Interim Report

For the six months ended June 30, 2018

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FORWARD-LOOKING STATEMENTS

This Interim Report may include statements that are, or may be deemed to be, "forward-looking statements", including without limitation those regarding Kiadis Pharma's future performance and position. Such statements are based on current expectations, estimates and projections of Kiadis Pharma and information currently available to the Company. Kiadis Pharma cautions that by their nature, forward-looking statements involve risks and uncertainties that are difficult to predict and that actual results may differ. Risks and uncertainties include, but are not limited to, macro-economic, market and business trends and conditions, competition, legal claims, the Company's ability to protect intellectual property, changes in legislation or accountancy practices, the ability to implement the Company's strategy, and economic and/or political changes. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the 'Risk management and internal control systems' chapter of the Annual Report 2017. As a result, the Company's actual future performance, position and/or financial results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. The Company assumes no obligation to publicly update or revise forward-looking statements, except as may be required by law.

Interim Report of the Management Board
for the six months ended June 30, 2018

Operating highlights – ATIR101 (including post reporting period)

- European marketing authorization application for ATIR101:
    - Responses to the Day 120 List of Questions submitted in March 2018;
    - Day 180 List of Issues received in May 2018 and responses submitted in August 2018;
    - On track to obtain CHMP opinion from the European Medicines Agency in the fourth quarter of 2018.
- Phase 3 trial CR-AIR-009, comparing ATIR101 against the post-transplant cyclophosphamide (PTCy) or 'Baltimore' protocol:
    - Progress in line with internal plans: 14 clinical sites are currently open for recruitment, 16 patients have been enrolled;
    - Protocol amendment submitted to regulatory authorities: number of patients increased to 250 to further increase power (80% power to detect 16% Graft-versus-host-disease-free and Relapse-Free Survival (GRFS) difference); interim analysis to occur after 2/3 of GRFS events to increase chance of positive read out, now expected in the second half of 2020; conditioning regimens harmonized between the two treatment arms to reduce heterogeneity.
- Phase 2 trial CR-AIR-008 ('008'): The last patient received a single dose of ATIR101 in January 2018.
- Pooled analysis: Further analysis of 1-year Phase 2 pooled data [Intention-To-Treat (ITT), 37 patients] from studies CR-AIR-007 and single dose CR-AIR-008 shows GRFS 53% [95% confidence interval (CI), 39%-72%]; Overall Survival (OS) 58% (95% CI, 44%-77%); in line with Phase 2 CR-AIR-007 trial. For the PTCy/Baltimore protocol, single site data from Johns Hopkins (McCurdy et al. 2017) and Atlanta (Solh et al, 2016) show a disease-risk index (DRI) normalized 1-year GRFS value of 40% and 30%, respectively.

Operating highlights – Organization (including post reporting period)

- Mr. Robbert van Heekeren resigned as Chief Financial Officer and as member of the Management Board.
- Mr. Scott A. Holmes has been appointed as new Chief Financial Officer.
- Organization strengthened across all functions, comprises 73 employees end of August, up from 51 a year ago. Key new appointments include head of Medical US (former Iovance/ Dendreon), head of Medical EU (former Genzyme/ AstraZeneca), head of market access EU (former Genzyme/ Novo Nordisk), head of pharmacovigilance (former Astellas), head of facilities (former Merck/ Douwe Egberts).
- Dr. Otto Schwarz, former Chief Operating Officer of Actelion and Mr. Subhanu Saxena, former Chief Executive Officer of Cipla and former member of the senior executive team of Novartis, were appointed as Supervisory Board members of the Company at the Annual General Meeting of shareholders in June 2018. Mr. Stuart Chapman resigned from the Supervisory Board following the shareholders' meeting.

Interim financial results

- In the first six months of 2018, the Company did not generate any revenues. Total operating expenses increased by EUR2.9 million from EUR8.2 million in the first six months of 2017 to EUR11.1 million in the same period of 2018. This increase was primarily caused by a further expansion of the workforce in all areas of the organization, the move to a larger building which includes a commercial manufacturing facility, laboratories and office space, and consultancy expenses for business development and market access.
- In the first six months of 2018, net financial result came in at EUR3.0 million compared to EUR0.4 million for the same period of 2017. Higher finance costs were mainly the result of higher interest expenses on loans and borrowings, and a net foreign exchange loss in the first six months of 2018 compared to a net foreign exchange gain in 2017.
- The net loss for the six months ended June 30, 2018 came at a level of EUR14.1 million compared to a loss of EUR8.5 million for the six months ended June 30, 2017. Operating expenses and net result for the first six months of 2018 were in line with management expectations.
- The Company ended the first six months of 2018 with EUR41.7 million in cash and cash equivalents. In March 2018, the Company issued 2.6 million shares and raised EUR23.4 million in gross proceeds.

Auditor's involvement

These consolidated interim financial statements have not been audited by the Company's statutory auditor.

Risk and uncertainties

The Company's (financial) risk management and internal control procedures are described on pages 27 to 32 of the Annual Report 2017.

Note 3 to the consolidated financial statements on pages 59 to 61 of the Annual Report 2017 describes the Company's critical accounting estimates and judgments.

With reference to the *Going Concern Assessment* in Note 2 of these consolidated interim financial statements, management is of the opinion that the Company will be able to meet its financial obligations in the twelve months following the date of these interim financial statements.

Responsibility statement

The Management Board of the Company hereby declares that to the best of its knowledge, the consolidated interim financial statements, which have been prepared in accordance with IAS 34 (Interim Financial Reporting), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the Interim Report of the Management Board gives a fair view of the information required pursuant to section 5:25d(8)/(9) of the Dutch Financial Supervision Act (Wet op het financieel toezicht).

Amsterdam, August 31, 2018

Management Board

Arthur Lahr, *Chief Executive Officer*
Robbert van Heekeren, *Chief Financial Officer*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in EUR x 1,000)

	Note	June 30, 2018 Unaudited	December 31, 2017 Audited
Assets			
Property, plant and equipment	5	7,260	602
Intangible assets	6	12,505	12,830
Total non-current assets		**19,765**	**13,432**
VAT and other receivables	7	540	582
Deferred expenses	7	1,460	767
Cash and cash equivalents	8	41,704	29,906
Total current assets		**43,704**	**31,255**
Total assets		**63,469**	**44,687**
Equity			
Share capital		2,012	1,729
Share premium		147,962	124,413
Translation reserve		295	295
Warrant reserve		658	1,275
Accumulated deficit		(125,588)	(111,853)
Equity attributable to owners of the Company	9	**25,339**	**15,859**
Liabilities			
Loans and borrowings	10	20,808	21,599
Lease liabilities	11	5,572	-
Derivatives	12	1,733	1,445
Employee benefits	14	986	540
Total non-current liabilities		**29,099**	**23,584**
Loans and borrowings	10	3,655	1,789
Lease liabilities	11	1,033	-
Trade and other payables	13	4,343	3,455
Total current liabilities		**9,031**	**5,244**
Total liabilities		**38,130**	**28,828**
Total equity and liabilities		**63,469**	**44,687**

The Notes on pages 10 to 23 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Amounts in EUR x 1,000)

	Note	For the six months ended June 30, 2018 Unaudited	June 30, 2017 Unaudited
Revenue		**-**	**-**
Other income		**-**	**-**
Research and development expenses	14,15	(7,709)	(5,882)
General and administrative expenses	14,15	(3,393)	(2,276)
Total operating expenses		**(11,102)**	**(8,158)**
Operating loss		**(11,102)**	**(8,158)**
Interest income		-	-
Interest expenses		(1,995)	(880)
Other net finance income (expenses)		(973)	516
Net finance expenses	16	**(2,968)**	**(364)**
Loss before tax		**(14,070)**	**(8,522)**
Income tax expense		-	-
Loss for the period		**(14,070)**	**(8,522)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation difference for foreign operations		-	(12)
Related tax		-	-
Other comprehensive income for the period, net of tax		**-**	**(12)**
Total comprehensive income for the period		**(14,070)**	**(8,534)**
Loss attributable to:			
Owners of the Company		(14,070)	(8,522)
		(14,070)	**(8,522)**
Total comprehensive income attributable to:			
Owners of the Company		(14,070)	(8,534)
		(14,070)	**(8,534)**
Earnings per share			
Basic earnings per share (EUR)		(0.74)	(0.61)
Diluted earnings per share (EUR)		(0.74)	(0.61)

The Notes on pages 10 to 23 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in EUR x 1,000)

	Note	Share Capital	Share Premium	Translation Reserve	Warrant Reserve	Accumulated deficit	Total Equity
Balance as at January 1, 2018		**1,729**	**124,413**	**295**	**1,275**	**(111,853)**	**15,859**
Total comprehensive income							
Loss for the period						(14,070)	(14,070)
Other comprehensive income				-			-
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**(14,070)**	**(14,070)**
Transactions with owners, recorded directly in equity							
Issue of shares for cash	9	260	23,140				23,400
Transaction costs	9		(1,849)				(1,849)
Equity-settled share-based payments						335	335
Warrants exercised	9	23	2,258		(617)		1,664
Balance as at June 30, 2018		**2,012**	**147,962**	**295**	**658**	**(125,588)**	**25,339**

	Note	Share Capital	Share Premium	Translation Reserve	Warrant Reserve	Accumulated deficit	Total Equity
Balance as at January 1, 2017		**1,397**	**103,200**	**307**	**-**	**(95,463)**	**9,441**
Total comprehensive income							
Loss for the period						(8,522)	(8,522)
Other comprehensive income				(12)			(12)
Total comprehensive income for the period		**-**	**-**	**(12)**	**-**	**(8,522)**	**(8,534)**
Transactions with owners, recorded directly in equity							
Issue of shares for cash		75	4,925				5,000
Transaction costs			(600)		155		(445)
Fair value of warrants issued		-	(2,313)				(2,313)
Equity-settled share-based payments		-			11	364	375
Balance as at June 30, 2017		**1,472**	**105,212**	**295**	**166**	**(103,621)**	**3,524**

The Notes on pages 10 to 23 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in EUR x 1,000)

		For the six months ended	
		June 30, 2018	June 30, 2017
	Note	Unaudited	Unaudited
Cash flows from operating activities			
Loss for the period		**(14,070)**	**(8,522)**
Adjustments for :			
Depreciation of property, plant & equipment (PP&E)	5	529	81
Net interest expenses	16	1,995	880
Share-based payments	14	781	486
Net unrealized foreign exchange (gains) or losses		626	(376)
(Gain) or loss from derivatives	12	288	(402)
(Gain) or loss from adjustments of loans	10	42	227
Income tax expense		-	-
Cash used in operating activities before changes in working capital and provisions:		**(9,809)**	**(7,626)**
VAT & other receivables and deferred expenses		(652)	20
Trade & other payables and other liabilities		794	342
Total change in working capital		**142**	**362**
Cash used in operating activities		**(9,667)**	**(7,264)**
Interest paid		(903)	(294)
Income taxes paid		(17)	(2)
Net cash used in operating activities		**(10,587)**	**(7,560)**
Cash flows from investing activities			
Interest received		-	8
Acquisition of property, plant & equipment (PP&E)	5	(263)	(38)
Net cash used in investing activities		**(263)**	**(30)**
Cash flows from financing activities			
Proceeds from issue of shares	9	23,400	5,000
Proceeds from exercise of warrants	9	1,664	-
Payment of share issue costs	9	(1,849)	(445)
Repayment of loans and borrowings	10	(320)	(777)
Payment of lease liabilities	11	(249)	-
Net cash from financing activities		**22,646**	**3,778**
Net decrease in cash and cash equivalents		**11,796**	**(3,812)**
Cash and cash equivalents as at January 1		29,906	14,559
Effect of exchange rate fluctuations on cash held		2	(14)
Cash and cash equivalents as at June 30	8	**41,704**	**10,733**

The Notes on pages 10 to 23 are an integral part of these consolidated interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the six months ended June 30, 2018

1. Company information

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

The Company is a public limited liability company incorporated and domiciled in Amsterdam, The Netherlands. The address of its business office is Paasheuvelweg 25A, 1105 BP Amsterdam, The Netherlands.

2. Basis of preparation

The consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The financial statements do not contain all information required for an annual report and should therefore be read in conjunction with the Company's Annual Report 2017.

The consolidated interim financial statements were authorized for issue by the Management Board and the Supervisory Board of the Company on August 31, 2018.

These consolidated interim financial statements have not been audited.

Going concern assessment

The consolidated interim financial statements have been prepared on a going concern basis. Based on the current operating plan, cash and cash equivalents are estimated to be sufficient to meet the Company's working capital requirements through the 12 months following the date of these interim financial statements. In March 2018, the Company issued 2.6 million new shares and raised EUR23.4 million in gross proceeds. In July 2018, the Company entered into a new debt facility agreement for a total amount of EUR20.0 million, of which EUR5.0 million was immediately drawn down. See also Note 20 'Subsequent events'.

3. Significant accounting policies

The Company has adopted the IFRS 9 'Financial instruments' as of January 1, 2018. The adoption of this new standard has no material impact on these interim financial statements.

The Company has adopted the IFRS 15 'Revenue from contracts with customers' as of January 1, 2018. The adoption of IFRS 15 has no impact on these interim financial statements.

The Company has early adopted IFRS 16 'Leases' as of January 1, 2018. The adoption of IFRS 16 'Leases' has a material impact on the interim financial statements. Kiadis has implemented IFRS 16 by applying the modified retrospective method, meaning that the comparative numbers in the financial statements have not been restated to reflect the impact of IFRS 16.

Other accounting policies are consistent with those of the financial statements for the year ended December 31, 2017.

Significant accounting estimates and judgments

The preparation of financial statements requires judgments and estimates that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the consolidated interim financial statements. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

Non-derivative financial liabilities

The Company presented non-current loans and borrowings with a carrying value of EUR20.8 million as at June 30, 2018. An amount of EUR10.2 million relates to a loan from Hospira Inc. for which repayment is conditional (see Note 10). This loan has an effective interest rate (EIR) of 11% that was established at initial recognition. At each reporting date, the Company makes an assessment of the underlying future cash flows. In the event cash outflows related to repayment of the loan have changed during the period, the Company recalculates the net present value (NPV) of these re-estimated cash outflows using the original EIR. Any difference between the carrying amount and the recalculated NPV at the reporting date, will give rise to a gain or loss to be charged to the statement of income.

Derivative financial liabilities

The Company presented derivative financial liabilities with a carrying value of EUR1.7 million as at June 30, 2018. These liabilities represent the fair value of warrants issued and are based on models using assumptions with respect to, amongst others, the exercise of the warrants on or before maturity. The estimated fair value of derivatives that are level 3 financial liabilities in the fair value hierarchy (see Note 17) is based on a Black, Scholes and Merton option pricing model. Measurement inputs to calculate the fair value are the Company’s share price, the exercise price of the warrants, share price volatility of peer companies, and a risk-free interest rate. Fair value changes of warrants that are not exercised between June 30, 2018 and subsequent reporting dates are charged to the income statement.

Lease liabilities

The Company presented lease liabilities with a total carrying value of EUR6.6 million as at June 30, 2018, of which EUR1.0 million is presented under current liabilities. On January 1, 2018, the date of initial application of IFRS 16, Kiadis had two lease contracts in place, both of which relate to the lease of buildings.

Kiadis has elected the following practical expedients and applied these consistently to all of its leases:

1. The Company did not reassess whether any expired or existing contracts are or contain leases;
2. The Company excluded initial direct costs for any existing leases;
3. The Company did not apply the recognition requirements to short-term leases.

On adoption of IFRS 16, Kiadis recognized lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using Kiadis' incremental borrowing rate (IBR). The Company's IBR was determined using the following input parameters: the lease term, the Company's credit rating, a risk-free interest rate corresponding to the lease term, and a lease specific adjustment considering the 'secured borrowing' element of the leases. The weighted average IBR applied to the lease liabilities on January 1, 2018 was 7.38 percent.

	January 1, 2018
Lease liability recognized at date of initial application of IFRS 16	
Operating lease commitments disclosed as of December 31, 2017	**14,395**
Less: service components included in operating lease commitments	(5,144)
Less: short-term leases for which no lease liability is recognized	(24)
Add: adjustments as result of different treatment of extension options	210
Commitments for lease payments	**9,437**
Discounted using the Company's incremental borrowing rate of 7.38%	(2,583)
Lease liability recognized in statement of financial position	**6,854**

On January 1, 2018, the date of initial application, the Company recognized its lease liabilities in its statement of financial position and recognized corresponding Right-of-Use assets presented under Property, plant and equipment for the same amount.

4. Segment reporting

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

As per June 30, 2018, the Group has one lead product under development being ATIR. This is considered to be the only reportable segment. All corporate activities can be assigned therefore to this segment as well. Therefore, no additional segment analysis is disclosed.

5. Property, plant and equipment

	Laboratory Equipment	Furniture & Hardware	ROU Assets - Buildings	Leasehold Improvements	Total
Balance as at December 31, 2017					
Cost of acquisition	1,153	363	-	101	1,617
Depreciation / Impairment	(725)	(230)	-	(60)	(1,015)
Book value as at December 31, 2017	**428**	**133**	**-**	**41**	**602**
Adjustment on initial application of IFRS 16	-	-	6,854	-	6,854
Balance as at January 1, 2018					
Cost of acquisition	1,153	363	6,854	101	8,471
Depreciation / Impairment	(725)	(230)	-	(60)	(1,015)
Book value as at January 1, 2018	**428**	**133**	**6,854**	**41**	**7,456**
Changes in book value					
Additions	77	132	-	124	333
Depreciation	(73)	(28)	(396)	(32)	(529)
	4	**104**	**(396)**	**92**	**(196)**
Balance as at June 30, 2018					
Cost of acquisition	1,230	495	6,854	146	8,725
Depreciation / Impairment	(798)	(258)	(396)	(13)	(1,465)
Book value as at June 30, 2018	**432**	**237**	**6,458**	**133**	**7,260**

On January 1, 2018, the Company recognized Right-of-Use (ROU) assets in its statement of financial position for the buildings it uses under two separate lease contracts. The main lease contract commenced on January 1, 2018, with a lease term of ten years. This contract concerns a commercial manufacturing facility, laboratories and office space that the Company uses as its global headquarters. The other lease contract concerns laboratories and office space with a lease term of twelve months, that is renewed annually. The Company will terminate this contract in the second half of 2019.

The amounts recognized for Right-of-Use assets were calculated as the net present value of all future lease payment due under the lease contracts. See also Note 11 'Lease liabilities'.

6. Intangible assets

	Goodwill	In-process Research & Development	Patents	Total
Balance as at January 1, 2018				
Cost	4,058	8,772	80	12,910
Amortization / Impairment	-	-	(80)	(80)
Book value as at January 1, 2018	**4,058**	**8,772**	**-**	**12,830**
Changes in book value				
Effect of changes in foreign exchange rates	(102)	(223)	-	(325)
	(102)	**(223)**	**-**	**(325)**
Balance as at June 30, 2018				
Cost	3,956	8,549	80	12,585
Amortization / Impairment	-	-	(80)	(80)
Book value as at June 30, 2018	**3,956**	**8,549**	**-**	**12,505**

The Company's intangible assets mainly relate to the business combination effected in 2006 in which Kiadis Pharma acquired Montreal, Canada, based Celmed BioSciences Inc. The carrying value of the Company's intangible assets decreased from EUR12.8 million at year end 2017 to EUR12.5 million at June 30, 2018. This decrease of EUR0.3 million is caused by a weakening of the Canadian dollar against the euro of approximately 2.5%.

7. Trade and other receivables

	June 30, 2018	December 31, 2017
VAT receivables	292	331
Deferred expenses	1,460	767
Deposits (lease of buildings)	234	231
Other amounts receivable	14	20
	2,000	**1,349**

The increase in deferred expenses is mainly caused by deferred legal fees of EUR685 thousand in total that were incurred in the second quarter in connection with a strategic project.

8. Cash position and cash flows

	June 30, 2018	December 31, 2017
Cash as at bank and in hand	41,704	29,906
Short-term bank deposits	-	-
Cash and Cash Equivalents	**41,704**	**29,906**
Bank overdrafts used for cash management purposes	-	-
Net Cash as per Cash Flow Statement	**41,704**	**29,906**

All amounts reported as cash or cash equivalents are at the free disposal of the Company with the exception of an amount of EUR22 thousand that is pledged against a bank guarantee provided as security for the lease of a building.

The main cash flow items can be summarized as follows:

	For the six months ended	
	June 30, 2018	June 30, 2017
Cash and cash equivalents, beginning of the period	**29,906**	**14,559**
Net cash used in operating activities	(10,587)	(7,560)
Net cash used in investing activities	(263)	(30)
Net cash from financing activities	22,646	3,778
Effect of exchange rate fluctuations on cash held	2	(14)
Cash and cash equivalents, end of the period	**41,704**	**10,733**

9. Shareholders' equity

Shares issued and share capital

On June 30, 2018, the Company's authorized share capital amounted to EUR10.0 million divided into 100 million ordinary shares, each with a nominal value of EUR0.10. As at June 30, 2018, a total number of 20,115,092 ordinary shares were outstanding. Each share holds the right to one vote.

	Number of Issued Shares	Issued Share Capital
	Ordinary Shares	in EUR x1,000
Balance as at January 1, 2018	**17,287,397**	**1,729**
New shares issued for cash	2,600,000	260
New shares issued upon exercise of warrants	227,695	23
Balance as at June 30, 2018	**20,115,092**	**2,012**

In March 2018, the Company raised EUR23.4 million in gross proceeds by issuing a total of 2.6 million new shares.

In February and March 2018, the Company issued an aggregate number of 227,695 new shares upon the exercise of warrants.

Share premium

	June 30, 2018	June 30, 2017
Balance at 1 January	**124,413**	**103,200**
Share premium on new shares issued	23,140	4,925
Transaction costs	(1,849)	(600)
Fair value of warrants issued	-	(2,313)
Warrants exercised	2,258	-
Balance at end of period	**147,962**	**105,212**

Warrant reserve

	June 30, 2018	June 30, 2017
Balance as at January 1	**1,275**	**-**
Warrants issued for services	-	166
Warrants exercised	(617)	-
Balance at end of period	**658**	**166**

10. Loans and borrowings

	June 30, 2018	December 31, 2017
Non-current liabilities		
Loan from Kreos Capital V (UK) Ltd	9,728	11,401
Loan from Hospira Inc.	10,246	9,401
Loan from University of Montreal	834	797
	20,808	**21,599**

	June 30, 2018	December 31, 2017
Current liabilities		
Loan from Kreos Capital V (UK) Ltd	3,655	1,789
	3,655	**1,789**

In August 2017, the Company entered into a debt financing agreement with Kreos Capital V (UK) Ltd for a total amount of EUR15.0 million, consisting of two tranches of EUR5.0 and EUR10.0 million respectively. The loan bears a contractual interest rate of 10.0% per annum. The change in the carrying amount reflects interest accrued during the period of EUR1,180 thousand, interest payments of EUR667 thousand and loan repayments of EUR320 thousand on the first tranche. This first tranche will be repaid in 36 equal installments from June 2018 until May 2021. The second tranche will be repaid in 36 equal monthly installments from November 2018 until October 2021.

In December 2011, the Company entered into an agreement with Hospira Inc. for which an amount of USD24.5 million had been judged as a loan. The loan bears a contractual interest rate of 1.5% per annum and the conditional payment obligations regarding this loan are as follows:

4. a milestone payment of USD3 million upon the earlier of (i) the execution of a sub-license on the Theralux platform, or (ii) the first commercial sale of a product derived from the Theralux platform; and
5. a 5% royalty on worldwide net sales of products derived from the Theralux product platform until the loan amount has been fully paid.

The carrying amount of this loan as at June 30, 2018, has been adjusted by an amount of EUR42 thousand to reflect changes in the (estimated) underlying future cash flows. This amount has been charged to the income statement (see also Note 16).

The changes in loans and borrowings in the first six months of 2018 can be summarized as follows:

	Kreos Capital V (UK) Ltd	Hospira Inc.	University of Montreal
Balance as at January 1, 2018	**13,190**	**9,401**	**797**
Interest accrued during the period	1,180	518	14
Interest payments	(667)	-	-
Repayments	(320)	-	-
Restatement of carrying amount	-	42	-
Effect of changes in foreign exchange rates	-	285	23
Balance as at June 30, 2018	**13,383**	**10,246**	**834**

11. Lease liabilities

	June 30, 2018	December 31, 2017
Non-current lease liabilities		
Lease liabilities related to buildings	5,572	-
	5,572	**-**

	June 30, 2018	December 31, 2017
Current lease liabilities		
Lease liabilities related to buildings	1,033	-
	1,033	**-**

Future lease payments will be adjusted annually based on a Consumer Price Index (CPI) as published by CBS, the Dutch Statistics Office, for the first time on January 1, 2019. These adjustments of the lease payments have not been included in the present value calculations of the lease liabilities as at January 1, 2018.

	Lease liabilities related to buildings	Total lease liabilities
Balance as at January 1, 2018	**-**	**-**
Initial recognition	6,854	6,854
Interest expense in the period	236	236
Lease payments	(485)	(485)
Balance as at June 30, 2018	**6,605**	**6,605**

The table below summarizes the contracted undiscounted cash flows from lease liabilities when they become due.

	June 30, 2018	December 31, 2017
Maturity analysis of contracted undiscounted cash flows		
Less than one year	1,062	-
Between one and three years	1,892	-
Between three and five years	1,845	-
More than 5 years	4,152	-
Total undiscounted lease liabilities	**8,951**	**-**
Current	1,033	-
Non-current	5,572	-
Lease liabilities included in the statement of financial position	**6,605**	**-**

12. Derivatives

	H1 2018
Balance as at January 1	**1,445**
Changes in fair value included in 'finance income' :	
- Gain from change in fair value	-
- Loss from change in fair value	288
Balance as at June 30	**1,733**

In August and October 2017, the Company issued a total of 253,617 warrants to Kreos Capital V (UK) Ltd in connection with a new debt financing agreement. Since the exercise price of these warrants can be adjusted based on the subscription price of future financing events, these warrants do not meet the so-called fixed-for-fixed criteria and were classified as a derivative financial liability. The fair value of these warrants was remeasured at the reporting date at EUR1.7 million and the corresponding change in fair value was charged to the income statement.

13. Trade and other payables

	June 30, 2018	December 31, 2017
Suppliers	1,358	1,366
Salaries, bonuses and vacation	383	788
Tax and social premium contributions	239	235
Accrued clinical costs	723	570
Accrued manufacturing costs	127	130
Accrued audit fees	63	73
Accrued legal fees	735	7
Accrued recruitment fees	255	95
Interest payable	48	-
Other	412	191
	4,343	3,455

The increase in trade and other payables is mainly caused by accrued legal fees of EUR685 thousand in total that were incurred in the second quarter in connection with a strategic project.

14. Employee Benefits

	For the six months ended	
	June 30, 2018	June 30, 2017
Wages and salaries	3,036	2,277
Compulsory social security contributions	339	225
Contributions to defined contribution plans	125	93
Equity-settled share-based payment	335	364
Cash-settled share-based payment	446	112
Other employee benefits	62	41
Total	**4,343**	**3,112**
Number of employees (headcount)		
Research & development positions	52	45
General & administrative positions	16	6
Number of employees (headcount),end of the period	**68**	**51**

Employee benefits excluding expenses related to share-based payment for the first six months of 2018 increased by EUR0.9 million compared to the same period in 2017. This was mainly due to increases in headcount across the entire organization.

Equity-settled share-based payment expense relate to share options granted under the Kiadis Pharma share option and stock appreciation right plan. Under this plan an aggregate number of 63,900 share options were granted to employees in the first six months of 2018. In this period, employees leaving the Company forfeited a total of 30,202 share options. On June 30, 2018, a total of 462,175 share options with an average exercise price of EUR9.10 were issued and outstanding. On this date, 73,929 of these share options were exercisable.

Cash-settled share-based payment expenses relate to stock appreciations rights (SARs) granted under the Kiadis Pharma 2017 stock appreciation right plan. Under this plan 300,000 SARs were granted to Mr. Arthur Lahr, CEO of the Company, on April 4, 2017. On June 30, 2018, all 300,000 SARs were issued and outstanding. None of these SARs were exercisable on this date.

15. Expenses

	For the six months ended	
	June 30, 2018	**June 30, 2017**
Employee benefits (see Note 14)	4,343	3,112
Depreciation expense	529	81
Facilities	419	186
Consultancy	1,960	1,282
Telecom & IT	105	99
Travel	435	205
Insurance	40	48
Clinical costs	1,208	1,177
Manufacturing	1,247	1,465
Other	816	503
Total	**11,102**	**8,158**

	For the six months ended	
	June 30, 2018	**June 30, 2017**
Research and development expenses	7,709	5,882
General and administrative expenses	3,393	2,276
Total	**11,102**	**8,158**

Research and development expenses increased by EUR1.8 million mainly due to a further expansion of the workforce, and the move to a larger building which includes a commercial manufacturing facility, laboratories and office space.

General and administrative expenses increased by EUR1.1 million mainly due to increased headcount across all departments to support the continued growth of the company and consultancy expenses for business development, market access and a strategic project.

16. Finance income and expenses

	For the six months ended	
	June 30, 2018	**June 30, 2017**
Finance income		
Net foreign exchange gain	-	341
Gain from changes in fair value of derivatives	-	402
	-	**743**
Finance expenses		
Interest expense on bank loans and other debt	(1,759)	(880)
Interest expense on lease liabilities	(236)	-
Net foreign exchange loss	(643)	-
Loss from adjustments of loans	(42)	(227)
Loss from changes in fair value of derivatives	(288)	-
	(2,968)	**(1,107)**

Net foreign exchange loss of EUR643 thousand in the first six months of 2018 includes EUR337 thousand of unrealized (non-cash) Canadian dollar/euro exchange rate loss on intra-group loans and EUR285 thousand of unrealized (non-cash) US dollar/euro exchange rate loss on the loan from Hospira Inc.

Due to an increase in the estimated future cash flows underlying the Hospira Inc. loan, the carrying amount of the loan was adjusted upward for EUR42 thousand (see also Note 10). This resulted in a charge included in finance expenses of the same amount. Finance expenses also include a loss of EUR288 thousand from the remeasurement of derivatives at the reporting date. See also Note 12.

17. Financial instruments

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

	Carrying amount				Fair value			
	Non-current assets	Current assets						
		Trade and other receivables	Cash and cash equivalents	Total	Level 1	Level 2	level 3	Total
June 30, 2018								
Financial assets not measured at fair value								
VAT and other receivables		540		540				
Cash and cash equivalents			41,704	41,704				
		540	**41,704**	**42,244**				
December 31, 2017								
Financial assets not measured at fair value								
VAT and other receivables		582		582				
Cash and cash equivalents			29,906	29,906				
		582	**29,906**	**30,488**				

	Carrying amount					Fair value			
	Non-current liabilities		Current liabilities						
	Derivatives	Loans and lease liabilities	Trade and other payables	Loans and lease liabilities	Total	Level 1	Level 2	level 3	Total
June 30, 2018									
Financial liabilities measured at fair value									
Derivatives	1,733				1,733			1,733	1,733
Financial liabilities not measured at fair value									
Loan from Kreos Capital V (UK) Ltd		9,728		3,655	13,383		13,383		13,383
Loan from Hospira Inc.		10,246		-	10,246			10,246	10,246
Loan from University of Montreal, Canada		834		-	834		834		834
Lease liabilities		5,572		1,033	6,605		6,605		6,605
Trade and other payables			4,343		4,343				
	1,733	**26,380**	**4,343**	**4,688**	**37,144**				
December 31, 2017									
Financial liabilities measured at fair value									
Derivatives	1,445				1,445			1,445	1,445
Financial liabilities not measured at fair value									
Loan from Kreos Capital V (UK) Ltd		11,401		1,789	13,190		13,190		13,190
Loan from Hospira Inc.		9,401			9,401			9,401	9,401
Loan from University of Montreal, Canada		797			797		797		797
Lease liabilities		-		-	-		-		-
Trade and other payables			3,455		3,455				
	1,445	**21,599**	**3,455**	**1,789**	**28,288**				

18. Commitments

	June 30, 2018	December 31, 2017
Less than one year	548	1,480
Between one and five years	2,049	5,740
More than 5 years	2,305	7,175
Total	**4,902**	**14,395**

The commitments as at June 30, 2018 in the table above, relate to services received under non-cancellable lease contracts for buildings. The lease contracts relate to a commercial manufacturing facility, laboratories and office space in Amsterdam. Following the early adoption of IFRS 16, the payments for the lease components in the lease contracts are recognized in the statement of financial position. See also Note 11. The comparative numbers for 2017 include both lease component and service component payments under the lease contracts.

19. Transactions with related parties

The transactions with related parties that have a significant influence over the Company during the six months presented in this Interim Report are described below. Other than this, there were no transactions or business activities with related parties.

Management Board

The Management Board included in the table below relates to 2 members (Chief Executive Officer and Chief Financial Officer) that were in office during the first six months of 2018 and 2017.

	For the six months ended	
	June 30, 2018	**June 30, 2017**
Salaries and other short-term employee benefits	242	558
Pensions	8	7
Share-based payments	475	363
Social securities	11	12
Other benefits	-	2
Total	**736**	**942**

Supervisory Board

There were 7 members on the Supervisory Board in the first six months of 2018 (H1 2017: 5). Two new board members were appointed by the General Meeting of shareholders held on June 4, 2018. Both served as observatory members during the first half of 2018, for whom the remuneration is not included in the table below. Only independent board members receive compensation for their services.

	For the six months ended	
	June 30, 2018	**June 30, 2017**
Remuneration	40	40
Total	**40**	**40**

20. Subsequent events

In August, Mr. Van Heekeren, the Company's CFO, formally decided to step down as per October 1, 2018. Mr. Scott Holmes has been appointed as successor to Mr. Van Heekeren.

On July 31, the Company received a new debt facility from Kreos Capital V (UK) Ltd providing the Company with up to EUR20 million of additional financing. This is in addition to the Company's EUR15 million debt financing from Kreos in 2017. The new loan consists of two tranches, with the first tranche of EUR5 million being immediately drawn down and a second tranche of up to an additional aggregate amount of EUR15 million, which Kiadis Pharma can at its option draw down until March 31, 2019, conditional on the Company having received a positive opinion from the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency for the Company's T-cell product candidate ATIR101. In connection with the drawdown of the first tranche of EUR5 million, the Company granted 41,212 warrants giving Kreos Capital the right to subscribe for 41,212 new shares at a price of EUR9.71 per share.