Financial Statements Report
January 1–December 31, 2014

Pharmaceutical development programs advancing as planned—patient results of Phase 2 eye drop study expected by third quarter 2015

HERANTIS PHARMA

Highlights in January–December 2014:

- Herantis Pharma Plc was listed on the First North Finland marketplace of NASDAQ OMX 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 CDNF 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) cleared the Investigational New Drug application (IND) of Herantis Pharma Plc for a clinical study of cis-UCA eye drops for the treatment of Dry Eye Syndrome in September. 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 fall 2015.
- Herantis had no essential revenue during the review period. The Group's financial result for the period was €-8.4 million (parent company 2013: €-0.8 million)
- Herantis cash flow from operations was €-5.4 million (parent company 2013: €-0,2 million)
- Herantis' cash and cash equivalents on December 31, 2014 amounted to €11.4 (parent company 2013: 0.0) million

Key figures

€ thousands	**1–12/2014[1]**	**1–12/2013[2]**
	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	-7,656.6	-780.6

Cash flow from operations	-5,438.4	-224.2

€ thousands	Dec 31, 2014[1]	Dec 31, 2013[2]
	Consolidated	Parent
Cash and cash equivalents	11,416.4	17.7
Equity	21,328.9	120.0
Balance sheet total	29,102.9	2,640.9

	1–12/2014[1]	1–12/2013[2]
	Consolidated	Parent
Equity ratio %	73.3	4.5
Earnings per share €	-3.21	-0.67
Number of shares at end of period[3]	4,062,214	1,207,800
Average number of shares[3]	2,606,773	1,157,000

[1] Herantis Pharma Group was formed on April 29, 2014 through the merger of Herantis Pharma Plc and Laurantis Pharma

[2] Comparison period figures from parent company of Herantis Pharma Plc

[3] See section Acquisitions and directed share issues. Parent company numbers are corrected according to the share split.

Pro forma information

The pro forma information on the merger of business operations in the table below illustrates the financial effects of the merger of Herantis Pharma Plc and Laurantis Pharma. The information is prepared based on the assumption that the merger took place on January 1, 2013. The combination of business operations was completed on April 29, 2014, and the pro forma information is given for the period 1-12/2013. The accounting principles for the pro forma information are detailed in Herantis' IPO and listing prospectus of May 12, 2014.

€ thousands	1–12/2014	1–12/2013
	Consolidated	Pro forma
Personnel expenses	1,115.0	826.9
Depreciation and amortization	1,884.9	2,117.6
Other operational expenses	4,662.6	1,088.4
Profit (–loss) from operations	-8,356.4	-4,028.1

Formulae used in calculating key figures

Equity ratio = Equity / balance sheet total
Earnings per share = Profit for period / average number of shares
Average number of shares = Weighted average number of shares. The number of shares is weighted by the number of days each share has been outstanding during the review period

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 CDNF 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.

Pekka Simula, CEO:

“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 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.

The drug development programs are advancing as planned. An important step was the permission by the US Food and Drug Administration 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, as early as in fall 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 where a clear need exists for better treatments than available today.

Our innovations build on the best Finnish research in the field that also fulfills the criteria for international top research. Our most important drug candidates today pertain to inflammatory eye diseases, particularly the dry eye syndrome, 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. 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 drugs, 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.”

Herantis' drug development

Drug development is a long-term endeavor divided into a preclinical phase and clinical studies on humans. The clinical studies are normally conducted in three phases. Phase 1 studies the safety of the drug candidate. Phase 2 studies investigate the optimal dosage and efficacy of the drug for treating a particular disease. Finally, Phase 3 aims at proving the efficacy of the drug candidate typically in hundreds or thousands of patients as a prerequisite for applying for the drug to be licensed. Completing all the stages of a drug development project typically takes 10 to 15 years from the start of the research to the granting of the license.

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 for the treatment of dry eye. The active ingredient of the product, cis-urocanic acid, is an anti-inflammatory compound naturally present on skin. Cis-UCA eye drop is intended for patients for whom the available over-the-counter products do not provide sufficient relief.

The efficacy of cis-UCA eye drops has previously been studied in an animal model for dry eye. The study showed that a cis-UCA eye drop preparation at a strength of 1% reduced damage to the cornea in comparison with a placebo, and it had a stronger effect than the Restasis product, which is the only prescription drug approved for the treatment of dry eye in the United States. In addition, the safety of cis-UCA eye drops has been studied in a Phase 1 clinical trial with 37 healthy volunteers. Based on the findings, 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 fall 2015.

Parkinson's disease / CDNF

Herantis is developing a CDNF product candidate for the treatment of Parkinson's disease. The disease is presently being treated in a variety of ways, including medication, physiotherapy 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 its progress.

Moreover, CDNF may alleviate the non-motor symptoms of Parkinson's disease.

Lymphedema / Lymfactin

Herantis is developing a product candidate, Lymfactin, for the treatment of lymphedema, resulting from breast cancer treatment. Lymphedema is a chronic condition with no cure. Neither is an approved medical treatment available for lymphedema. Therefore, a vast need of an effective new treatment exists for lymphedema. The Lymfactin drug candidate, based on top-class Finnish scientific research, attempts to help the organism reconstitute the damaged lymphatic vasculature, thereby removing the cause for lymphedema.

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.

Comparison of figures

Herantis in its combined form did not have essential revenue in the review period or pro forma revenue in the corresponding period in the previous year.

The consolidated personnel expenses for the review period were €1.1 million (pro forma in the corresponding period in the previous year: €0.8 million).

The consolidated depreciation and amortization expenses for the review period amounted to €1.9 (pro forma in the corresponding period in the previous year: €2.1) million.

The review period's consolidated loss from business operations was €7.7 (pro forma in the corresponding period in the previous year: 4.0) million.

Financing and capital expenditure

The company's cash and cash equivalents on December 31, 2014 amounted to €11.4 (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 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. 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, equaling 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.

Accounting principles for the financial statement release

This financial statements release is prepared in accordance with good accounting practices, legislation of Finland, and the rules of the First North Finland marketplace. The figures in this report are audited. The figures are independently rounded.

Financial reporting in 2015

This report is published in Finnish and in English on the company's website www.herantis.com. In case of any discrepancies between the language versions, the Finnish version shall prevail. The interim report for the first half-year 2015 will be published on August 19, 2015. The ordinary Annual General Meeting of shareholders is preliminarily scheduled for April 9, 2015.

Herantis Pharma Plc

Board of Directors

APPENDICES

Profit & loss statement and balance sheet January 1–December 31, 2014
Cash flow statement January 1–December 31, 2014
Changes in equity

Distribution: NASDAQ OMX, principal media

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Herantis Pharma in brief:

Herantis is a pharmaceutical development company based in Finland, researching and developing drugs particularly for inflammatory, central nervous system and lymphatic system diseases. Herantis has three drugs under development that are focused on diseases with a clear unmet clinical need. We believe our drugs are the first or best in their class and have the potential to change treatment strategies of the targeted diseases. Our core expertise is translating drug candidates from academic research to clinical development. The shares of Herantis Pharma Plc are listed on the First North Finland marketplace run by NASDAQ OMX Helsinki stock exchange.

Herantis Pharma Oyj
Viikinkaari 4
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CONSOLIDATED INCOME STATEMENT

Currency EUR	1.1.2014 31.12.2014	1.1.2013 31.12.2013
NET TURNOVER	800,00	0,00
Other operating income	5000,00	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
OPERATING PROFIT (LOSS)	-7 656 641,77	-752 430,98
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
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	-8 356 443,49	-780 628,69
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	-8 356 443,49	-780 628,69
PROFIT (LOSS) FOR THE FINANCIAL YEAR	-8 356 443,49	-780 628,69
CONSOLIDATED PROFIT (LOSS)	-8 356 443,49	-780 628,69

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CONSOLIDATED BALANCE SHEET

Currency EUR	31.12.2014	31.12.2014
A S S E T S		
NON-CURRENT ASSETS		
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
CURRENT ASSETS		
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
ASSETS TOTAL	29 494 964,17	2 640 856,81

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CONSOLIDATED BALANCE SHEET

Currency EUR	31.12.2014	31.12.2014
L I A B I L I T I E S		
CAPITAL AND RESERVES		
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
CREDITORS		
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	
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
LIABILITIES TOTAL	29 494 964,17	2 640 856,81

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FUNDS STATEMENT

Currency EUR	31.12.2014	31.12.2013
Cash flow from operating activities		
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
Cash flow before change in working capital	-5 546 729,52	-449 914,87
Change in working capital:		
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
Cash flow from operations before financial items and taxes	-3 467 733,78	-196 013,70
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
Cash flow before extraordinary items	-4 359 820,29	-224 211,41
Cash flow from operating activities (A)	-4 359 820,29	-224 211,41
Cash flow from investments:		
Capital expenditure on other investments	-1 162,50	-842 702,20
Cash flow from investments (B)	-1 162,50	-842 702,20
Cash flow from financing:		
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
Cash flow from financing (C)	15 777 385,20	1 075 454,17
Change in cash and cash equivalents(A+B+C) incr.(+)/decr.(-)	11 416 402,41	8 540,56
Cash and cash equivalents at beginning of period	17 713,18	9 172,62
Cash and cash equivalents at end of period	11 434 115,59	17 713,18

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STATEMENT OF CHANGES IN EQUITY

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	Share capital	Other funds	Retained earnings	Equity total
Equity on Dec 31, 2012	2 500	2 640 015	-2 645 889	-3 374
Profit/loss for the period			-780 629	
Issue of shares for cash		904 002		
Equity on Dec 31, 2013	2 500	3 544 016	-3 426 518	119 999

	Share capital	Other funds	Retained earnings	Equity total
Equity on Dec 31, 2013	2 500	3 544 016	-3 426 518	119 999
Profit/loss for the period			-3 484 053	
Issue of shares for cash		15 464 085		
IPO in connection with combination of business operations	77 500	13 644 952		
Equity on Dec 31, 2014	80 000	32 653 054	-6 910 570	25 822 484