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 2017

KPMG AG
Zurich, May 18, 2018

KPMG AG
Audit
Badenerstrasse 172
CH-8004 Zurich

PO Box
CH-8036 Zurich

Telephone +41 58 249 31 31
Fax +41 58 249 44 06
www.kpmg.ch

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 December 31, 2017.

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 December 31, 2017 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

M. Schaad

Martin Schaad
Licensed Audit Expert
Auditor in Charge

L. Weinschrod

Ludwig Weinschrod
Licensed Audit Expert

Zurich, May 18, 2018

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

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2017

	Notes	USD 2017	USD 2016	CHF 2017	CHF 2016
Assets					
Cash and cash equivalents	2, 3	45,112,645	40,528,118	44,584,848	41,780,493
Financial assets	2, 4, 9	1,482,618,201	1,296,447,382	1,465,271,568	1,336,507,606
External funding receivables	2	2,856,164	5,991,331	2,822,747	6,176,464
Other short-term receivables	5, 12	6,509,168	2,600,820	6,433,008	2,681,190
Prepaid expenses and accrued income		2,292,924	3,312,448	2,266,095	3,414,799
Total current assets		**1,539,389,102**	**1,348,880,099**	**1,521,378,266**	**1,390,560,552**
Financial assets	2, 6	14,074,266	13,216,670	13,909,649	13,625,131
Investments	2, 7	7,159,744	10,517,651	7,075,849	10,842,960
Net deferred tax assets	2, 18	2,877,301	4,505,667	2,843,637	4,644,892
Leasehold improvements, equipment & other assets	2	62,915	84,988	62,179	87,614
Total non-current assets		**24,174,226**	**28,324,976**	**23,891,314**	**29,200,597**
Total assets		**1,563,563,328**	**1,377,205,075**	**1,545,269,580**	**1,419,761,149**
Liabilities					
Short-term accounts payable		8,660,551	6,185,758	8,559,239	6,376,940
Other short-term liabilities	9, 11	1,748,480	3,299,786	1,728,019	3,401,755
Short-term provisions	12	3,233,568	3,808,981	3,195,735	3,926,678
Accrued short-term expenses		3,372,756	4,425,175	3,333,289	4,561,925
Deferred income	2, 13	16,778,023	17,717,142	16,581,720	18,264,602
Total short-term liabilities		**33,793,378**	**35,436,842**	**33,398,002**	**36,531,900**
Other long-term liabilities	14	1,027,628	719,719	1,015,605	741,958
Long-term provisions	15	8,981,685	9,911,299	8,876,599	10,217,558
Accrued long-term expenses		11,553	12,610	11,420	13,000
Total long-term liabilities		**10,020,866**	**10,643,628**	**9,903,624**	**10,972,516**
Total liabilities		**43,814,244**	**46,080,470**	**43,301,626**	**47,504,416**
Shareholders' equity					
Share capital	1	50,592	48,501	50,000	50,000
Donated capital	1	572,000,000	572,000,000	773,352,000	773,352,000
General legal retained surplus	1	10,118	9,700	10,000	10,000
Voluntary retained surplus	1	947,688,374	759,164,507	1,166,396,907	979,280,113
Translation adjustment	1	0	(98,103)	(437,840,953)	(380,435,380)
Total shareholders' equity		**1,519,749,084**	**1,331,124,605**	**1,501,967,954**	**1,372,256,733**
Total liabilities and shareholders' equity		**1,563,563,328**	**1,377,205,075**	**1,545,269,580**	**1,419,761,149**

CONSOLIDATED STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED DECEMBER 31, 2017

		USD		CHF	
	Notes	2017	2016	2017	2016
Operating income					
Contributions, dividends & interest income	2	4,945,960	7,600,746	4,935,577	7,549,057
External funding	2, 13	31,737,969	40,293,438	30,925,752	40,721,407
License fees & royalties		4,465,281	2,755,900	4,455,918	2,737,172
Other income	8	118,656	894,656	118,408	888,572
Total operating income		**41,267,866**	**51,544,740**	**40,435,655**	**51,896,208**
Operating expenses					
Salaries & social benefits	10, 16	43,706,605	44,770,507	43,615,055	44,466,346
Laboratory expenditure		8,515,173	9,683,316	8,497,357	9,617,547
Equipment & other assets & leasehold improvements	2, 8	1,736,101	2,227,375	1,732,461	2,212,239
Core collaborative research programs	20	18,501,535	14,974,584	18,462,683	14,872,429
Other collaborative research programs	20	6,991,802	12,232,912	6,977,017	12,149,728
Depreciation	2	34,878	33,284	34,805	33,058
Other operating expenses		23,533,072	22,398,715	23,463,665	22,235,869
Total operating expenses		**103,019,166**	**106,320,693**	**102,783,043**	**105,587,216**
Other items					
Share of operational loss & capital items in associated entity	7	(4,446,338)	(545,991)	(4,437,170)	(542,301)
Gain on foreign exchange	2, 9	3,620,780	2,341,320	2,570,825	2,748,696
Loss on foreign exchange	2, 4, 9	(1,527,036)	(4,255,498)	(1,502,230)	(3,827,111)
Gain on financial assets & investments	2	296,519,130	129,619,845	295,886,219	128,739,009
Loss on financial assets & investments	2	(43,486,526)	(66,201,518)	(43,395,205)	(65,791,771)
Extraordinary income / (expense)	12, 17	667,645	(378,935)	666,243	(376,358)
Total other items		**251,347,655**	**60,579,223**	**249,788,682**	**60,950,164**
Surplus for the year before taxes		189,596,355	5,803,270	187,441,294	7,259,156
Taxes					
Current income tax expense	2, 18	(1,289,861)	(65,319)	(1,287,152)	(64,877)
Deferred income tax expense	2, 18	(721,746)	(115,037)	(720,230)	(114,257)
Total taxes		**(2,011,607)**	**(180,356)**	**(2,007,382)**	**(179,134)**
Retained surplus					
Surplus for the year after taxes		187,584,748	5,622,914	185,433,912	7,080,022
Voluntary retained surplus at the beginning of the year		759,164,507	759,594,855	979,280,113	978,913,953
Net change in restricted funds	2, 13	939,119	(6,053,262)	1,682,882	(6,713,862)
Voluntary retained surplus at the end of the year		**947,688,374**	**759,164,507**	**1,166,396,907**	**979,280,113**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

		USD		CHF	
	Notes	2017	2016	2017	2016
Operating activities					
Surplus for the year after taxes		187,584,748	5,622,914	185,433,912	7,080,022
Net change in restricted funds	13	939,119	(6,053,262)	1,682,882	(6,713,862)
Adjustments for non-cash items					
Share of operational loss & capital items of equity-accounted investees		4,446,338	545,991	4,437,170	542,301
Net gains on financial assets		(253,032,604)	(63,418,327)	(252,491,014)	(62,947,238)
Deferred tax changes	2, 18	1,628,366	(159,064)	1,801,255	(340,451)
Forex (gain) / loss on cash & cash equivalents		(387,639)	(255,265)	1,383,861	(1,900,633)
Other (income) / expense items		(1,519,993)	887,595	(526,749)	(1,516,024)
Depreciation	2	34,878	33,284	34,805	33,058
Other movements in operating assets and liabilities					
Decrease in provisions		(1,505,027)	(1,389,147)	(2,071,902)	(818,619)
Increase in non-current financial assets		(307,909)	(902,333)	(273,647)	(1,329,042)
(Increase) / decrease in receivables		(773,181)	236,418	(398,101)	(113,916)
Decrease in prepayments & accrued income		1,019,524	436,567	1,148,704	297,013
Increase in current liabilities		923,487	1,912,527	508,562	2,279,155
(Decrease) / increase in accrued liabilities & deferred income		(1,991,538)	5,165,442	(2,911,518)	6,014,333
Increase / (decrease) in long-term liabilities & long-term accrued expenses		306,852	(162,282)	272,067	(130,974)
Cash flow from operating activities		**(62,634,579)**	**(57,498,942)**	**(61,969,713)**	**(59,564,877)**
Investing activities					
Investment in tangible fixed assets	2	(12,805)	(18,891)	(9,370)	(22,255)
Investment in financial assets		(493,631,405)	(382,282,272)	(487,775,429)	(393,761,628)
Sale of financial assets		560,475,677	439,447,826	553,942,728	452,997,653
Cash flow from investing activities		**66,831,467**	**57,146,663**	**66,157,929**	**59,213,770**
Net cash inflow / (outflow)		**4,196,888**	**(352,279)**	**4,188,216**	**(351,107)**
Cash & cash equivalents at January 1		40,528,118	40,625,132	41,780,493	40,230,967
Forex effect on cash & cash equivalents		387,639	255,265	(1,383,861)	1,900,633
Net cash inflow / (outflow)		4,196,888	(352,279)	4,188,216	(351,107)
Cash & cash equivalents at December 31		**45,112,645**	**40,528,118**	**44,584,848**	**41,780,493**

CONSOLIDATED STATEMENT OF CAPITAL CHANGES FOR THE YEAR ENDED DECEMBER 31, 2017

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	Shareholders' equity
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 in 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**
Surplus for the year	0	0	0	187,584,748	0	187,584,748
Translation adjustment	2,091	418	0	0	98,103	100,612
Net change in restricted funds	0	0	0	939,119	0	939,119
Balance at December 31, 2017	**50,592**	**10,118**	**572,000,000**	**947,688,374**	**0**	**1,519,749,084**

CHF	Share Capital	General legal retained surplus	Donated capital	Voluntary retained surplus	Translation adjustment	Shareholders' equity
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**
Surplus / (deficit) for the year	0	0	0	185,433,912	(57,405,573)	128,028,339
Net change in restricted funds	0	0	0	1,682,882	0	1,682,882
Balance at December 31, 2017	**50,000**	**10,000**	**773,352,000**	**1,166,396,907**	**(437,840,953)**	**1,501,967,954**

Donated capital

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

	Year	USD Amount	CHF Amount
Initial donation	1990	500,000,000	673,500,000
Second donation	1991	24,000,000	36,588,000
Third donation	1992	48,000,000	63,264,000
Total		**572,000,000**	**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, 2017

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).

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.

All inter-company transactions and balances have been eliminated. No minority interests exist either for the Fund or for UTI.

Due to TC Metrix reporting a cumulative net loss until 2016, no minority interests were shown. At the meeting of September 27, 2016, the Board of Directors of TC Metrix resolved to liquidate the company. During 2017, TC Metrix settled all receivables and liabilities with third parties. The remaining cash balance was used to repay the receivable due to the Institute and part of the loan due to the Institute.

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 2017 the Institute's research branches were situated in Brussels, Lausanne, Oxford, San Diego, 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 into CHF of the Fund's and UTI’s USD financial statements 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 closing rates of exchange at year-end provided by the Swiss Federal Tax Administration. The Consolidated Statement of Income and 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

Cash and cash equivalents

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

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 was 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 rate, 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.

Non-current assets – Financial assets and Investments
Financial assets, which are traded on a stock exchange, are valued at the stock market closing 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.

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: -

1. 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.

2. Operating expenditure and external funding income are translated at the yearly average of the monthly rates as published by the Swiss Federal Tax Administration.

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

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

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 as Deferred income. External funding received is taken to income when the corresponding expenditure is incurred. Any unspent external funding is

deferred to future accounting periods until the corresponding expenditure is incurred or excess funding is returned to the external funding partner once the project has been concluded. 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.

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.

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. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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 assets held by a financial institution to that institution amounting to USD 8.4 Mio (CHF 8.3 Mio) in 2017 and USD 5.7 Mio (CHF 5.9 Mio) in 2016. These amounts are included under Cash & cash equivalents and are used as collateral for various letters of credit amounting to a total of USD 1.0 Mio. (CHF 1.0 Mio.). The letters of credit have been issued to the lessors of various office premises occupied by the Institute.

The Fund obtained a revolving line of credit of USD 25.0 Mio. (CHF 24.7 Mio.) through a financial institution on May 20, 2008. The applicable interest rate charged for any amount drawn on it 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, 2017 and 2016, 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 84.0 Mio.) as at December 31, 2017.

4. Current assets - Financial assets

Financial assets held as current assets as at December 31, 2017 and 2016 were as follows: -

	USD		CHF	
Description	2017	2016	2017	2016
Financial assets at fair value				
Invested cash and cash equivalents				
- US Dollars	17,134,288	30,366,675	16,933,817	31,305,005
- Other currencies	947,120	781,479	936,039	805,627
Equity investments	92,872,173	86,418,517	91,785,569	89,088,849
Fixed income investments				
- Government	30,696,123	26,357,523	30,336,978	27,171,970
- Corporate	10,404,409	11,901,251	10,282,677	12,269,000
Investments at published net asset value	187,525,530	159,111,438	185,331,481	164,027,981
Due from brokers	55,083,120	24,982,460	54,438,648	25,754,418
Net unrealised (loss) on forward contracts	(369,764)	(224,475)	(365,438)	(231,411)
Financial assets at fair value	**394,292,999**	**339,694,868**	**389,679,771**	**350,191,439**
Financial assets at net asset value				
Pooled equity investments	406,772,313	331,805,456	402,013,077	342,058,245
Pooled corporate fixed income investments	84,585,456	84,804,974	83,595,806	87,425,448
Alternative investments (principally limited partnerships)	596,967,433	540,142,084	589,982,914	556,832,474
Financial assets at net asset value	**1,088,325,202**	**956,752,514**	**1,075,591,797**	**986,316,167**
Total financial assets	**1,482,618,201**	**1,296,447,382**	**1,465,271,568**	**1,336,507,606**

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 redeemed at their net asset value.

5. Other short-term receivables

Other short-term receivables of USD 6,509,168 (CHF 6,433,008) as at December 31, 2017 and USD 2,600,820 (CHF 2,681,190) as at December 31, 2016 included doubtful debts, which have been fully provided for, in the amount of USD 538,577 (CHF 532,277) in 2017 and USD 596,543 (CHF 614,974) in 2016.

6. Non-current assets - Financial assets

	USD		CHF	
Description	**2017**	**2016**	**2017**	**2016**
CT Atlantic AG				
Net investment	10,119	9,700	10,000	10,000
iOx Therapeutics Ltd				
Net investment	34	31	33	32
Life Sciences Pharmaceuticals, Inc.				
Net investment	1,457	1,457	1,440	1,502
Opthea Limited (formerly Circadian Technologies Ltd.)				
Net investment	1,704,224	1,921,069	1,684,337	1,980,514
Premier Veterinary Group plc (formerly Ark Therapeutics Group plc)				
Net investment	2,672	9,063	2,641	9,343
Serametrix Corporation				
Net investment	100	100	99	103
Other				
Fixed income securities	5,135,299	4,823,216	5,075,216	4,972,253
Mutual funds	6,145,579	5,182,755	6,073,676	5,342,902
Loans to staff	47,154	549,560	46,602	566,524
US 457(b) Pension plan (see Note 14)	1,027,628	719,719	1,015,605	741,958
Total financial assets	**14,074,266**	**13,216,670**	**13,909,649**	**13,625,131**

The Institute is committed to disseminating its know-how to the global research community. The holdings in the start-up organisations shown under Financial assets in the Balance Sheet are the result of licensing arrangements, with start-up organisations or their successors, 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 Financial assets, if not quoted on a stock exchange, are valued 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 royalty-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 47,154 (CHF 46,602) as at December 31, 2017 and USD 549,560 (CHF 566,524) as at December 31, 2016. Short-term receivables for these loans are recorded under Other short-term receivables and amounted to USD 9,734 (CHF 9,620) in 2017 and USD 31,487 (CHF 32,459) in 2016. One significant loan amounting to GBP 416,250 was repaid to the Institute during 2017.

7. Non-current assets - Investments

Description	USD 2017	USD 2016	CHF 2017	CHF 2016
Investment in iTeos Therapeutics SA				
Share capital	2,607,780	2,300,469	2,577,224	2,371,622
Share premium	2,788,042	2,448,948	2,755,373	2,524,693
Restricted funds	1,747,745	2,695,863	1,727,266	2,779,245
Cumulated results	12,091,296	20,811,367	11,949,617	21,455,058
percentage owned and voting rights	37.22%	37.22%	37.22%	37.22%
Net investment at January 1	10,517,124	11,426,349	10,842,416	11,315,363
Share of share premium change	4,152	0	4,143	0
Share of change in restricted funds	(454,571)	(457,564)	(453,634)	(454,471)
Share of net loss	(3,995,919)	(88,427)	(3,987,679)	(87,830)
Translation adjustment	1,088,431	(363,234)	670,082	69,354
Net investment at December 31	**7,159,217**	**10,517,124**	**7,075,328**	**10,842,416**
Miscellaneous investments	527	527	521	544
Total investments at December 31	**7,159,744**	**10,517,651**	**7,075,849**	**10,842,960**

The investment in iTeos has been accounted for using the equity method. iTeos 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' 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 26.1% 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, 2017 and December 31, 2016 the purchase of equipment and other assets and expenditure on leasehold improvements, amounting to USD 1,736,101 (CHF 1,732,461) and USD 2,227,375 (CHF 2,212,239) respectively, was expensed in the year of acquisition. Receipts arising from the disposal of equipment & other assets amounting to USD 4'639 (CHF 4,629) and USD 0 (CHF 0) respectively were credited in full to Other 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 2017 and 2016 unrealised gains of USD 634,421 (CHF 626,999) and USD 59,949 (CHF 61,801) and unrealised losses of USD 1,291,467 (CHF 1,276,356) and USD 2,220,484 (CHF 2,289,097) 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		CHF	
Description	2017	2016	2017	2016
Forward currency purchases	54,755,216	30,184,586	54,114,580	31,117,290
Forward currency sales	54,098,172	28,024,050	53,465,223	28,889,993

10. Pension Schemes

Pension schemes have been established at all Institute locations.

The annual cost of the employers' contributions in 2017 and 2016 for all plans amounted to USD 2,760,366 (CHF 2,754,581) and USD 2,828,731 (CHF 2,809,513) 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: -

USD	Deficit 31.12.17	Share of Commit-ment* 31.12.2017	Share of Commit-ment* 31.12.2016	Net Change in Commit-ment	Contri-butions 2017	Total Income / (Expense) 2017	Total (Expense) 2016
LGI Qualified plan (USA)	(1,567)	(1,567)	(2,594)	1,027	0	1,027	(146)
LGI Supplemental plan (USA)	(7,415)	(7,415)	(7,317)	(98)	(127)	(225)	(690)
Federated Pension Scheme (UK)	0	0	0	0	0	0	(177)
AXA Foundation for Occupational Benefits (CH)	N/A	0	0	0	(323)	(323)	(288)

CHF	Deficit 31.12.17	Share of Commit-ment* 31.12.2017	Share of Commit-ment* 31.12.2016	Net Change in Commit-ment	Contri-butions 2017	Total Income / (Expense) 2017	Total (Expense) 2016
LGI Qualified plan (USA)	(1,549)	(1,549)	(2,674)	1,125	0	1,125	(250)
LGI Supplemental plan (USA)	(7,328)	(7,328)	(7,543)	215	(126)	89	(981)
Federated Pension Scheme (UK)	0	0	0	0	0	0	(176)
AXA Foundation for Occupational Benefits (CH)	N/A	0	0	0	(322)	(322)	(286)

* 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 thereafter 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, 2017 and 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 8.5 Mio. (CHF 8.4 Mio.) as at December 31, 2017 and USD 7.5 Mio. (CHF 7.7 Mio.) as at December 31, 2016. 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 2017 and 2016 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 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 in 2016.

For the Stockholm branch, the Institute operates the Optional ITP Plan 1, a defined contribution scheme, the Optional ITP 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 scheme's actuary. The main employer is Universities UK. 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, 2017 and this showed, under the Technical Provisions basis as required by the UK Pensions Regulator, a funding level of 91%. Taking account of the underfunding of the scheme, various changes to the benefit structure are under discussion between the main employer and representatives of the members, the University and College Union. As the Institute has less than 20 active staff members in the scheme, it is not party to the consultation process. It is foreseen that the Institute's financing of the scheme is expected to continue at the employer contribution rate of 18% of the 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.

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 2017 and 2016.

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 scheme representative using the last triennial valuation and current industry experience, is estimated to be between USD 13.9 Mio. and 16.6 Mio. (CHF 13.7 Mio. and 16.5 Mio.) as at December 31, 2017 and between USD 14.0 Mio. and 17.3 Mio. (CHF 14.4 Mio. and 17.8 Mio.) as at December 31, 2016.

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 2017 or 2016, nor does it expect to make any contributions in 2018. In the supplemental plan, contributions of USD 126,762 (CHF 126'496) were paid in 2017 and USD 126,762 (CHF 125,900) in 2016 . Benefits of USD 1,433,249 (CHF 1,430,239) in 2017 and USD 1,486,089 (CHF 1,475,984) in 2016 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	2017	2016	2017	2016
Other short-term liabilities to third parties	1,410,417	3,076,898	1,393,911	3,171,979
Other short-term liabilities to pension funds	86,963	95,571	85,945	98,524
Other short-term liabilities to governing bodies	251,100	127,317	248,162	131,252
Total other short-term liabilities	**1,748,480**	**3,299,786**	**1,728,019**	**3,401,755**

Other short-term liabilities to third parties include negative replacement values of various forward currency contracts held by the Institute of USD 287,280 (CHF 283,920) in 2017 and USD 1,936,060 (CHF 1,995,884) in 2016.

12. Short-term provisions

USD	Tax related	Pension schemes	Restruc-turing	Other	Total
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)
Release of provisions	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**
Additions	0	0	0	0	0
Utilisations	0	0	0	(317,476)	(317,476)
Release of provisions	(398,838)	0	0	0	(398,838)
Currency adjustments	142,553	0	0	(1,652)	140,901
Provisions as per December 31, 2017	**3,140,747**	**0**	**0**	**92,821**	**3,233,568**

CHF	Tax related	Pension schemes	Restruc-turing	Other	Total
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)
Release of provisions	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**
Additions	0	0	0	0	0
Utilisations	0	0	0	(307,960)	(307,960)
Release of provisions	(398,000)	0	0	0	(398,000)
Currency adjustments	0	0	0	(24,983)	(24,983)
Provisions as per December 31, 2017	**3,104,000**	**0**	**0**	**91,735**	**3,195,735**

Tax related
The Institute is registered for Value Added Tax (VAT) in Switzerland.

All open VAT reclaims due to the Institute for the years 2000 to 2006, and for the period January 1, 2010 to September 30, 2017, were settled in full by the Swiss Federal Tax Administration in February 2018.

During 2017, the Institute was invoiced for an amount of USD 3,807,048 (CHF 3,762,506) by the Swiss Federal Tax Administration with respect to the amounts claimed by the tax authorities for the years 2007 to 2009.

Of this amount, USD 2,802,506 (CHF 2,769,717) was in respect of VAT claimed by the Swiss Federal Tax Administration for the years 2007 to 2009 and USD 1,004,542 (CHF 992,789) was in respect of interest charged on the tax claimed. The Institute settled the amounts invoiced under reservation, noting that the Institute continues to dispute the claims. The total payment is recorded in the books under Other short term receivables.

Following a reassessment by Institute Management of the claims made by the Swiss Federal Tax Administration, it was decided to release the provision in the amount of USD 398,838 (CHF 398,000) from the Tax related provision brought forward from 2016 and credit this amount to Extraordinary income / (expense) (see also Note 17). A total provision of USD 3,140,747 (CHF 3,104,000) continues to be retained with respect to the claims made regarding the years 2007 to 2009.

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 on February 29, 2016 and those of the Uppsala branch on July 31, 2017.

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

Description	USD 2017	USD 2016	CHF 2017	CHF 2016
Deferred income at January 1	17,717,142	11,663,880	18,264,602	11,550,740
Usage of deferred income	(8,175,617)	(7,700,297)	(8,428,243)	(7,625,604)
Additional deferred income	7,147,764	13,806,348	7,064,136	14,232,964
Exchange rate adjustments	88,734	(52,789)	(318,775)	106,502
Deferred income at December 31	**16,778,023**	**17,717,142**	**16,581,720**	**18,264,602**
Net change in restricted funds	**(939,119)**	**6,053,262**	**(1,682,882)**	**6,713,862**

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 2, Accounting policies and valuation standards - External funding).

14. Other long-term liabilities

Description	USD 2017	USD 2016	CHF 2017	CHF 2016
US 457(b) Pension plan	1,027,628	719,719	1,015,605	741,958
Total other long-term liabilities	**1,027,628**	**719,719**	**1,015,605**	**741,958**

The US 457(b) 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).

15. Long-term provisions

Long-term provisions relate to the two Ludwig Group, Inc. (LGI) pension plans as described in Note 10.

USD	Total	Supplemental plan	Qualified plan
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**
Additions	503,635	224,054	279,581
Utilisations	(1,433,249)	(126,762)	(1,306,487)
Provisions as at December 31, 2017	**8,981,685**	**7,414,618**	**1,567,067**

CHF	Total	Supplemental plan	Qualified plan
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**
Additions	502,577	223,583	278,994
Utilisations	(1,477,536)	(130,679)	(1,346,857)
Currency adjustments	(366,000)	(308,468)	(57,532)
Provisions as at December 31, 2017	**8,876,599**	**7,327,867**	**1,548,732**

16. Directors' emoluments

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.

	USD		CHF	
Description	**2017**	**2016**	**2017**	**2016**
Directors' fees	341,432	357,542	340,715	355,111
Salaries & social benefits	1,048,914	1,262,228	1,046,711	1,253,644
Other remuneration	12,118	15,431	12,093	15,326
Total emoluments	**1,402,464**	**1,635,201**	**1,399,519**	**1,624,081**

In 2017 and 2016, 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 nor social benefits. One member of the Board of Directors received other remuneration in 2017 and 2016.

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, 2017 the Boards of the Institute and the Fund each had nine members; at December 31, 2016, each had eight members.

17. Extraordinary income / (expense)

The items making up the Extraordinary income for 2017 of USD 667,645 (CHF 666,243) were as follows:

a) Net release of VAT provision of USD 398,838 (CHF 398,000) as referred to in Note 12 and

b) release of provision following repayment of receivable and partial repayment of loan by TC Metrix amounting to USD 268,807 (CHF 268,243).

For 2016, the Extraordinary expense of USD 378,935 (CHF 376,358) related to refunds of overpaid royalties by licensees and others, consisting of Net license fees and royalties repaid of USD 478,342 (CHF 475,089) less inventor shares reclaimed of USD 99,407 (CHF 98,731) for the years 2012 to 2015.

18. Taxes

As a foreign entity, UTI is not subject to U.S. income taxes. The income tax provision relates to taxes for The Ludwig Group Inc. (LGI), a wholly owned subsidiary of UTI, which conducts its operations in the United States. LGI's pre-tax income was approximately USD 134,000 in 2017 and pre-tax loss was approximately USD 150,000 in 2016.

On December 22, 2017 the U.S enacted the Tax Cuts and Jobs Act (Tax Reform) into law, which reduced the federal income tax statutory rate from 34% to 21% effective January 1, 2018. The effect of such change in rate reduced the Company's deferred tax assets and increased deferred tax expense by USD 1,237,016. The effective rate of LGI's income tax provision differed from U.S. federal statutory rates of 34% primarily due to the effects of Tax Reform on deferred taxes in 2017 and state and local taxes in 2016.

19. Other related party transactions

The Institute is a party to a Research Collaboration and License Agreement with iTeos. Income from license fees, external funding and cost recovery amounted to USD 126,136 (CHF 125,875) in 2017 and USD 323,301 (CHF 321,104) in 2016.

20. Collaborative research and lease commitments

All such commitments not recorded in the Balance Sheet, with a notice period of three months or more, are set out by year below: -

	USD		CHF	
Description	**2017**	**2016**	**2017**	**2016**
2017	0	20,095,067	0	20,716,007
2018	25,269,941	21,044,021	24,974,284	21,694,283
2019	25,907,008	13,447,445	25,603,896	13,862,972
2020	25,404,211	13,682,161	25,106,982	14,104,940
2021	25,349,221	13,326,038	25,052,636	13,737,813
2022	26,501,443	14,692,229	26,191,377	15,146,219
2023-2028	7,577,140	7,191,976	7,488,486	7,414,202
Commitments not recorded in the Balance Sheet	**136,008,964**	**103,478,937**	**134,417,660**	**106,676,437**

21. Internal control system and annual risk assessment

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 2017, 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 all 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, 2017.

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 two Audit Committees. The operations of the Brussels, Stockholm and Uppsala branches were reviewed by internal audit during 2017 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.

22. Approval of the consolidated financial statements

The consolidated financial statements of the Ludwig Institute for Cancer Research Ltd as at December 31, 2017, together with the Report of the Auditors, dated May 18, 2018, are hereby submitted to the General Meeting of Shareholders.

23. Subsequent events

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

PERFORMANCE REPORT

Purposes of the organization

The Ludwig Institute for Cancer Research Ltd (the Institute) is an international not-for-profit organisation with a more than 45-year old 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 2.0 billion of its own resources in cancer research, and has an investment pool valued at around USD 1.5 billion. The Institute's investment portfolio is held and managed by LICR Fund, Inc. (the Fund).

The Institute now has around 570 scientists, clinicians, postdoctoral fellows, students and support staff located in five 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 Branches 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 2017, the Institute has taken to income USD 19.9 million (CHF 19.1 million) from industrial and philanthropic resources and USD 11.8 million (CHF 11.8 million) from Government sources. The total amount taken to income of USD 31.7 million (CHF 30.9 million) was 21.2% lower (USD) and 24.1% (CHF) lower than the 2016 amount received of USD 40.3 million (CHF 40.7 million). The decrease in external funding received is mainly related to lower 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 11.0 million (CHF 10.7 million); the Cancer Research Institute, New York, USA – USD 6.0 million (CHF 5.8 million); the Karolinska Institute, Stockholm, Sweden – USD 2.1 million (CHF 2.0 million); the Catholic University of Louvain, Brussels, Belgium – USD 2.1 million (CHF 2.0 million) and the De Duve Institute, Brussels, Belgium – USD 1.8 million (CHF 1.8 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 2016 (the latest year where analysis data is currently available), total expenditure of USD 105.4 million (CHF 104.7 million) is analysed as program service expenditure - USD 83.1 million (79%) (CHF 82.6 million); management and general expenditure - USD 20.5 million (19%) (CHF 20.3 million) and grant writing expenditure - USD 1.8 million (2%) (CHF 1.8 million).

For 2015, total expenditure of USD 102.3 million (CHF 99.3 million) is analysed as program service expenditure - USD 80.0 million (78%) (CHF 77.6 million); management and general expenditure - USD 20.4 million (20%) (CHF 19.8 million) and grant writing expenditure - USD 1.9 million (2%) (CHF 1.9 million).

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 2017 were as follows: - John L. Notter (Chairperson); Chi Van Dang, MD, PhD (*); Olivier Dunant; John D. Gordan III; Samuel Hellman, MD; Judge Barbara S. Jones; Adolf E. Kammerer; Edward A. McDermott Jr. and Philip A. Pizzo, MD. (*appointed June 2017)

The Executive Officers of the Institute constitute its management and consisted of the President; the Scientific Director; the Deputy Scientific Director, the Executive Vice-President for Technology Development; the Chief Financial Officer and Secretary to the Board of Directors.

These posts were held as of December 31, 2017, by the following individuals: -

President	Edward A. McDermott Jr.
Scientific Director	Chi Van Dang, MD, PhD
Deputy Scientific Director	Robert L. Strausberg, PhD
Executive Vice-President for Technology Development	Jonathan C.A. Skipper, 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, 2017, the Scientific Advisory Committee was composed of: - Philip D. Greenberg, MD; Lucy Shapiro, PhD; Victor Velculescu, MD, PhD; Karen H. Vousden, PhD and W.K. Alfred Yung, MD. Robert L. Strausberg, PhD was the Secretary.

The Branches are each managed by a Director who is responsible for the scientific program as well as the administration of the Branch.

The leadership of the Institute's Branches as of December 31, 2017 was as follows: -

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

The Uppsala Branch ceased scientific operations on July 31, 2017.

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 2017

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 2017, 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 2017, the publication record by location was as follows: -

	Primary Research Articles	Reviews/ Book Chapters/ Commentaries	Total
Brussels	32	5	37
Lausanne	54	31	85
Melbourne WEHI/ONJCR	24	2	26
NY Collaborative Laboratory	21	4	25
Oxford	28	16	44
San Diego	39	16	55
Sao Paulo	29	0	29
Stockholm	21	0	21
Uppsala	9	0	9
Total	**257**	**74**	**331**

Clinical Trials
Eleven Institute-sponsored clinical trials were on-going in 2017. Institute investigational study agents were provided for an additional 17 active clinical trials sponsored and managed by local entities. These 28 trials were supported by 14 active Institute regulatory dossiers [eight Investigational New Drug (IND) applications (USA), one Drug Master File (DMF), two Clinical Trial Application (CTA) in Switzerland and in the UK, respectively, and three Clinical Trial Notifications (CTN) in Australia]. Over the year, the Institute made three new regulatory submissions and 116 supplemental submissions to its active regulatory dossiers in three countries.

Clinical Trial Sites
The following sites had active LICR-managed trials in 2017: -

Australia
- Austin Hospital, Melbourne, VIC, Australia

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

United Kingdom
- Churchill Hospital, Oxford, United Kingdom
- Ninewells Hospital, Dundee, Scotland, United Kingdom
- Nottingham City Hospital, Nottingham, United Kingdom
- Southampton General Hospital, Southampton, United Kingdom

North America
- Arizona Oncology, Phoenix, AZ, USA
- Case Comprehensive Cancer Center, Cleveland, OH, USA
- Cleveland Clinic, Cleveland, OH, USA
- Dana-Farber Cancer Institute, Boston, MA, USA
- H. Lee Moffitt Cancer Center & Research Institute, Tampa, FL, 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
- New York University, 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 Miami, Miami, FL, 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

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 2017, four new US patents and five new European patents were issued, and 12 new US applications and a further six new international patent applications were filed.

Immunotherapy of cancer 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 and related technologies reflects the Institute's established expertise in the 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 2017, the Institute completed clinical trials in collaboration with Daiichi Sankyo and Leap Therapeutics and completed patient enrolment of three clinical trials in collaboration with the Cancer Research Institute, New York (CRI), designed to evaluate cancer immunotherapy PD-1/L1 drug combinations. In total six clinical studies are currently active within the Ludwig-CRI collaboration. Two additional clinical studies are actively recruiting patients, one for evaluating checkpoint antibody modulation together with radiotherapy in melanoma, and another for investigating checkpoint antibody modulation together with standard chemo-radiation in oesophageal cancer. These and the Institute's other active clinical trials are described elsewhere in this report.

Novel checkpoint modulator antibodies targeting GITR, OX40, PD1 and CTLA-4 that were licensed to Agenus Inc. are now all in clinical development. Agenus previously partnered two of these with Incyte Corp and in 2017, Agenus and Incyte restructured their partnership for the development of the anti-GITR antibody, INCAGN01876, and the anti OX40 antibody, INCAGN01949, resulting in Ludwig receiving an additional financial milestone payment. INCAGN01876 is currently in three actively recruiting studies and INCAGN01949 in two, where they are being evaluated as single agents and in immuno-oncology combinations. In addition Agenus has launched clinical trials with the anti-CTLA-4 antibody, AGEN1884, and the anti-PD1 antibody, AGEN2034.

Several of the Ludwig's tumor targeting monoclonal antibodies are being developed as antibody drug conjugates (ADC), designed to deliver a toxic payload to tumors. AbbVie are conducting a phase III clinical trial with Depatuxizumab mafodotin (formerly ABT-414), an ADC containing the Institute's monoclonal antibody Mab806, in brain cancer. The phase III study generated a development milestone payment to Ludwig in 2017. Morphotek (Eisai Inc) began enrolling patients into a Phase 1 study of MORAb-202, an ADC containing Ludwig's folate receptor alpha antibody, LK26. Finally, Mersana began enrolling patients into a Phase 1 study of XMT-1536, an ADC based upon Ludwig's MX35 antibody targeting NaPi2b expressed in ovarian cancers and non-squamous non-small cell lung cancers.

Ludwig start-up company iTeos Therapeutics Ltd (iTeos) announced that it had regained exclusive worldwide development and commercialization rights to EOS200271 (previously PF-06840003), from Pfizer, a highly selective, brain penetrant, clinical-stage IDO1 inhibitor, which was originally developed by iTeos. iTeos will continue the clinical development in collaboration with Ludwig.

Ludwig's genomic technologies have generated significant commercial interest. Ludwig start-up Arima Genomics in San Diego, is developing technologies to concurrently ascertain genome sequence and structure, based on genomic sequencing technologies licensed from Ludwig.

At the end of 2017, the Institute had holdings in eleven start-up companies with products at various stages of development and maturity 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 85 material transfer agreements during 2017. These were mainly with academic institutions (83 agreements) whereby the Institute supplied reagents free of charge to the academic community, while two material transfer agreements were entered into with commercial organisations. One agreement may cover several reagents. The material originated from the following locations: -

	2017	2016
Brussels	17	23
Lausanne	7	9
Melbourne – ONJCRI	10	1
Oxford	0	24
San Diego	23	0
Stockholm	0	8
Uppsala	1	31
Affiliates/inventors from several Branches	27	0
Total	**85**	**96**

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 198 license, sublicense and option agreements with commercial organisations at the beginning of 2017. A further nine agreements were signed during the year, while 17 agreements expired or were terminated with the result that at year end the portfolio comprised a total of 190 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 33 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 6.5 million for 2017. The net income after sharing with co-owners and inventors totalled USD 3.7 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, three PhD students started their postgraduate training with the Institute and 32 completed their training with the Institute. At December 31, 2017, the Institute was acting as sponsor to 63 postdoctoral fellows and 31 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 2017: -

Brussels

Stefan N Constantinescu, MD, PhD	Awarded Advanced Grant as Welbio Investigator
	Awarded 5 Year Prize for Research in Basic Medical Sciences by the Federal Government of Belgium
	Recipient of Special Recognition Award, A*Star and D3 Experimental Therapeutic Centre, Singapore
	Appointment as Vice-President, Federation of the European Academies of Medicine (FEAM), Brussels, Belgium

Lausanne

Jeremiah Bernier-Latmani, PhD	Award of the 2017 Pfizer Foundation Cardiovascular, Urology and Nephrology Research Prize
George Coukos, MD, PhD	European Academy of Cancer Sciences Member
Marie-Agnès Doucey, PhD	Recipient of the 2017 Rotary Club of Vaud Prize for breast cancer research
Ping-Chih Ho, PhD	Inducted as a Member of the American Association for Cancer Research (AACR)
	Recipient of the 2017 Anna Fuller Prize
	Recipient of the 2017 Cancer Research Institute CLIP award
	Awarded an EFIS-EJI Travel Grant 2017
Johanna Joyce, PhD	Recipient of 2017 Swiss Bridge Award
	Elected as Member of the European Molecular Biology Organization
	Recipient of Pandolfi Women in Cancer Research Award, Harvard Medical School
	European Academy of Cancer Sciences Fellow
Tatiana Petrova, PhD	Award of the 2017 Leenaards Foundation Scientific Prize

Melbourne - ONJCRI	
Andrew Scott, MD, AM	Recipient of the Member of the Order of Australia Award "for significant service to Nuclear Medicine and Cancer Research as an academic, and to Professional Organisations."
	Inducted as a Fellow of the Australian Academy of Health and Medical Sciences
NY Collaborative Laboratory	
Jedd D. Wolchok, MD, PhD	Presentation of the 2017 Targeted Anticancer Therapies Honorary Award Lecture
	Presentation of the Society of Surgical Oncology 2017 James Ewing Lecture
	Recipient of the 2017 Rofeh Cholim Cancer Society Monsey Medical Devotion Award
Oxford	
Sir Peter J. Ratcliffe, MD, FRS	Awarded the 2017 Royal Society Buchanan Medal
Colin R. Goding, PhD	Recipient of the 2017 Myron Gordon Award
Sarah de Val, PhD	Recipient of the 2017 Werner Risau Early Career Investigator Award in Vascular Biology
San Diego	
Webster K. Cavenee, PhD	Recipient of 2017 Society for NeuroOnclogy Lifetime Achievement Award
Don W. Cleveland, PhD	Awarded a 2018 Breakthrough Prize in Life Sciences
Arshad Desai, PhD	Election as Lifetime Fellow of the American Society for Cell Biology
Karen Oegema, PhD	Recipient of 2017 Women in Cell Biology Mid-Career Award for Excellence in Research by the American Society for Cell Biology
	Election as Lifetime Fellow of the American Society for Cell Biology