

# HERANTIS PHARMA



## ANNUAL REPORT



The forward-looking statements and estimates regarding the markets and the future in this report are based on the best current understanding of the company's management. Due to their nature, they involve an element of uncertainty and are sensitive to changes in the general economic conditions or the industry.

The Certified Advisor for Herantis Pharma Plc is UB Capital Oy.

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# Herantis in brief

Herantis Pharma Plc is a pharmaceutical development company based in Finland, developing drugs in inflammatory, central nervous system and lymphatic system diseases. Herantis' goal is to find new, advanced medical treatments particularly in indications with an unmet clinical need.

## DRUG CANDIDATES

### Dry eye: cis-UCA eye drops

Dry eye (Keratoconjunctivitis sicca) is the most common cause for eye irritation. Its typical symptoms include dryness of the eye, a burning feeling, pain, redness and a sensation of a foreign object in the eye. Severe or prolonged dry eye may damage the surface of the eye and deteriorate eyesight. Dry eye is believed to become more common as the population is aging and the use of computers and mobile devices is increasing.

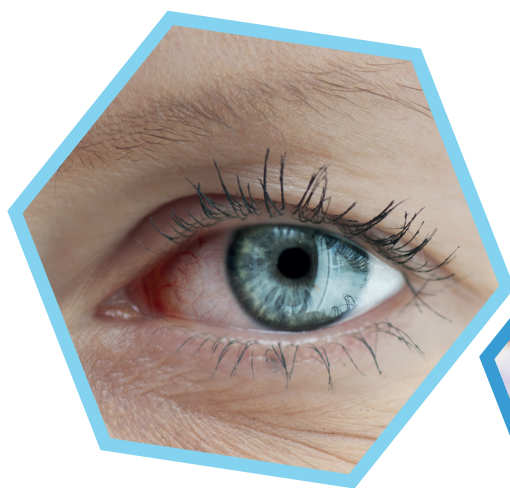
The cis-UCA eye drop is a drug candidate being developed by Herantis for the treatment of dry eye. The active ingredient of the product, cis-urocanic acid, is an anti-inflammatory compound naturally present on human skin.

### Parkinson's disease CDNF neural regeneration agent

Herantis is developing CDNF, a novel neuroprotective factor for the treatment of Parkinson's disease (PD). The disease is presently being treated in a variety of ways including medication and electrical deep brain stimulation. At the moment, commercially available treatments alleviate the motor symptoms of PD but have no effect on the progress of the disease. In addition, the effect of the treatments may be reduced over time. As indicated by research conducted over a number of years, CDNF, a naturally present protein in humans found as a result of long-term Finnish academic research, may both alleviate the motor symptoms and slow down disease progress. Moreover, CDNF may alleviate the non-motor symptoms of Parkinson's disease.

### Lymphedema resulting from breast cancer treatment: Lymfactin

Herantis is developing a product candidate, Lymfactin, for the treatment of lymphedema resulting from breast cancer treatment. Secondary lymphedema is a chronic swelling of the upper limbs with no cure. No approved medical treatments exist, leaving a vast unmet clinical need for an effective new treatment for secondary lymphedema. The Lymfactin drug candidate, based on top-class Finnish scientific research, attempts to trigger reconstitution of the damaged lymphatic vasculature, thereby removing the cause of the disease.



# Herantis Pharma is...

## Innovative

Herantis contributes to the development of new kinds of treatments for diseases for which no treatment exists or present treatments are insufficient. We renew medical treatment by researching and developing drug candidates for example from natural molecular structures that the body itself produces. Innovativeness is one of the cornerstones of our success.

## Forerunner

Finding innovative and novel drug candidates, and breakthroughs in the development of treatments for diseases require long-term research and product development that takes years. Our drug development competency, based on Finnish, internationally acknowledged scientific research and hard work, has already produced three strong drug candidates.

## Responsible

Our work involves responsibility, strict regulation and longevity. Depending on the drug candidate, a development project may take anything from a few years to more than 10 years. At any point during the project, it may become evident that the drug candidate is not suitable for development into a drug as planned. This is when a responsibly operating development company must be able to make difficult, but in the long term economically and ethically correct decisions, shutting down entire development programs if necessary.

## Human

We develop treatments for diseases for which medicine has so far failed to find sufficiently efficient treatments. They include conditions such as dry eye, Parkinson's disease, and lymphedema caused by breast cancer treatment. At the core

of our work, and the main motivation for it, is the human being whose quality of life we endeavor to improve. It is science not for science's sake but for the individual's sake.

## Acknowledged

Our highly experienced team, widely networked operating model, and flat, agile organization make it possible to reach our objectives. International academic and pharmaceutical industry partners enable us to operate cost-efficiently, adapt to changing market conditions, and allocate the majority of our funds to product development. This is a foundation for successes and a position as an acknowledged actor on all industry forums.



# Herantis Pharma as an investment

Herantis Pharma provides an opportunity to invest in Finnish clinical stage drug development. Our drug development program focuses on diseases clearly requiring new, better treatments. We believe that our drug candidates for dry eye, Parkinson's disease and lymphedema caused by breast cancer treatments are on the verge of opening up new treatment possibilities for these diseases that have a significant effect on the national economy.

## Our strengths in drug development are:

- Three promising drug candidates independent of each other
- Experienced team and wide international collaboration network
- Lean cost structure and moderate financing needs
- Risk management and well considered growth strategy



## The year 2014

- Herantis Pharma Plc was listed on the First North Finland marketplace of Nasdaq Helsinki stock exchange, with trading starting on June 11, 2014. An Initial Public Offering produced a total of €14.3 million before share issue expenses.
- Herantis Pharma Plc was formed when Hermo Pharma Oy acquired 99.0% of the shares of Laurantis Pharma Oy on April 29, 2014.
- Prior to the IPO in connection with the listing on First North, the company was granted a new €0.5 million product development loan for preparations for clinical research on the CDFN protein in Parkinson's disease by Tekes, the Finnish Funding Agency for Innovation.
- The clinical drug development programs advanced as planned.
- The United States Food and Drug Administration (FDA) approved the Phase 2 clinical study of cis-UCA eye drops for the treatment of Dry Eye Syndrome. Patient enrolment in the Phase 2 clinical study was started at the end of December 2014. Results are expected ahead of the original schedule, no later than summer 2015.

# Key figures

€ thousands	1-12/2014 <sup>1</sup>	1-12/2013 <sup>2</sup>
	Consolidated	Parent
Revenue	0.8	0.0
Personnel expenses	-1,115.0	-237.2
Depreciation and amortization	-1,884.9	-302.5
Other expenses for business operations	-4,662.6	-217.3
Profit for the period	-8,356.4	-780.6
Cash flow from operations	-4,359.8	-224.2
€ thousands	31.12.2014 <sup>1</sup>	31.12.2013 <sup>2</sup>
	Consolidated	Parent
Cash and cash equivalents	11,416.4	17.7
Equity	21,328.9	120.0
Balance sheet total	29,494.9	2,640.8
	1-12/2014 <sup>1</sup>	1-12/2013 <sup>2</sup>
	Consolidated	Parent
Equity ratio %	72.3	4.5
Earnings per share €	-3.21	-0.67
Number of shares at end of period <sup>3</sup>	4,062,214	1,207,800
Average number of shares <sup>3</sup>	2,606,773	1,157,000

<sup>1</sup> Herantis Pharma Group was formed on April 29, 2014 through the merger of Herantis Pharma Plc and Laurantis Pharma

<sup>2</sup> Comparison period figures from parent company of Herantis Pharma Plc

<sup>3</sup> See section Acquisitions and directed share issues. Figures for the parent company are adjusted to account for the share split.

# CEO's review



The year 2014 meant many significant steps forward for us. Herantis Pharma Plc was formed when Hermo Pharma Oy acquired the majority of Laurantis Pharma Oy shares. We were listed on the First North Finland marketplace, and our IPO produced funds in the amount of approximately €14.3 million. This enables us to develop our business and our drug development programs according to strategy.

Our drug development programs are advancing as planned. An important step was the approval by the FDA to start the Phase 2 clinical trials of the cis-UCA eye drops. We expect to be able to publish the results of this important phase of drug development ahead of the original schedule, no later than in summer 2015. On the basis of existing scientific knowledge, we have high hopes for the study, and if its results are positive, I consider it evident that the cis-UCA eye drop is an internationally significant drug candidate.

We want to be at the forefront of drug development, developing genuinely novel forms of treatment that improve people's quality of life. It is important for us to have a fresh angle on things and to use top class Finnish competencies in everything we do. The development of new kinds of treatments that are more natural to the human being requires years of scientific research, persistence and development. Our drug development programs focus on diseases with a clear unmet clinical need.

Our innovations build on the best Finnish research in the field, performed for example in Finnish Centres of Excellence that also fulfill the criteria for international top research. Our most important drug candidates today pertain to inflammatory eye diseases, particularly the dry eye syndrome, as well as Parkinson's disease and secondary lymphedema caused by breast cancer treatment. Our development efforts in these product candidates advanced as planned in 2014, with which I am extremely satisfied.

Our objective is to prove the preliminary efficacy and safety of our three most

important drug candidates in early-stage clinical studies within the next three years. Another goal is at least one commercialization agreement by the end of 2017. In practical terms, this could mean cooperation with a Finnish or international pharmaceutical company covering the later-stage clinical development of the drug, as well as sales and marketing, together with milestone revenue for the company.

For investors, Herantis Pharma offers a long-term opportunity to participate in the creation of totally new kinds of drugs, such as CDNF for the treatment

of Parkinson's disease. I am very satisfied with the interest in us at several investor events during the past year. We aim at continuing to be actively available for events targeting private investors in particular.

**Pekka Simula**  
CEO



## “Science for humans”

# Markets

The world's leading pharmaceutical market research company IMS Health estimates that the world market for pharmaceuticals in 2015 will be close to 1,100 billion US dollars, with annual growth in the region of 3-6 percent. The largest markets for pharmaceuticals will be the United States (31% of the world market), Europe (19%), and Japan (11%).

Drug development is a highly regulated activity requiring permissions from the appropriate authorities that progresses from one phase to another, until a sufficient amount of data has been collected about the drug candidate to allow an application for a marketing authorization for a certain market area. After this, the authorities evaluate whether the data indicate, for example, a sufficiently positive risk-benefit balance for the approval to be granted. If the drug is approved, the results of the clinical trials may also affect the price determined for the drug.

Approval-oriented drug development starts with preclinical studies, then progresses to Phase 1 clinical trials that inves-

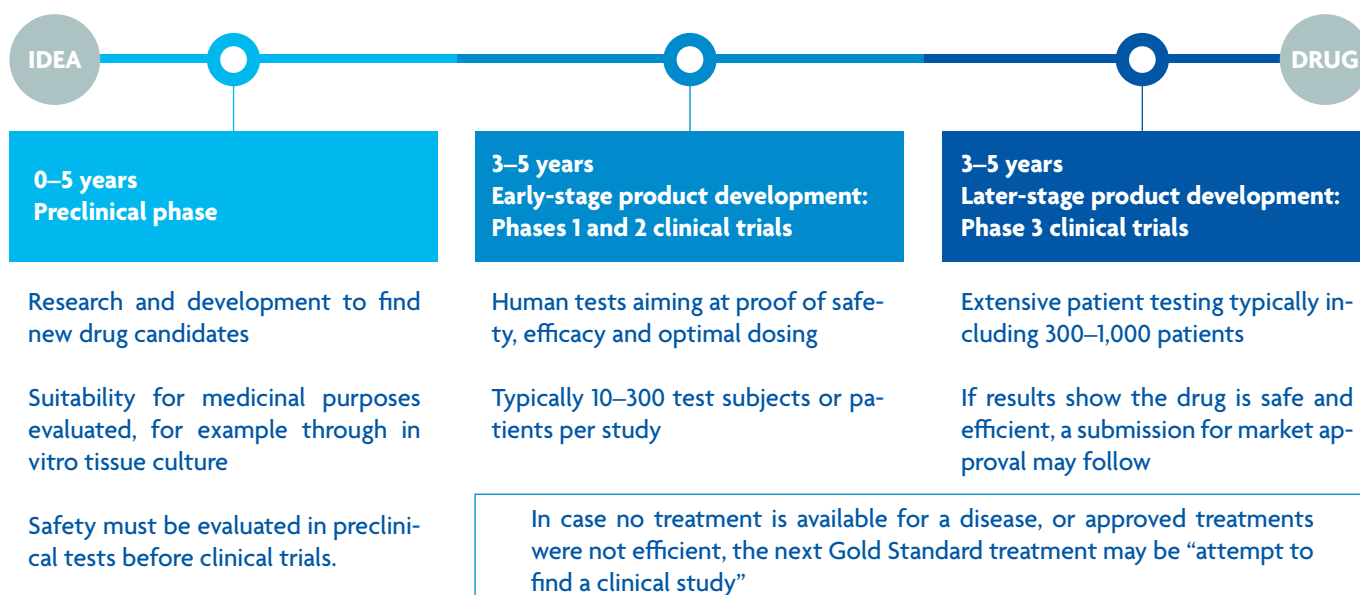
tigate the safety of the drug candidate. This is followed by Phase 2 clinical trials where the efficacy and optimal dosing in the treatment of the target disease are examined. Finally in Phase 3 clinical trials, the efficacy of the drug is ensured at sufficient statistical significance.

The duration of a drug development program varies depending on the disease, the mechanism of the drug, treatments already available, and many other factors. At a minimum, a development program runs for several years, in some cases even over 20 years. Development costs up to the authorization stage typically vary from tens to hundreds of millions of euros. The profitability of drug develop-

ment investments is based on extensive markets, high margins and long-term exclusive rights secured through patents and possibly with protection periods awarded by the authorities. The graph below shows a simplified drug development process.

### Herantis markets

Herantis' operation is crucially affected by our ability to enter into commercialization agreements, develop drugs to authority standards in a way that secures marketing approvals for them, as well as patents and authority-granted protection periods that guarantee exclusive rights for approved drugs for as long as possible.



Our operation and results are also dependent on our capability of concluding production, delivery and financing agreements that secure drug development in compliance with official requirements, as well as production methods to produce drug candidates in accordance with regulations.

The markets and development efforts for our present drug candidates are independent of each other, which significantly disperses the ever-present risks involved in drug development.

## “The world needs new paragons – even in drug development”

### **Dry eye: Cis-UCA eye drops**

Dry eye is the most common cause for eye irritation. Its typical symptoms include dryness of the eye, a burning feeling, pain, redness and a sensation of a foreign object in the eye. Severe or prolonged dry eye may damage the surface of the eye and deteriorate eyesight. An estimated 45 million people suffer from dry eye, and the condition is believed to become more common as the population is aging and the use of computers and mobile devices is increasing.

The efficacy of cis-UCA eye drops has previously been studied in a dry eye animal model. The study showed that a one-percent cis-UCA eye drop preparation reduced damage to the cornea in comparison with placebo, and had a better effect than Restasis, the only approved prescription drug for the treatment of dry eye in the United States. In addition, the safety of the cis-UCA eye drops was investigated in a Phase 1 clinical trial with 37 healthy human volunteers. Based on the studies, cis-UCA eye drops are believed to be safe and well tolerated in the Phase 2 clinical trial, the

results of which are expected no later than in summer 2015.

The worldwide market for prescription and over-the-counter drugs for dry eye treatment in 2013 was expected to amount to approximately 2.4 billion US dollars, and to grow to approximately 2.8 billion by 2018. In 2013, the share of the United States of the entire market was estimated at some 1.6 billion US dollars, with an increase to 1.8 billion by 2018. Presently, the market is dominated by over-the-counter preparations such as

artificial tears; and Restasis, the sales of which exceeded one billion US dollars in 2014. There is a huge demand on the market for products with better efficacy and tolerance than those available today. Based on the results of the preclinical and Phase 1 clinical studies, Herantis believes the cis-UCA eye drops have an opportunity to become the most efficient and best tolerated prescription drug for dry eye.

### **Parkinson's disease: CDNF**

Herantis is developing its CDNF product candidate for the treatment of Parkinson's disease. The disease is presently being treated in a variety of ways, including medication and electrical deep brain stimulation. At the moment, commercially available treatments alleviate the motor symptoms of PD but have no effect on the disease progression. In addition, the effect of the treatments may be reduced over time. As indicated by research conducted over a number of years, CDNF, a naturally present protein in humans found as a result of long-term Finnish academic research, may both alleviate the motor symptoms of the dis-

ease and slow down its progress. Moreover, CDNF may alleviate the non-motor symptoms of the disease, on which present medication has no effect.

The annual sales of the two leading PD medicines alone exceed 1.2 billion US dollars, and the size of the electrical brain stimulation market is estimated at 800 million US dollars. The market size for Parkinson's disease medication in 2018 is estimated at 3.5 billion US dollars. We believe the CDNF product will be able to reach annual sales at least comparable with the best current PD medications if the product development progresses as hoped for, and the results from the clinical trials are good.

### **Lymphedema caused by breast cancer treatment: Lymfactin**

Herantis is developing a product candidate, Lymfactin, for the treatment of lymphedema resulting from breast cancer treatment. This secondary lymphedema is a chronic swelling of the upper limbs with no cure. Neither is an approved medical treatment available for lymphedema. Therefore, a vast need of an effective new treatment exists for lymphedema. Lymfactin, an adenoviral vector for the delivery of a lymphatic vasculature regenerator, is based on top-class Finnish scientific research and attempts to help reconstitute the damaged lymphatic vasculature, thereby removing the cause for lymphedema.

According to scientific publications, some 15,000 to 18,000 people develop lymphedema as a result of breast cancer treatment in the United States every year. The number of patients in Europe is estimated to be in the same magnitude. According to Herantis' estimate, if efficient and safe products are introduced, the size of the market for pharmaceuticals for lymphedema resulting from breast cancer treatment will be hundreds of millions of euros.



# Strategy

Herantis Pharma is a drug development company. We develop new kinds of treatments for diseases with no available treatments or insufficient present treatments. Our research and drug development focus on inflammatory, central nervous system and lymphatic system diseases. Our strategy, however, is not limited to these targets and we could expand our R&D efforts also to other diseases and conditions.

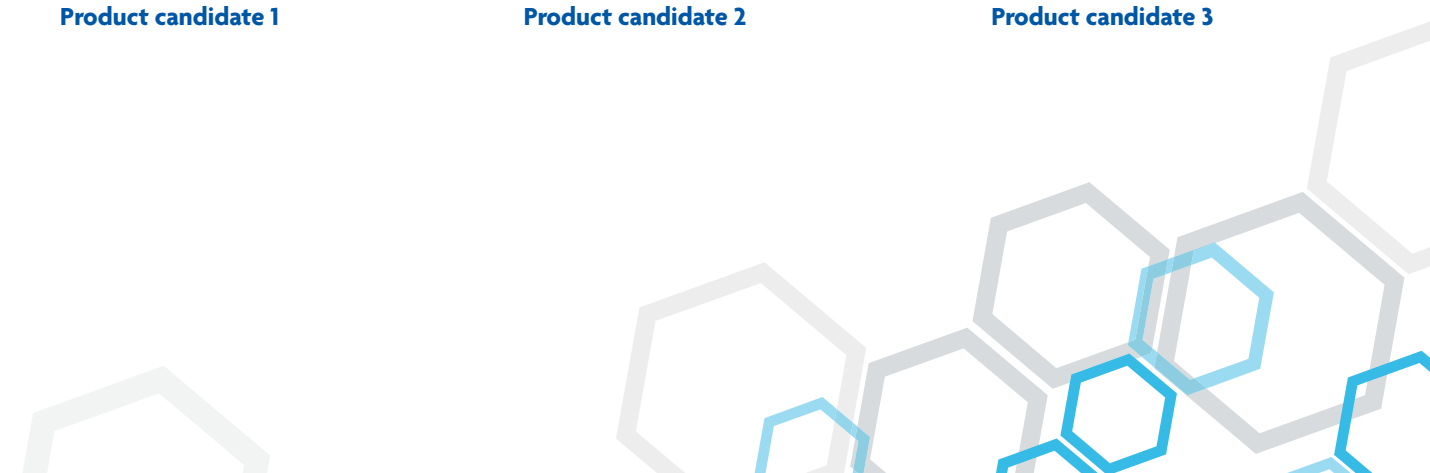
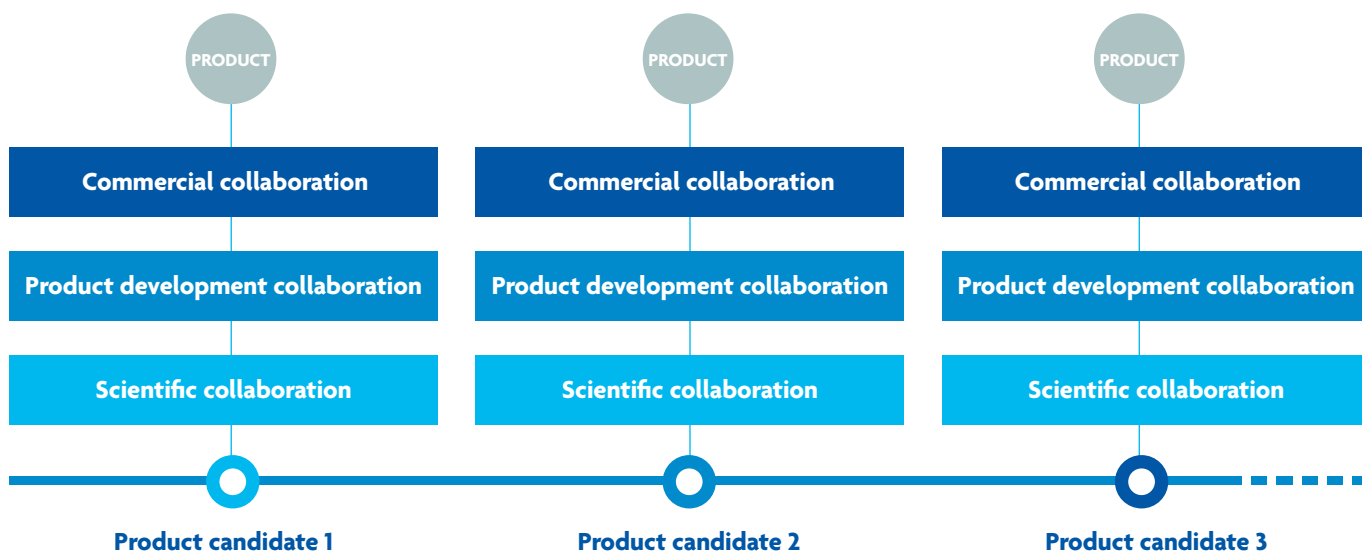
Innovativeness is one of the cornerstones of our success. We renew medical treatment by researching and developing drug candidates such as those that involve natural molecule structures produced by the body itself. Innovative top class research has helped us better understand disease mechanisms and how molecules produced by the body can be utilized for developing drugs.

Advanced science for better patient life quality

## The core of our strategy:

- Profitable long-term growth
- Focus on early-stage development
- Collaboration in product development
- Scientific collaboration
- Commercial collaboration

## Profitable long-term growth



# Business plan

Finding innovative, novel drug candidates and making breakthroughs in the development of treatments for diseases requires persistent research and product development work spanning many years. Our drug development competencies, based on internationally acknowledged Finnish research and hard work, have already produced three strong drug candidates, the efficacy and safety of which we want to prove in the early-stage clinical trials in the next few years.

Our objective is to prove the preliminary efficacy and safety of our three most important drug candidates in early-stage clinical studies within the next three years and thereafter conclude commercialization agreements for them with either Finnish or international pharmaceutical companies, covering the later-stage product development, as well as sales and marketing. We aim at commercializing the first drug candidate by the end of 2017.

The funds collected from the Initial Public Offering in connection with the First North listing in spring 2014 will mainly be used for the clinical development of these three most important drug candidates.

Drug candidate	Indication	Preclinical	Phase 1	Phase 2
Cis-UCA eye drops	Dry eye	▲	▲	▲
CDNF neural regenerator	Parkinson's disease	▲	*	
Lymfactin	Lymphedema caused by breast cancer treatment	▲	*	

\* Clinical trial for this phase being planned, with estimated schedule below

## **Cis-UCA eye drops for dry eye treatment:**

The company aims at obtaining the results from Phase 2 clinical trials by Q2/2015 and entering a commercialization agreement by the end of 2016.

## **CDNF neural regenerator for treatment of Parkinson's disease:**

The company aims at starting Phase 1 randomized clinical trial during 2015, obtaining preliminary results in the first half of 2017, and entering a commercialization agreement by the end of 2017.

## **Lymfactin for treatment of lymphedema caused by breast cancer treatment:**

The company aims at starting Phase 1 clinical trial in 2015, obtaining preliminary results in the first half of 2017, and entering a commercialization agreement by the end of 2017.



# A team with experience

The members of Herantis' Board and management have extensive experience in drug development, from start-ups to pharmaceutical giants and covering all stages of drug development from preclinical research to market entrance.

We appreciate our own work, international research and our partners. Our highly experienced team, widely networked op-

erating model, and flat, agile organization make it possible to reach our objectives. International academic and pharmaceutical industry partners enable us to operate cost-efficiently, adapt to changing market conditions, and allocate the majority of our funds to product development. This is a foundation for successes and a position as an acknowledged actor on all industry forums.

## Board of Directors



### **PEKKA MATTILA, MSc**

Chairman of the Board since 2013. Mr. Mattila is the CEO of Desentum Oy since 2011. In addition, he is the Chairman of the Board of Fimmic Oy, and a member of the Board of Oy Medix Biochemia Ab. His earlier posts include CEO and Chairman of Finnzymes Oy.



### **JONATHAN KNOWLES, PhD**

Member of Herantis' Board since 2009. Dr. Knowles has also been elected Professor at the Institute for Molecular Medicine Finland (FIMM), and the University of Helsinki. His earlier positions include Research Director and management team member at Hoffman-LaRoche, as well as a member of the Board and the corporate governance committee of Genentech Inc. He has also held the positions of Chairman of the Board of IMI (the European Union's Innovative Medicines Initiative), adjunct professor at the University of Oxford, member of the European Molecular Biology Organization, professor emeritus at EPFL (École Polytechnique Fédérale de Lausanne), and visiting researcher at Pembroke College, Cambridge.



### **JIM PHILLIPS, MD, MBA**

Member of Herantis' Board since 2014 and member of the Board of Laurantis Pharma 2012–2014. Dr. Phillips is the CEO of Midatech Ltd. since 2013, member of the Board of Insense Ltd., and management positions at Phillips Pharma Enterprise Limited. Dr. Phillips' earlier positions include Chairman of the Board of Proso-nix Ltd. and management positions at Healthcare Brands International Ltd.



#### **AKI PRIHTI, MSc**

Mr. Prihti is a member of Herantis' Board since 2014. He was Chairman of the Board of Laurantis Pharma in 2010–2014, and a member of the Board 2008–2010. Mr. Prihti is also the CEO of Aplagon Oy since 2015, while at the same time holding the position of Chairman at Inveni Capital Oy and Medeia Therapeutics Oy.



#### **TIMO VEROMAA, MD, PhD**

Member of Herantis' Board since 2012. Mr. Veromaa is also the CEO of Biotie Therapies Oyj since 2005, and a member of the Board of Biotie Therapies International Oy.



#### **FRANS WUITE, MD, MBA**

Member of Herantis' Board since 2014 and member of the Board of Laurantis Pharma 2010–2014. Dr. Wuite has held several management positions in the pharmaceutical industry in the fields of commercialization, business operations and drug development over more than 25 years, including CEO of Oncos Therapeutics Oy, member of the Board of Kompassi GmbH and Faron Pharmaceuticals Oy. Before that, his positions included COO of Araim Pharmaceuticals Inc. and Warren Pharmaceuticals Inc., Marketing Manager of Amgen Europe, and member of the European Management Team of Amgen.

## Management Team



#### **PEKKA SIMULA, MSc**

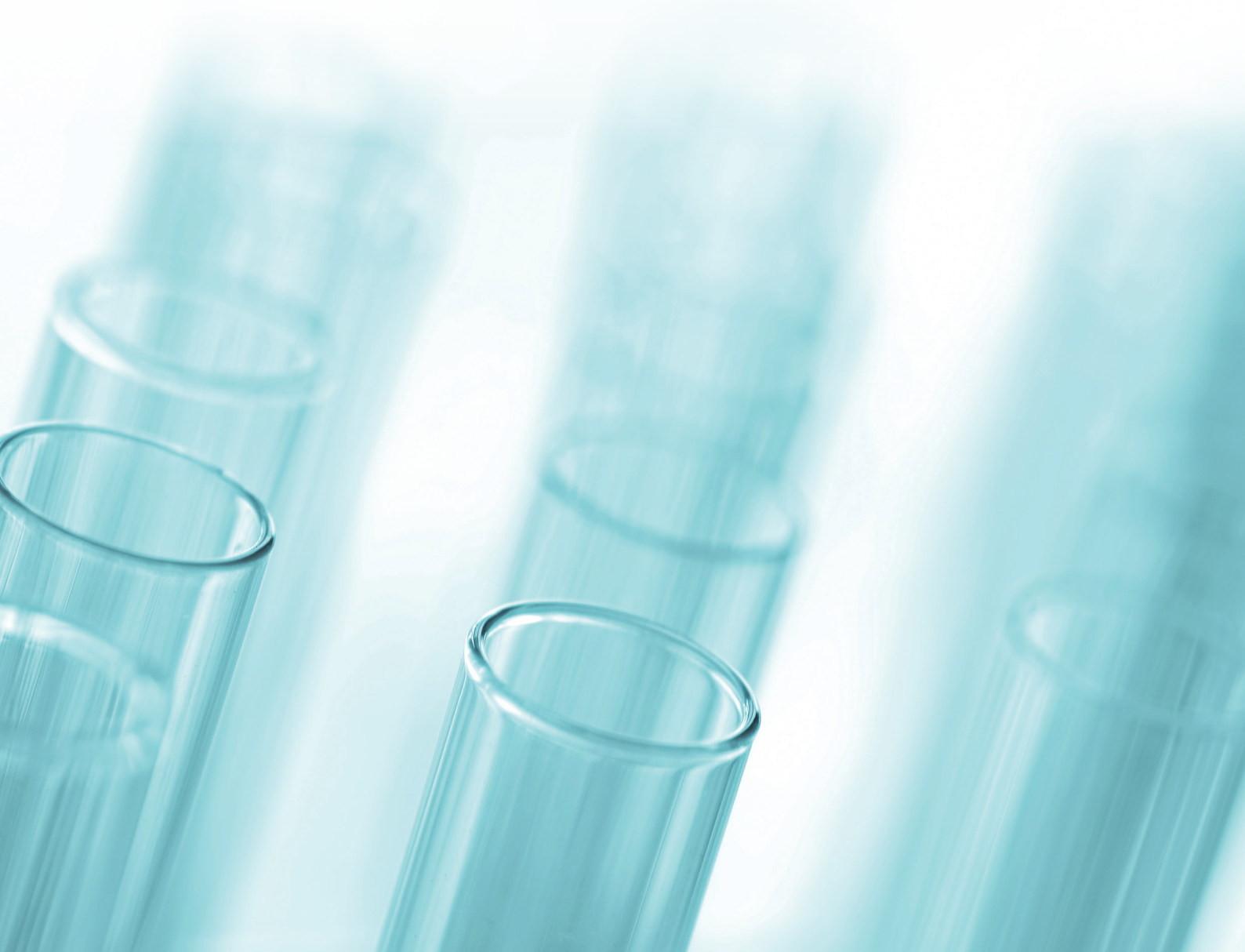
CEO of Herantis Pharma since November 2013. Mr. Simula is a member of the Board of Oncos Therapeutics Oy since 2009, and member of the Board of Opia Games Oy since 2014. He is one of the two founding members of Oncos Therapeutics Oy, a company developing cancer treatments. Before joining Herantis, Mr. Simula was CEO and COO of Oncos Therapeutics. His earlier positions include Global Program Manager at Varian Medical Systems, VP Product Development and head of product and technology functions at CRF Health in Helsinki and Boston.



#### **BURKHARD BLANK, MD**

Chief Medical Officer of Herantis since 2014, and before that, CEO of Laurantis Pharma 2013–2014. In 2012–2013, Dr. Blank held drug development related consulting positions at Laurantis Pharma. His earlier employers include Qwell Pharmaceuticals Inc. and Mersana Therapeutics Inc. in the United States, as well as Vice President responsible for clinical trials and regulatory matters at the North American division of Boehringer Ingelheim Group, in this role being responsible for the US marketing authorization processes of four Boehringer Ingelheim products, including Spiriva, the world's leading COPD (Chronic Obstructive Pulmonary Disease) medication.

# **Herantis Pharma Oyj Financial Statements and Review of Operations 2014**



# Review by the Board 2014

## Line of Business

Herantis Pharma Plc is a drug development company specialized in bridging the gap from bench to bedside, aiming to develop novel pharmaceutical products from early stage drug candidates emerging from scientific research. The company's focus in indications of unmet clinical need such as Dry eye, Parkinson's disease, and Secondary lymphedema. Herantis' shares are listed on NASDAQ Helsinki First North Finland.

## Herantis group structure

Herantis Pharma was formed through the merger of two Finnish drug development companies, Hermo Pharma Ltd and Laurantis Pharma Ltd on April 29, 2014 when Hermo Pharma acquired 99% of the shares of Laurantis Pharma. Subsequently the name of the company was changed to Herantis Pharma Plc. Herantis Pharma Plc is the parent company of Herantis Pharma group.

The comparison period figures in the financial statements 2014 for the previous period 1 January 2013 – 31 December 2013 are from the parent company's financial statements.

## Income from business operations and R&D expenses

Herantis had no revenue during the review period. The parent company had no revenue in the corresponding period in the previous year.

The review period's R&D expenses were €3.8 million, recorded in the profit and loss statement as an expense for the period. The R&D expenses mainly comprised preparation expenses for CDNF Phase 1 clinical trials, and the expenses for the Phase 2 clinical trials of the cis-UCA eye drops for the treatment of dry eye. The R&D expenses for the parent company, €2.4 million for the corresponding period in the previous year, were capitalized.

The profit for the review period was €-8.4 million. This includes listing-related expenses in the amount of €0.8 million, recorded as part of financing expenses. The parent company's profit for the comparison period was €-0.8 million.

## Key figures

€ thousands	1-12/2014 <sup>1</sup>	1-12/2014 <sup>1</sup>	1-12/2013 <sup>2</sup>
	Consolidated	Parent	Parent
Revenue	0.8	0.0	0.0
Profit/loss for the review period	-7,656.6	-2,899.0	-752.4
Profit ratio %	N/A	N/A	N/A
Return on investment % <sup>3</sup>	-26.7	-9.6	-38.2
Equity ratio % <sup>4</sup>	73.3	88.9	4.5

<sup>1</sup> Herantis Pharma Group was formed on April 29, 2014 through the merger of Herantis Pharma Plc and Laurantis Pharma

<sup>2</sup> Comparison period figures from parent company of Herantis Pharma Plc

<sup>3</sup> Return on Investment =  $100 \times \frac{[\text{profit} - \text{financing costs}]}{(\text{equity} + \text{financing debt})}$

<sup>4</sup> Equity ratio =  $\frac{\text{Equity}}{\text{balance sheet total}}$



## Financing and capital expenditure

The company's cash and cash equivalents on December 31, 2014 amounted to €11.4 million. Cash and cash equivalents of the parent company on December 31, 2013 amounted to €0.0 million.

In connection with its listing on First North Finland, Herantis launched an Initial Public Offering. The issuance of 1,364,770 shares produced funds in the amount of approximately €14.3 million before share issue expenses. The review period's cash flow from operations was €-5.4 million. The parent company's cash flow from operations for the corresponding period in the previous year was €-0.2 million.

## Acquisitions and directed share issues

In accordance with the decision by the extraordinary general meeting of shareholders on November 14, 2013, Herantis completed a share issue in February 2014, in which 567 new shares were issued to the company's existing shareholders and a limited number of new shareholders. The total number of the company's shares rose to 6,606.

The extraordinary meeting of shareholders of April 29, 2014 decided on a split, in which 199 new shares were issued for each of the company's shares, bringing the total number of shares to 1,321,200.

In addition, the extraordinary general meeting on April 29, 2014 decided on a stock swap with the shareholders of Laurantis Pharma, whose shareholders received a total of 1,372,244 shares as consideration for 99 percent of Laurantis Pharma stock. This brought the total number of shares to 2,693,444 prior to the IPO.

## Balance sheet

As the result of the merger of Herantis and Laurantis Pharma, the consideration for the shares of Laurantis Pharma that exceeds the company's equity has been capitalized and allocated to R&D expenses and consolidated goodwill in the consolidated balance sheet. Following the acquisition and the IPO, the consolidated balance sheet on December 31, 2014 stood at €29.1 million. The parent company's balance sheet total on December 31, 2013 was €2.6 million.

## Equity

Consolidated equity on December 31, 2014 was €21.3 million. The parent company's equity was €0.1 million on December 31, 2013.

## Personnel, management, and administration

Herantis Pharma was formed through the merger of Hermo Pharma and Laurantis Pharma on April 29, 2014. Through the merger, the number of personnel increased to six people as the employees of both companies were transferred to Herantis' payroll.

Working with academic and industrial partners, Herantis aims at keeping its own organization cost-efficient and agile, thereby enabling the allocation of the majority of its funds to drug development.

In connection with the merger, the composition of the company's Board of Directors changed. Pekka Mattila continues as the Chairman, with the earlier members of the Board of Hermo Pharma, Jonathan Knowles and Timo Veromaa, as well as the earlier members of the Board of Laurantis Pharma, Aki Prihti, Frans Wuite and James Phillips, as ordinary members.

## Risks and uncertainties

The risks of Herantis Pharma are mainly drug development related, such as clinical, technical, biological, regulatory, and strategic decision making risks, and financial, such as budgeting, accounting, and other financial control risks.

With its internal control policies and practices Herantis Pharma aims to ensure that appropriate financial information is available

timely and accurately for any decision making and other needs, and that its financial reports are reliable, complete, and timely. Further, they aim to ensure that the company's operations are efficient and implement the strategy of the company. Also, they aim to ensure that the company is in compliance with all applicable laws and regulations.

The Management team of Herantis Pharma is responsible for the organization and the planning, implementation, and monitoring of risk management related activities, and reporting appropriately to the Board of Directors.

The significant risks and uncertainties in Herantis' business operations are detailed in the IPO prospectus dated May 12, 2014 that is available on the company's website at [www.herantis.com](http://www.herantis.com). No changes in the risks and uncertainties have taken place after the publication of the prospectus.

## Shares and shareholders

Trading with Herantis shares began on the First North Finland marketplace on June 11, 2014. The share subscription price in the IPO was €10.50 per share. A total of 1,364,770 shares were subscribed and paid according to the terms and conditions of the IPO, which increased the number of the company's shares to a total of 4,058,214.

Herantis' market capitalization at the end of the review period was €28.0 million. The closing price of the share on December 31, 2014 was €6.90, with the highest price during the review period being €11.00 and lowest €6.49.

Options granted in Herantis Pharma Plc option program 2010 were used to subscribe to 4,000 shares on November 10, 2014. The new shares subscribed with option rights were registered with the Trade Register on November 10, 2014. The new shares confer shareholder rights to their owners from the date of registration.

The subscriptions based on the options did not increase the share capital; instead, the entire subscription price, €0.20 per share, was entered in the invested non-restricted equity fund. The subscriptions increased the number of shares of Herantis Pharma Plc to 4,062,214.

The shares thus subscribed to are traded on the First North marketplace of NASDAQ OMX Helsinki Oy together with other Herantis Pharma shares starting from November 10, 2014.

According to Herantis' shareholder register on December 31, 2014, the company had 447 registered shareholders.

The members of Herantis' Board of Directors and the CEO held a total of 36,606 shares, equalling 0.9% of the company's total stock.

## Annual General Meeting

The 2014 ordinary Annual General Meeting of Herantis was held on March 20, 2014. In addition, the company convened an extraordinary General Meeting in connection with the merger and IPO on April 29, 2014.

The Annual General Meeting decided to initiate a new stock option program, authorize the Board of Directors to grant a maximum of 117 options in the initiated program to the members of the Board of Directors in accordance with the terms and conditions of the program, and grant 213 options in the initiated program to the CEO. At the same time, the AGM decided to annul 40 unused options from the 2010 stock option program. After the share split (see Acquisitions and directed share issues above), each of the old options entitles the holder to subscribe to 200 shares in the company.

The AGM decided that the members of the Board of Directors be paid a monthly fee of €1,000, and the Chairman a monthly fee of €2,000.

Authorized Public Accountants PricewaterhouseCoopers Oy was elected the company's auditor, with Martin Grandell, APA, as the responsible auditor.

## Stock option based incentive program

Herantis Pharma has four stock option programs: Stock option program 2010, and stock option programs 2014 I, 204 II, and 2014 III. Stock options based on these programs have been given to persons with a key role in the company to strengthen their commitment in the company. The essentials of the stock option programs are listed in the table below. More details on the stock option programs can be found on the company's web site [www.herantis.com](http://www.herantis.com).

Option program	Max. number of shares <sup>1</sup>	Share subscription price	Decision on the option program
2010	45,600	€ 0.00005	AGM 26 August 2010
2014 I	66,000	€ 0.00005	AGM 20 March 2014
2014 II A <sup>2</sup>	24,027	€ 7.32	AGM 29 April 2014 <sup>2</sup>
2014 II B	3,190	€ 20.73	AGM 29 April 2014 <sup>2</sup>
2014 II C	580	€ 0.02	AGM 29 April 2014 <sup>2</sup>
2014 II D	22,349	€ 8.78	AGM 29 April 2014 <sup>2</sup>
2014 II E	16,342	€ 10.00	AGM 29 April 2014 <sup>2</sup>
2014 II F	10,253	€ 10.00	AGM 29 April 2014 <sup>2</sup>
2014 III G	10,232	€ 10.00	AGM 29 April 2014 <sup>2</sup>
2014 III H	10,232	€ 10.00	AGM 29 April 2014 <sup>2</sup>
<b>TOTAL</b>	<b>208,805</b>	-	-

<sup>1</sup> Highest possible number of shares remaining to be subscribed with the stock options as of 31 December 2014

<sup>2</sup> Extraordinary General Meeting 29 April 2014 decided to issue a total of 76,741 new stock options in relation to the share exchange agreement with Laurantis Pharma. The new stock options were offered to option holders of Laurantis Pharma in exchange of the 3,111 stock options they held in Laurantis Pharma.

## Essential events after the review period

After the review period on 7 January 2015 Herantis Pharma Plc announced having started patient recruitment in its Phase 2 clinical study with its Eye Drops in previously announced schedule. The clinical study, approved by the US Food and Drug Administration (FDA) will recruit a total of 150 patients suffering from Dry Eye. The recruited patients will be randomized in three groups receiving either placebo or cis-UCA Eye Drops for four weeks in a blinded setup. The intention of the study is to compare the safety and efficacy of cis-UCA Eye Drops with placebo for the treatment of Dry Eye.

Herantis Pharma announced on 26 January 2015 that the company's Phase 1 eye drop study results have been published in the scientific journal *Acta Ophthalmologica*. The conclusion of the peer reviewed article is that cis-UCA Eye Drops are safe and well tolerated in healthy adults when administered topically in the eye thrice a day for two weeks.

## Dividend proposal

The parent company of Herantis Pharma group is Herantis Pharma Plc whose distributable equity was €25.7 million according to balance sheet 31 December 2014. Herantis Pharma Plc had no revenue in 2014. The financial result of the parent company for 2014 was €-3.5 million.

Herantis was listed on the First North Finland marketplace of NASDAQ OMX Helsinki stock exchange. An Initial Public Offering produced a total of €14.3 million before share issue expenses. The proceeds of the IPO will mainly be used for clinical development of the three main drug candidates of Herantis Pharma group.

The Board of Directors proposes to the Annual General Meeting convening on 9 April 2015 that no dividend for the financial year 2014 will be paid.

## Outlook for 2015

After listing on the First North marketplace, Herantis focuses on the clinical development of its three most important programs in particular. These programs are still works-in-progress.

As stated in the listing prospectus, Herantis' long-term goal is to significantly increase its business through commercialization agreements for its drugs and investing the received income in the development of new drugs.

Thus far, no commercialization agreements exist. Instead, Herantis' operations focus on the clinical development of its drugs. The objective has been set to enter a commercialization agreement for at least one of the top priority drugs with a Finnish or international pharmaceutical company by the end of 2017.

The main objective for 2015 is to conclude the Phase 2 cis-UCA clinical trials started in the United States toward the end of 2014. This randomized study of 150 patients aims at proving the efficacy of cis-UCA eye drops in the treatment of severe or medium-severe dry eye syndrome. Herantis believes that successful results will enable the development of the drug into a significant competitor to the Restasis product, selling in excess of one billion US dollars annually.

The other central objectives for 2015 are obtaining clinical study permissions for the testing of the CDFN neural regeneration agent in the treatment of Parkinson's disease, the testing of Lymfactin for the treatment of secondary lymphedema, and initiating the studies.

## Guidance for 2015

In pharmaceutical development, the speed of research defines the expenses incurred. The faster the research, the more quickly expenses are created. The company does not expect any revenues in 2015. The financial position is expected to be positive at the end of the period.

## Profit and loss statement

Currency EUR	1.1.2014- 31.12.2014	1.1.2013- 31.12.2013
<b>NET TURNOVER</b>	<b>800.00</b>	<b>0.00</b>
Other operating income	5,000.00	4,500.00
Staff expenses		
Wages and salaries	-926,761.63	-180,159.94
Social security expenses		
Pension expenses	-136,144.66	-47,980.06
Other social security expenses	-52,050.31	-9,019.13
	-1,114,956.60	-237,159.13
Depreciation and reduction in value		
Depreciation according to plan	-1,745,701.83	302,516.11
Depreciation from consolidation difference	-139,176.70	0.00
	-1,884,878.53	302,516.11
Other operating charges	-4,662,606.64	-217,255.74
<b>OPERATING PROFIT (LOSS)</b>	<b>-7,656,641.77</b>	<b>-752,430.98</b>
Financial income and expenses		
Other interest and financial income		
From others	226,945.69	33.92
Interest and other financial expenses		
For others	-926,747.41	-28,231.63
	-699,801.72	-28,197.71
<b>PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS</b>	<b>-8,356,443.49</b>	<b>-780,628.69</b>
<b>PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES</b>	<b>-8,356,443.49</b>	<b>-780,628.69</b>
<b>PROFIT (LOSS) FOR THE FINANCIAL YEAR</b>	<b>-8,356,443.49</b>	<b>-780,628.69</b>
<b>CONSOLIDATED PROFIT (LOSS)</b>	<b>-8,356,443.49</b>	<b>-780,628.69</b>

# Balance sheet

Currency EUR	31.12.2014	31.12.2013
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Intangible assets		
Development expenses	16,670,220.53	2,355,839.28
Intangible rights	279,637.74	240,000.00
Consolidation difference	904,643.21	0.00
	17,854,501.48	2,595,839.28
Tangible assets		
Machinery and equipment	1,701.46	2,268.58
	1,701.46	2,268.58
Investments		
Participating interests	1,162.50	0.00
	1,162.50	0.00
	17,857,365.44	2,598,107.86
<b>CURRENT ASSETS</b>		
Debtors		
Short-term		
Trade debtors	0.00	334.80
Other debtors	213,482.29	7,140.00
Prepayments and accrued income	7,714.03	17,560.97
	221,196.32	25,035.77
Securities	9,000,000.00	
Cash in hand and at banks	2,416,402.41	17,713.18
	11,637,598.73	42,748.95
<b>ASSETS TOTAL</b>	<b>29,494,964.17</b>	<b>2,640,856.81</b>
<b>LIABILITIES</b>		
<b>CAPITAL AND RESERVES</b>		
Subscribed capital		
Subscribed capital	80,000.00	2,500.00
	80,000.00	2,500.00
Other reserves		
Free invested equity reserve	32,653,054.06	3,544,016.46
Retained earnings (loss)	-2,655,645.38	-2,645,888.84
Profit (loss) for the financial year	-8,356,443.49	-780,628.69
	21,720,965.19	119,998.93
<b>CREDITORS</b>		
Long-term		
Capital loans	98,300.00	0.00
Loans from credit institutions	6,181,339.65	1,850,459.65
	6,279,639.65	1,850,459.65
Short-term		
Loans from credit institutions	239,990.00	0.00
Trade creditors	987,844.25	543,764.49
Other creditors	125,342.94	13,901.55
Accruals and deferred income	141,182.13	122,732.19
	1,494,359.32	670,398.23
	7,773,998.97	2,520,857.88
<b>LIABILITIES TOTAL</b>	<b>29,494,964.17</b>	<b>2,640,856.81</b>

## Cash flow statement

Currency EUR	31.12.2014	31.12.2013
<b>Cash flow from operating activities</b>		
Profit (loss) before extraordinary items	-8,356,443.49	-780,628.69
Corrections:		
Depreciation According to plan	1,745,701.83	302,516.11
Depreciation from consolidation difference	139,176.70	
Financial income and expences	924,835.44	28,197.71
<b>Cash flow before change in working capital</b>	<b>-5,546,729.52</b>	<b>-449,914.87</b>
<b>Change in working capital:</b>		
Increase(-)/decr.(+) in short-term interest-free receivables	-221,183.23	119,283.63
Increase(+)/decr.(-) in short-term interest-free liabilities	2,300,178.97	134,617.54
<b>Cash flow from operations before financial items and taxes</b>	<b>-3,467,733.78</b>	<b>-196,013.70</b>
Interest paid and pmts for other financ. exp. from operat.	-893,985.40	-28,231.63
Financial income received from operations	1,898.89	33.92
<b>Cash flow before extraordinary items</b>	<b>-4,359,820.29</b>	<b>-224,211.41</b>
<b>Cash flow from operating activities (A)</b>	<b>-4,359,820.29</b>	<b>-224,211.41</b>
<b>Cash flow from investments:</b>		
Capital expenditure on other investments	-1,162.50	-842,702.20
<b>Cash flow from investments (B)</b>	<b>-1,162.50</b>	<b>-842,702.20</b>
<b>Cash flow from financing:</b>		
Share issue	15,464,085.20	904,001.52
Long-term loans	313,300.00	171,541.00
Repayment of long-term loans		-88.35
<b>Cash flow from financing (C)</b>	<b>15,777,385.20</b>	<b>1,075,454.17</b>
<b>Change in cash and cash equivalents(A+B+C) incr.(+)/decr.(-)</b>	<b>11,416,402.41</b>	<b>8,540.56</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>17,713.18</b>	<b>9,172.62</b>
<b>Cash and cash equivalents at end of period</b>	<b>11,434,115.59</b>	<b>17,713.18</b>

## Changes in equity

Currency EUR

	Share capital	Other funds	Retained earnings	Equity total
Equity on Dec 31, 2012	2,500.00	2,640,015.00	-2,645,889.00	-3,374.00
Profit/loss for the period			-780,629	
Issue of shares for cash		904,002.00		
Equity on Dec 31, 2013	2,500.00	3,544,016.00	-3,426,518.00	119,999.00
	Share capital	Other funds	Retained earnings	Equity total
Equity on Dec 31, 2013	2,500.00	3,544,016.00	-3,426,518.00	119,999.00
Profit/loss for the period			-3,484,053.00	
Issue of shares for cash		15,464,085.00		
IPO in connection with combination of business operations	77,500.00	13,644,952.00		
Equity on Dec 31, 2014	80,000.00	32,653,054.00	-6,910,570.00	25,822,484.00



# Appendices to the financial statement

The financial statement of Herantis Pharma Oyj, domicile in Helsinki, has been prepared, in accordance with Finnish Accounting Standards (FAS).

## 1. Appendix information concerning the preparation of the financial statement

### Evaluation principles and methods

#### Valuation of non-current assets:

The balance sheet value of tangible and intangible assets is their original acquisition cost, less the depreciations, according to the plan discussed below.

The balance sheet value of investments is their original acquisition cost.

#### Valuation of current assets:

Loans and other receivables marked as financial assets are valued at their nominal value, or a lower probable value.

Financial assets securities are valued at their acquisition cost or a lower probable net realisable price.

### Allocation principles and methods

The acquisition cost of non-current intangible and tangible assets is depreciated, in accordance with the pre-prepared plan. Depreciation for the financial year is recorded as an expense in taxation, depending on the method of depreciation, to the corresponding amount of the maximum straight line or reducing balancing method of depreciation.

Assets with the probable economic life of less than three years, as well as small acquisitions, are recorded in full as expenses for the acquisition accounting period.

The depreciation plans for development expenditures have, during the accounting period ending, been changed on the part of the Amblyopia project, in order for the depreciation plan to better reflect income expectations. The previous depreciation plan was an appropriate straight-line depreciation of 10 yrs for a drug development project.

The joint venture OPI Games Oy, set up for the financial exploitation of the Amblyopia project results, operates in the field of neuro games, where product development cycles are much faster than drug developments and product development project should be implemented within two years. Therefore, it is justified to deduct, after the first year, half of the capitalised product development costs of the Amblyopia-project.

Otherwise, the depreciation plan for development costs remain at an appropriate level depreciation of 10 years for drug development projects, as the typical duration of a drug development project is 10 -15 years, from the start of the development work to when the drug product is ready for the marketplace. This depreciation period is applicable for the same reasons to the value created by the acquisition of the subsidiary company, which is also directed towards pharmaceutical development projects. The depreciation of development costs over a period of more than five years is therefore founded.

### Depreciation plan

#### Intangible assets

Development expenses	straight line depreciation 2 yr. - 10 yr.
Intangible rights	straight line depreciation 10 yr.
Consolidated goodwill	straight line depreciation 10 yr.

#### Tangible assets

Machinery and equipment	cost depreciation 25%
-------------------------	-----------------------

### Mutual shareholdings

The inner ownership of the concern has been eliminated, using the acquisition costs method. Of the shares of the subsidiaries paid, the amount of own equity of the share of the equity shares in excess of the amount has been activated in the consolidated

balance sheet as goodwill. In the consolidated balance sheet 31.12.2014, the remaining 15,837,977.25 euro of denominated goodwill of EUR 904,643.92 relates to a subsidiary goodwill and 14,933,333.33 Euros to development costs.

### Internal transactions and margins

The concern's internal transactions, receivables and liabilities, internal distribution of profits, as well as the concern's internal margins are eliminated.

## 2. Appendix information concerning subsidiary and associated companies

### Consolidated companies

Name	Domicile	Combined shareholding
Laurantis Pharma Oy	Helsinki	99%

### The consolidated financial statements of associated shareholding companies

Opia Games Oy

Domicile: Helsinki

Shareholding 46.5%

Grounds for consolidation submission: no essential impact

Own equity 31.12.2014	1,954.02 €
Profit/loss for the financial year	-545.98 €

## 3. Appendix information concerning the profit and loss account

### Dividend incomes, interest incomes and interest expenses, total amounts

	Parent 1.1.-31.12.2014	Parent 1.1.-31.12.2013	Consolidated 1.1.-31.12.2014
Interest yields	223,742.20	2.22	226,945.69
Interest expenses	-808,826.65	-26,044.85	-926,740.41
	-585,084.45	-26,042.63	-699,794.72

## 4. Appendix information concerning the balance sheet

### Intangible assets

Acquisition of the shares of Laurantis Pharma Oy during the financial year.

99% of share capital were obtained. Consolidated goodwill was 17,043,819.91, of which 16,000,000.00 was allocated towards development costs and 1,043,819.91 euros to goodwill.

	1.1.-31.12.2014
Consolidated goodwill acquisition costs	1,043,819.91
Depreciations	-139,176.70
Goodwill 31.12.2014	904,643.21

## Activated development costs without depreciation

Development expenses that were not depreciated and included in long-term expenses, a total of 1,736,887.20 Euros, consist of the development costs of the CDFN and Amblyopia projects..

	<b>Parent 1.1.-31.12.2014</b>	<b>Parent 1.1.-31.12.2013</b>	<b>Consolidated 1.1.-31.12.2014</b>
Development costs CDFN 1.1	1,437,345.17	1,774,897.00	0.00
Development costs Amblyopia 1.1	918,494.11		
Development costs total 1.1	2,355,839.28		
Accounting period additions			
Staff expenses	0.00	122,060.66	0.00
Other operating expenses	0.00	720,641.54	0.00
Covered by grants	0,00	0.00	
Additions CDFN	457,089.55	1,437,345.17	
Additional Amblyopia	385,612.65	918,494.11	
Goodwill	14,933,333.33		
Additions total	842,702.20	17,289,172.61	
Depreciation for the accounting period CDFN	-159,705.02	-159,705.05	-159,705.02
Depreciation for the accounting period Amblyopia	-459,247.06	-102,054.87	-459,247.06
Depreciation for the accounting period, total	-618,952.08	-261,759.92	-618,952.08
Development costs 31.12	1,736,887.20	2,355,839.28	16,670,220.53

## Patents

	<b>Parent 1.1.-31.12.2014</b>	<b>Parent 1.1.-31.12.2013</b>	<b>Consolidated 1.1.-31.12.2014</b>
<b>Acquisition costs</b>			
At the beginning of the accounting period	240,000.00	280,000.00	0.00
Additions during the accounting period	0.00	0.00	339,153.70
Accounting period depreciations	-40,000.00	-40,000.00	-59,515.96
At the end of the accounting period	200,000.00	240,000.00	279,637.74
Book value in the financial statement	200,000.00	240,000.00	279,637.74

## Receivables from companies in the concern

	<b>Parent 31.12.2014</b>	<b>Parent 31.12.2013</b>	<b>Consolidated 31.12.2014</b>
Other receivables	1,633,930.57	0.00	0.00
Total	1,633,930.57	0.00	0.00

## 5. Appendix information concerning balance sheet liabilities

### Changes in own equity assets

	Parent 1.1.-31.12.2014	Parent 1.1.-31.12.2013	Consolidated 1.1.-31.12.2014
<b>Restricted own equity</b>			
Share equity at the start of the acc. period	2,500.00	2,500.00	2,500.00
Issuance of share equity	77,500.00	0.00	77,500.00
<b>Share equity at the end of the acc. period</b>	<b>80,000.00</b>	<b>2,500.00</b>	<b>80,000.00</b>
<b>Restricted own equity, total</b>	<b>80,000.00</b>	<b>2,500.00</b>	<b>80,000.00</b>
<b>Non-restricted own equity</b>			
Invested unrestricted own equity fund at beginning of acc. period	3,544,016.46	2,640,014.94	3,544,016.46
The amount of the subscription price of the shares marked to the fund	29,109,037.60	904,001.52	29,109,037.60
<b>Invested unrestricted equity fund at the end of the acc. period</b>	<b>32,653,054.06</b>	<b>3,544,016.46</b>	<b>32,653,054.06</b>
Loss from previous acc. period, at the beginning of acc. period	-3,426,517.53	-2,645,888.84	-3,047,719.52
<b>Loss at the end of the previous acc. period</b>	<b>-3,426,517.53</b>	<b>-2,645,888.84</b>	<b>-3,047,719.52</b>
Acc. period loss	-3,484,052.58	-780,628.69	-8,356,443.49
<b>Unrestricted equity, total</b>	<b>25,742,483.95</b>	<b>117,498.93</b>	<b>21,248,891.05</b>
<b>Own equity, total</b>	<b>25,822,483.95</b>	<b>119,998.93</b>	<b>21,328,891.05</b>

### Principal terms and conditions of equity loans and interest of accrued expenses for loans

Receivables, liabilities including subordinated loans 98,300.00

#### Loan terms

- Equity, interest and other compensations are paid in the event of a company liquidation, and in a bankruptcy, only with lower claims than all other loans, but, however, before the dividends are paid to shareholders
- The equity will only be refunded when the balance sheets of the company's most recently completed financial year with the restricted equity and other non-distributable items are fully covered
- The interest rate for the loan is equal to the then valid current base rate, however, at least four (4) percent. Interest shall be calculated for each financial year, but the interest shall only be paid if the amount to be paid can be used for profit distribution, according to the adopted balance sheet for the company's most recently completed financial year
- The loan is unsecured.
- Capital loans shall have equal right to the company's assets.

Unregistered interest for the acc. period 1.1.-31.12.2014 is 3,932.00 euros.

Cumulative unregistered interest, altogether 39,729.04 euros.

**Long-term liabilities maturing after more than five years**

	Parent 31.12.2014	Parent 31.12.2013	Consolidated 31.12.2014
Total	2,163,759.65	1,105,194.00	6,181,339.65

**The rental nominal amounts according to leasing rental agreements, broken down by amounts to be paid during the current and the subsequent periods, as well as the essential termination and redemption terms and conditions for those agreements**

	Parent 31.12.2014	Parent 31.12.2013	Consolidated 31.12.2014
For payment during the next acc. period	664.56	6,976.33	664.56
For payment later	996.84	0.00	996.84
Total	1,661.40	6,976.33	1,661.40

The company's leasing- agreement is a standard IT leasing- agreement.

**Other financial liabilities, which are not entered in the balance sheet**

	Parent	Consolidated
<b>Rental liabilities</b>		
Rental liabilities due in 2015	18,736.14	18,736.14
Rental liabilities due later than 2015	0.00	0.00
Rental liabilities, total	18,736.14	18,736.14

**6. Appendix information on the personnel and members of corporate bodies****Average number of employees during the financial year, broken down by category**

	Parent 1.1.-31.12.2014	Parent 1.1.-31.12.2013	Consolidated 1.1.-31.12.2014
The average number for the financial year,	5	3	6
number of employees	5	3	6

**Calculation of distributable non-restricted own equity**

	31.12.2014
The invested unrestricted equity fund	32,653,054.06
Profit funds from previous financial years	-3,426,517.53
Loss for the financial year	-3,484,052.58
Distributable unrestricted equity, total	25,742,483.95

# Signatures to financial statements and annual report

Helsinki February 26, 2015

Pekka Mattila  
Chairman of the Board of Directors

Jonathan Knowles  
Member of the Board of Directors

Timo Veromaa  
Member of the Board of Directors

Aki Prihti  
Member of the Board of Directors

Frans Wuite  
Member of the Board of Directors

James Phillips  
Member of the Board of Directors

Pekka Simula  
Managing Director

# Audit report

Auditor's Report (Translation )  
To the Annual General Meeting of Herantis Pharma Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Herantis Pharma Oyj for the year ended 31 December, 2014. The financial statements comprise the consolidated balance sheet, income statement and cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements

## Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of financial statements and report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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 financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki February 26, 2015

PricewaterhouseCoopers Oy  
Authorised Public Accountants  
Martin Grandell

## Share information

<b>Largest shareholders Dec 31, 2014</b>	<b>Number</b>	<b>%</b>
Inveni Life Sciences Fund I Ky	661,891	16.29
Helsingin Yliopiston Rahastot	497,438	12.25
Aloitusrahasto Vera Oy	497,260	12.24
Sijoitusrahasto Nordea Nordic Small Cap	242,200	5.96
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	200,000	4.92
Pensionsförsäkringsaktiebolaget Veritas	173,946	4.28
Saarma Mart	159,000	3.91
Castren Eero Hemminki	155,000	3.82
Rauvala Heikki	155,000	3.82
Erikoissijoitusrahasto Visio Allocator	149,930	3.69
Nordea Pankki Suomi Oyj	121,879	3.00
Inveni Pre-Exit Financing Vehicle Ky	81,773	2.01
Huttunen Henri Juhani	74,000	1.82
Skandinaviska Enskilda Banken Ab		
Helsingin Sivukonttori	68,268	1.68
Euroclear Bank Sa/Nv (Belgia)	48,467	1.19
Leino Lasse Tapani	41,736	1.03
Etola Erkki Olavi	25,435	0.63
United Bankers Oyj	22,780	0.56
Oy Etra Invest Ab	22,183	0.55
Start Fund I Ky	20,505	0.50

### Information on trading with share

Trading code:	HRTIS
Currency:	EUR
ISIN code:	FI4000087861
List:	First North Helsinki
Number of shares 31.12.2014:	4,062,214
Highest price:	11.00 euros
Lowest price:	6.49 euros
Closing price Dec 31, 2014:	6.90 euros
Average share price Jun 11 - Dec 31, 2014:	8.28 euros
Trading volume Jun 11 - Dec 31, 2014:	95,296 pieces
Trading volume of number of outstanding shares:	2.3%
Market value Dec 31, 2014:	28,029,267.60 euros

### Managements ownership

Pekka Mattila, hallituksen puheenjohtaja	15,100 shares
Jonathan Knowles, hallituksen jäsen	19,000 shares
Jim Phillips, hallituksen jäsen	2,506 shares



# Corporate governance

Herantis Pharma Plc. is a public Finnish limited liability company, which complies with the Finnish Companies Act, Securities Market Act, Accounting Act, the rules of NASDAQ OMX Helsinki First North, and the Company's Articles of Association.

## Annual General Meeting

The Annual General Meeting is Herantis Pharma's highest decision-making body. The Company's Board of Directors convenes Annual General Meeting annually within six months after the end of the financial year. The Annual General Meeting decides on the financial statements and on distribution of the result shown in the balance sheet, grants the discharge of the Board of Directors and the Managing Director from liability, decides the number of the members of the Board of Directors, and the remuneration of the Board of Directors and the auditors. The Annual General Meeting also elects Board members and auditors, as well as deals with any other matters on the agenda.

## Board of Directors

The Board of Directors is responsible for the administration of the company and the appropriate organization of its operations. According to the Articles of Association the Board of Directors consists of six ordinary members. The term of a member of the Board will continue until further notice. The Board elects a chairperson from among its members.

## President and CEO

CEO manages the day-to-day operations in accordance with guidelines and rules set out by the Board of Directors and actively looks after the interests of the company. CEO is appointed and removed from office by the Board of Directors, to whom he reports e.g. on the company's financial position, business environment, and other significant issues. CEO guides and supervises the company and its businesses, is responsible for the daily operational management of the company as well as strategy implementation. CEO also prepares any items for the agenda of the Board of Directors and is responsible for their implementation.

## Internal controls and risk management

The risks of Herantis Pharma are mainly drug development related, such as clinical, technical, biological, regulatory, and strategic decision making risks, and financial, such as budgeting, accounting, and other financial control risks.

With its internal control policies and practices Herantis Pharma aims to ensure that appropriate financial information is available timely and accurately for any decision making and other needs, and that its financial reports are reliable, complete, and timely. Further, they aim to ensure that the company's operations are efficient and implement the strategy of the company. Also, they aim to ensure that the company is in compliance with all applicable laws and regulations.

## Certified Advisor

The shares of Herantis Pharma Plc are listed for trading on Nasdaq Helsinki First North Finland, which requires the nominating of a Certified Advisor. The Certified Advisor is responsible for ensuring that the company complies with the rules and regulations of First North. The Certified Advisor for Herantis Pharma is UB Capital Oy.

## Remuneration

### Remuneration of the directors

Herantis Board members were paid in total EUR 78,750 as remuneration for participation in board meetings during fiscal year 1 Jan 2014 – 31 Dec 2014. During the same period the board members of Laurantis Pharma were paid in total EUR 4,000 as monthly fees.

On 29 April 2014 the Extraordinary General Meeting of Herantis resolved that the remuneration payable to the members of the Board of Directors shall be EUR 1,000 per month except for the Chairman of the Board who shall be paid EUR 2,000 monthly. The board members shall also be eligible to subscribe 1200 stock options (Chairman of the Board: 1800 stock options) for each full calendar year as a Board member of Herantis starting 2014.

None of the members of the Board of Directors are in an employment relationship or have service contracts with the Company.

### Remuneration of the management team members

The Board of Directors is responsible for appointing the CEO, and for preparing and approving the remuneration of the CEO and other management team members. The Board of Directors considers the interests of shareholders when deciding on the remuneration. The remuneration of the CEO and other management team members comprises fixed basic salary, fringe benefits (such as company phone), a performance based bonus, and a stock option plan. The bonus payments are assessed and decided upon annually by the Board of Directors. The maximum bonus for the CEO is 35% of fixed annual compensation.

The CEO contract may be terminated by the Company or by the CEO with a three-month notice period.

Possible success bonuses for 2014 will be paid in June 2015. The current CEO of Herantis Pharma was appointed by the Board of Directors in November 2013 and was therefore not eligible for success bonuses in 2014.

The CEO does not have any voluntary pension or other insurance policy from the company.

## Insiders

### Public Insiders

Herantis' insider administration is included in the Sire system of the Finnish Central Securities Depository at Euroclear Finland Oy, Urho Kekkosen katu 5 C, 00100 Helsinki. Members of the Board of Directors, Managing Director, and auditor are considered to be public insiders of Herantis. The public insider registry of Herantis is available online here. In addition senior team members of the company are registered as permanent company specific insiders.

The Board of the Directors of the company has approved an Insider Policy, which ensures compliance with Finnish law, standard 5.3 of Finland's Financial Supervisory Authority, and the insider rules of NASDAQ Helsinki First North.

### Insider holdings

Insider trading on the company's securities has been compliant with the Insider Policy of the company. Insider holdings in the company are:

Chairman of the Board Pekka Mattila: 15,100 shares

Board member Jonathan Knowles: 19,000 shares

Board member James Phillips: 2,506 shares

Managing Director Pekka Simula: 1,000 shares

Director Clinical Development Sigrid Booms: 2,400 shares

Chief Scientific Officer Henri Huttunen: 74,000 shares

## Auditing

The external audit is to verify that the financial statements give a true and fair view of the company's financial performance and financial position for the fiscal year. The company's auditor gives the company's shareholders the statutory auditor's report on the annual financial statements. The audit performed during the financial period is reported to the Board of Directors. The auditor and the Board of Directors will meet at least once a year.

The Annual General Meeting elects the auditor. The auditor's term of office includes the current financial year and ends at the end of the following Annual General Meeting.

Herantis Pharma's auditor until the end of the 2015 Annual General Meeting is authorized public accountants PricewaterhouseCoopers Oy (Business ID 0486406-8), principal auditor is Martin Grandell, APA.

## Public disclosure

Herantis complies with the disclosure obligations as defined in the Finnish Securities Market Act (746/2012) and in the First North Nordic Rulebook. Herantis discloses information to the public in a timely and consistent manner.

Herantis releases its public disclosures both in Finnish, which is the official reporting language, and in English. Amendments to previously published information are made in the same manner as has been used to publish the original information.

More information on the company's public disclosure, disclosure channels and disclosure principles is available on the company's web site [www.herantis.com](http://www.herantis.com).

# Information for shareholders

## Annual General Meeting 2015

Shareholders of Herantis Pharma Plc are invited to attend the Annual General Meeting of the Company on Thursday, April 9, 2015, commencing at 13.00 p.m. (EET) at Helsinki University's Viikki Biocenter, auditorium 2041, at the address of Biokeskus 2, Viikinkaari 5, Helsinki, Finland. The reception of participants and the distribution of voting tickets will commence at 12.00 noon.

Each shareholder, who is registered on March 26, 2015 in the shareholders' register of the Company held by Euroclear Finland Ltd, has the right to participate in the General Meeting of Shareholders. A shareholder, whose shares are registered on his/her personal book-entry account, is registered in the shareholders' register of the Company.

The Annual Report is available on the company's web site [www.herantis.com](http://www.herantis.com) no later than on week 13 of 2015.

For more information please see [herantis.com/AGM2015](http://herantis.com/AGM2015)

## Dividend

The parent company of Herantis Pharma group is Herantis Pharma Plc whose distributable equity was €25.7 million according to balance sheet 31 December 2014. Herantis Pharma Plc had no revenue in 2014. The financial result of the parent company for 2014 was €-3.5 million.

The Board of Directors proposes to the Annual General Meeting convening on 9 April 2015 that no dividend for the financial year 2014 will be paid.

## Shareholder register

Shareholders are kindly requested to inform their book account keeper of any changes in their contact information.

## Financial statement releases

This financial statement release is published in both Finnish and English on the company's web site [www.herantis.com](http://www.herantis.com). Where discrepancies exist between the texts, the Finnish-language text shall prevail. Financial results of the first half of 2015 shall be released on 19 August 2015. The Annual General Meeting will convene on 9 April 2015.



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[www.herantis.com](http://www.herantis.com)