plan, a non-qualified, tax advantaged deferred compensation retirement plan, is available to some Institute employees in the United States. The Institute provides the plan and the employees defer compensation into it on a pre-tax basis. The total liability includes the return on investment credited to the employee accounts and is offset by a respective financial asset (see Note 6 Non-current assets – Financial assets).

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15. Long-term provisions

Long-term provisions relate to the two LGI pension plans as described in Note 10.

USD	Total	Supplemental plan	Qualified plan
Provisions as at December 31, 2014	9,226,787	6,786,158	2,440,629
Additions	1,423,409	92,498	1,330,911
Utilisations	(1,447,678)	(124,167)	(1,323,511)
Provisions as at December 31, 2015	9,202,518	6,754,489	2,448,029
Additions	2,194,870	689,599	1,505,271
Utilisations	(1,486,089)	(126,762)	(1,359,327)
Provisions as at December 31, 2016	9,911,299	7,317,326	2,593,973

CHF	Total	Supplemental plan	Qualified plan
Provisions as at December 31, 2014	9,168,658	6,743,405	2,425,253
Additions	1,381,276	89,760	1,291,516
Utilisations	(1,438,558)	(123,385)	(1,315,173)
Currency adjustments	1,878	(20,809)	22,687
Provisions as at December 31, 2015	9,113,254	6,688,971	2,424,283
Additions	2,179,945	684,910	1,495,035
Utilisations	(1,471,674)	(125,532)	(1,346,142)
Currency adjustments	396,033	295,082	100,951
Provisions as at December 31, 2016	10,217,558	7,543,431	2,674,127

16. Directors’ emoluments

The members of the Institute’s Board of Directors constitute all of the Board of Directors of the Fund. In 2016 and 2015, 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, and (iii) Other remuneration. Directors' fees were paid by the Institute and the Fund; Salaries and social benefits were paid by the Institute and LGI and Other remuneration was paid by the Institute.

Description	USD 2016	USD 2015	CHF 2016	CHF 2015
Directors' fees	357,542	384,186	355,111	372,814
Salaries & social benefits	1,262,228	1,469,430	1,253,644	1,425,935
Other remuneration	15,431	6,557	15,326	6,363
Total emoluments	1,635,201	1,860,173	1,624,081	1,805,112

In 2016 and 2015, 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 Chairperson and the remaining members of the two Boards received directors' fees but did not receive salaries & social benefits. One member of the Board of Directors was paid other remuneration in 2016 and 2015.

The remuneration of the two Boards of Directors, the Chairperson 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 and the Fund's Compensation Committees.

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.

As at December 31, 2016 and 2015, both the Board of Directors of the Institute and the Fund had eight and ten members respectively.

17. Extraordinary result

Extraordinary result of USD 378,935 (CHF 376,358) is related to refunds of overpaid royalties for the years 2012-2015 by licensees and others. It consists of Net license fees and royalties of USD 478,342 (CHF 475,089) less inventor shares reclaimed of USD 99,407 (CHF 98,731). In 2015 extraordinary result was USD 0 (CHF 0).

18. Other related party transactions

The Institute is a party to a Research Collaboration and License Agreement with iTeos Therapeutics SA. Income from license fees, external funding and cost recovery amounted to USD 323,301 (CHF 321,104) in 2016 and USD 1,512,856 (CHF 1,468,096) in 2015.

19. Lease and leasing commitments

All operational lease and leasing commitments by year, with a notice period of three months or more are set out below: -

	USD		CHF	
Year	**2016**	**2015**	**2016**	**2015**
2016	0	4,437,812	0	4,394,765
2017	4,591,293	3,600,808	4,733,166	3,565,879
2018	3,684,304	3,417,463	3,798,151	3,384,314
2019	3,498,216	3,409,160	3,606,312	3,376,091
2020	3,314,326	3,314,326	3,416,739	3,282,177
2021	2,271,150	11,734,274	2,341,329	11,620,452
2022-2027	9,463,126	0	9,755,531	0
Lease and leasing commitments not recorded in the balance sheet	26,822,415	29,913,843	27,651,228	29,623,678

20. 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 control (ICS) operated and for monitoring the adequacy and effectiveness of the control environment. The Institute's and the Fund's system of 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 control 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 2016, the Institute's and the Fund's managements conducted risk assessments 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 reporting risks. Non-financial reporting risks are considered to be outside of the ICS and are addressed through other policies and procedures.

The Institute's and Fund's managements assessed the effectiveness of the 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 ICS for financial reporting was properly in effect as of December 31, 2016.

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 respective Audit Committee. The operations of the Sao Paulo and San Diego Branches as well as those of the Zurich Office were reviewed by internal audit during 2016 and reports were submitted to the Institute's Audit Committee.

Risk assessments are carried out on an annual basis by the Risk and Compliance Officer reporting to the Audit Committees. They are based on annual self-reassessment of risks and controls by the ICS process owners, information obtained through 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.

21. Approval of the consolidated financial statements

The consolidated financial statements of the Ludwig Institute for Cancer Research Ltd as at December 31, 2016, together with the Report of the Auditors, dated May 26, 2017, are hereby submitted to the General Meeting of Shareholders.

22. Subsequent events

There are no subsequent events to report, which might have a material impact on the consolidated financial statements.

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Performance Report

Purposes of the organization

The Ludwig Institute for Cancer Research Ltd (the Institute) is an international not-for-profit organisation with a 45-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 USD 1.9 billion of its own resources in cancer research, and has an investment pool valued at around USD 1.3 billion. The Institute's investment portfolio is held and managed by LICR Fund, Inc. (the Fund).

The Institute now has around 410 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 Centres at six U.S. institutions, all pursuing breakthroughs to alter the course of cancer.

The Institute’s research activities are principally organised through Branches. 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 centres 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 2016, the Institute received USD 27.5 million (CHF 28.0 million) from industrial and philanthropic resources. In addition, external funding from Government sources amounting to USD 12.8 million (CHF 12.7 million) was taken to income in 2016. The total amount received of USD 40.3 million (CHF 40.7 million) was 20.2% higher (USD) and 24.8% (CHF) higher than the 2015 amount received of USD 33.5 million (CHF 32.6 million). The increase in external funding received is mainly related to higher funding for the clinical trials program.

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

US National Institutes of Health – USD 11.6 million (CHF 11.5 million); the Cancer Research Institute, New York, USA – USD 10.1 million (CHF 10.5 million); the Karolinska Institute, Stockholm, Sweden – USD 2.8 million (CHF 2.7 million); the Catholic University of Louvain, Brussels, Belgium – USD 2.4 million (CHF 2.4 million); and the Celgene Corporation, Salt Lake City, USA – USD 2.4 million (CHF 2.5 million).

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 2015 (the latest year where analysis data is currently available), total expenditure is analysed as program service expenditure - USD 80,018,560 (78%) (CHF 77,650,011); management and general expenditure - USD 20,382,164 (20%) (CHF 19,778,852) and grant writing expenditure - USD 1,934,167 (2%) (CHF 1,876,96).

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For 2014, total expenditure is analysed as program service expenditure - USD 85,043,027 (77%) (CHF 77,924,926); management and general expenditure - USD 22,870,029 (21%) (CHF 20,955,808) and grant writing expenditure - USD 2,320,379 (2%) (CHF 2,126,163).

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,
Management, comprising the Executive Officers and
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 2016 were as follows: - John L. Notter (Chairperson); Alfred Berger (*); Stephen F. Bollenbach (†); Olivier Dunant; John D. Gordan III; Samuel Hellman, MD; Barbara S. Jones (**); Adolf E. Kammerer; Sir David Lane, PhD (*); Edward A. McDermott Jr. and Philip A. Pizzo, MD. (* retired June 2016; † deceased October 2016; ** appointed December 2016)

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

These posts were held as of December 31, 2016, by the following individuals: -

President	Edward A. McDermott Jr.
Scientific Director	Vacant (as of June 30, 2016)
Executive Vice-President for Technology Development	Jonathan C.A. Skipper, PhD
Executive Vice-President for Research	Robert L. Strausberg, PhD
Chief Financial Officer and Secretary to the Board	Richard D.J. Walker

The Executive Officers were supported by: -

Vice-President for Human Resources	Kimberly McKinley-Thomas
Vice-President for Intellectual Property	Pär Olsson, PhD
Vice-President for Communications	Rachel Steinhardt
Vice-President for 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, 2016, the Scientific Advisory Committee was composed of: - José Baselga, MD, PhD (retired December 2016); Philip D. Greenberg, MD; Lucy Shapiro, PhD and Karen H. Vousden, PhD. Robert L. Strausberg, PhD was the Secretary.

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The Branches 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.

The leadership of the Institute's locations as of December 31, 2016 was as follows: -

Brussels	Benoît Van den Eynde, PhD
Lausanne	George Coukos, MD, PhD
Oxford	Xin Lu, PhD
San Diego	Richard D. Kolodner, PhD
Stockholm	Thomas Perlmann, PhD
Uppsala	Carl-Henrik Heldin, PhD

The Sao Paulo Branch closed at the end of 2016. The scientific staff relocated to the Hospital Sírio-Libanês 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 2016

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 2016, 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 2016, the publication record by location was as follows: -

	Primary Research Articles	**Reviews/ Book Chapters/ Commentaries**	**Total**
Brussels	40	4	44
Lausanne	46	38	84
Melbourne WEHI/ONJCR	47	5	52
NY Collaborative Laboratory	23	7	30
Oxford	39	9	48
San Diego	45	16	61
Sao Paulo	39	0	39
Stockholm	19	2	21
Uppsala	20	10	30
Total	***318***	***91***	***409***

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Clinical Trials

Eight Institute-sponsored clinical trials were on-going in 2016. One additional study was managed by the Institute, but not sponsored directly. Institute investigational study agents were provided for an additional 17 active clinical trials sponsored and managed by local entities. These 26 trials were supported by 11 active Institute regulatory dossiers [six Investigational New Drug (IND) applications (USA), one Drug Master File (DMF), one Clinical Trial Application (CTA) in Switzerland and three Clinical Trial Notifications (CTN) in Australia]. Over the year, the Institute made four new regulatory submissions and 184 supplemental submissions to its active regulatory dossiers in three countries.

Clinical Trial Sites

The following sites had active LICR-managed trials in 2016:

Australia

- Austin Hospital (Ludwig Melbourne), Melbourne, VIC, Australia

Switzerland

- Centre Hospitalier Universitaire Vaudois (CHUV), Lausanne, Switzerland

United Kingdom

- Churchill Hospital, Oxford, UK
- Southampton General Hospital, Southampton, UK

North America

- Case Comprehensive Cancer Center, Cleveland, OH, USA
- Cleveland Clinic, Cleveland, OH, USA
- Dana-Farber Cancer Institute, Boston, MA, USA
- Johns Hopkins University, Baltimore, MD, USA
- Mary Crowley Cancer Research, Dallas, TX, USA
- Massachusetts General Hospital, Boston, MA, 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
- Ohio State University Medical Center, Columbus, OH, USA
- Roswell Park Cancer Institute, Buffalo, NY, USA
- Stanford University, Stanford, CA, USA
- University of California (UCLA), Los Angeles, CA, USA
- University of California (UCSF), San Francisco, CA, USA
- University of Pittsburgh Cancer Institute, Pittsburgh, PA, USA
- University of Virginia, Charlottesville, VA, USA
- Washington University, Saint Louis, MO, USA
- Women and Infants Hospital, Providence, RI, USA
- Yale University, New Haven, CT, USA

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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 2016, eight US new patents and one European new patent were issued, and eleven new US applications were filed and a further twelve new international patent applications were filed.

Immunotherapy has further established itself as a centerpiece in the control 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 and its partners. 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.

The Institute has established clinical research collaborations with several pharmaceutical and biotechnology companies including Medimmune/AstraZeneca, Bristol Myers Squibb, Daiichi Sankyo, Boehringer Ingelheim, CureVac, Oncovir, Immune Design, Targovax and Leap Therapeutics. In 2016, the Institute launched three new clinical trials in collaboration with the Cancer Research Institute, New York (CRI) designed to evaluate cancer immunotherapy drug combinations. This brings the total number of active studies within the Ludwig-CRI collaboration to six. The new trials are investigating the combination of checkpoint antibody modulation administered with high dose chemotherapy and autologous stem cell transplant in multiple myeloma, checkpoint antibody modulation in combination with a tyrosine kinase inhibitor in non-small cell lung cancer and checkpoint antibody modulation together with in situ vaccination. Two additional new clinical trials were launched in 2016, evaluating checkpoint antibody modulation together with radiotherapy in melanoma and checkpoint antibody modulation together with standard chemo-radiation in esophageal cancer. These and the Institute's other active clinical trials are described elsewhere in this report.

As previously reported, the collaboration with the antibody discovery company 4-Antibody generated several novel checkpoint modulator antibodies which were subsequently licensed for development to Agenus Inc. and Incyte Corporation. These antibodies have now entered clinic trials. In 2016, Agenus launched a first in human clinical trial of AGEN1884, a novel anti-CTLA-4 antibody. Two additional clinical trials were launched with INCAGN01876, an anti-GITR antibody and INCAGN01949, an anti-OX40 antibody, by Agenus and development partner Incyte. These three checkpoint modulator antibodies were generated and characterized through the research collaboration between the Institute and 4-Antibody.

AbbVie received a Rare Pediatric Disease Designation by the U.S. Food and Drug Administration (FDA) for the investigational compound ABT-414 (an antibody drug conjugate containing the Institute's monoclonal antibody Mab806). The anti-epidermal growth factor receptor antibody drug conjugate is also currently in phase II clinical trials in patients with glioblastoma (GBM).

Ludwig start-up company iTeos Therapeutics (iTeos) has developed an immunomodulatory IDO inhibitor which has been partnered with Pfizer. A phase 1 dose-escalation study of the IDO inhibitor, PF-06840003 (EOS200271) in patients with brain cancer (malignant gliomas) was launched in 2016. The study is being conducted by Pfizer.

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Ludwig start-up company iOx Therapeutics together with iTeos are part of the European multi-disciplinary PRECIOUS consortium of eleven academic and commercial partners that received a EUR 8.3m Horizon 2020 grant to support the development of new immunotherapy candidates. The consortium will develop a new product that combines iOx's iNKT agonist originally licensed from the Institute, with an NY-ESO-1 tumor vaccine separately developed by the Institute.

At the end of 2016, the Institute had holdings in eleven start-up companies with products at various stages of development originating from licenses to Institute technology:

- CT Atlantic AG (Switzerland)
- Cancer Vaccine Acceleration Company, LLC (USA)
- Extended Delivery Pharmaceuticals, LLC (USA)
- iOx Therapeutics Ltd (United Kingdom)
- iTeos Therapeutics SA (Belgium)
- Life Sciences Pharmaceuticals, Inc (USA)
- Opthea Limited, formerly Circadian Technologies Limited (Australia)
- Premier Veterinary Group plc, formerly Ark Therapeutics Group plc (United Kingdom)
- Recepta Biopharma S.A. (Brazil)
- Serametrix Corporation (USA)
- TC Metrix Sàrl in liquidation (Switzerland)

Material Transfer Agreements

The Institute entered into 96 material transfer agreements during 2016. These were mainly with academic institutions (92 agreements) whereby the Institute supplied reagents free of charge to the academic community, while four material transfer agreements were entered into with commercial organisations. One agreement may cover several reagents. The material originated from the following locations: -

	2016	**2015**
Brussels	23	24
Melbourne – ONJCRI	9	10
Oxford	1	10
San Diego	24	29
Sao Paulo	0	0
Stockholm	0	3
Uppsala	8	12
Affiliates/inventors from several Branches	31	33
Total	***96***	***121***

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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 201 license, sublicense and option agreements with commercial organisations at the beginning of 2016. A further 12 agreements were signed during the year, while 15 agreements expired or were terminated with the result that at year end the portfolio comprised a total of 198 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 38 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.

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, royalty income and patent cost recovery totalled USD 2.8 million for 2016. The net income after sharing with co-owners and inventors totalled USD 1.8 million.

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, seven PhD students started their post-graduate training with the Institute and twelve completed their training with the Institute. At December 31, 2016, the Institute was acting as sponsor to 91 postdoctoral fellows and 59 PhD students.

Awards and Distinctions

The quality of the Institute's investigators continued to be internationally recognized. The following awards and distinctions were received in 2016: -

Lausanne

Marie-Agnès Doucey, PhD	Awarded the "Fondazione Pro Senologia" prize at the Joint Swiss and Austrian Senology Symposium - Salzburg 2016

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Johanna Joyce, PhD	5th Annual Lecture Recipient, Women in Science Lecture & Luncheon, Montreux, Switzerland
	Recipient of the Breast Cancer Research Foundation, Investigator Award: "Targeting the Roles of Tumor-Associated Macrophages in Breast Cancer Chemoresistance. 2016-2019
Tatiana Petrova, PhD	Awarded 1st place poster prize, Gordon Research Conference Lymphatics 2016, Ventura, USA, to her PhD student Esther Bovay
	Received Young Investigator Conference Scholarship to attend the Gordon Research Conference, to Dr Jeremiah Bernier-Latmani in her laboratory.
George Coukos, MD, PhD	Recipient of the BMA Medical Book Award, Highly Commended for Immuno-Oncology
Ping-Chih Ho, PhD	Awarded the Melanoma Research Alliance-SITC Young Investigator Award
Oxford	
Sir Peter J. Ratcliffe, MD, FRS	Recipient of the Albert Lasker Basic Medical Research Award
Mads Gyrd-Hansen, PhD	Awarded the Recognition of Distinction and conferred the title of Associate Professor at the University of Oxford
Skirmantas Kriaucionis, PhD	Awarded the Recognition of Distinction and conferred the title of Associate Professor at the University of Oxford
Benoit Van den Eynde, PhD	Awarded the Recognition of Distinction and conferred the title of Professor of Tumour Immunology at the University of Oxford
San Diego	
Webster K. Cavenee, PhD	Recipient of the 2016 People's Republic of China Friendship Award
	Recipient of the 2016 Feldman Founder's Award for Adult Brain Tumor Research, by the National Brain Tumor Society, Boston, MA, USA
Frank Furnari, PhD	2016 Deborah M. Richman Lecture at MD Anderson
Ruth Kabeche, PhD	Awarded an American Cancer Society Fellowship
Bing Ren, PhD	Recipient of the 2016 Chen Award for Distinguished Academic Achievement in Human Genetic and Genomic Research.
Tiffany Taylor, PhD	First place winner of UC San Diego's 3rd Annual Grand Slam (3 minute pitch to explain her research)
Amy Thorne, PhD	Awarded the Society for Neuro-Oncology Poster Award
Stockholm	
Thomas Perlmann, PhD	Awarded the 2016 Hilda and Axel Eriksson Prize (shared with Johan Ericson)

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Rickard Sandberg, PhD	Awarded the 2016 Eric K. Fernströms Prize to young investigators
Rickard Sandberg, PhD	Awarded the 2016 Svedbergs Prize

Uppsala

Carl-Henrik Heldin, PhD	Elected as a Foreign Honorary member of the American Academy of Arts and Sciences