HERANTIS
PHARMA

ANNUAL REPORT

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In this annual report, the statements and estimates on marketing and the future are based on the current views of the company's management. Therefore, they involve uncertainties and are subject to changes in the economy or industry.

The Certified Advisor for Herantis Pharma Plc is UB Securities Oy

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Herantis in brief

Herantis Pharma Plc is an innovative drug development company focused on regenerative medicine for breakthrough in unmet clinical needs. Our first-in-class assets are based on globally leading scientific research in their fields: CDNF for disease modification in neurodegenerative diseases, primarily Parkinson's and ALS; and Lymfactin® for breast cancer associated lymphedema, with potential also in other lymphedemas.

Herantis in 2016

In December, the European Union's research and innovation programme, Horizon 2020, awarded a grant of about six million euro for Herantis' Phase 1-2 clinical study in Parkinson's disease with CDNF. The study will use an innovative drug delivery system developed by Renishaw, a partner of Herantis. The grant will also cover scientific research, which supports the actual clinical study. Thanks to the grant Herantis estimated its financial situation will remain positive until the end of 2018 (previous estimate: end of 2017). The funded EU project is called TreatER, and the project consortium members include, for example, the University of Helsinki, Oxford University, Karolinska Institute, Orion Pharma, Lundbeck, and the European Parkinson's Disease Association.

Herantis Pharma and Renishaw signed a cooperation agreement in October on the first clinical trial with Herantis' CDNF drug candidate in Parkinson's disease. According to the agreement, CDNF will be administered with a medical device developed by Renishaw, and Renishaw contributes to the costs of the clinical trial with Herantis.

The US Food and Drug Administration FDA and the European Medicines Agency EMA granted Herantis' CDNF orphan designations for the treatment of ALS. Herantis continues ALS related research and has not yet made any decisions on a clinical development program.

Herantis Pharma started patient recruitment in the clinical study with its drug candidate Lymfactin® in the treatment of breast-cancer associated lymphedema. The primary objective of the study is to demonstrate the safety and tolerability of Lymfactin®. The study will also explore the efficacy of the drug candidate. Lymfactin® is the world's first clinical stage gene therapy that repairs damages of the lymphatic system.

Key figures

€ thousands	7-12/2016 Consolidated	7-12/2015 Consolidated	1-12/2016 Consolidated	1-12/2015 Consolidated
Revenue	0.0	0.8	25.3	2.0
Personnel expenses	397.2	565.3	942.1	1,332.1
Depreciation and amortization	604.0	1,393.2	1,202.9	9,421.1
Other expenses for business operations	846.1	1,042.5	2,273.3	5,415.0
Profit for the period	-1,827.0	-2,459.5	-4,424.5	-16,044.7
Cash flow from operations	-922.6	-2,230.4	-3,035.7	-7,397.7

	7-12/2016 Consolidated	7-12/2015 Consolidated	1-12/2016 Consolidated	1-12/2015 Consolidated
Equity ratio %	15.4	42.6	15.4	42.6
Earnings per share €	-0.44	-0.60	-1.07	-3.94
Number of shares at end of period	4,118,305	4,085,994	4,118,305	4,085,994
Average number of shares	4,118,305	4,077,586	4,117,331	4,070,468

€ thousands	31.12.2016 Consolidated	31.12.2015 Consolidated
Cash and cash equivalents	2,829.5	5,540.6
Equity	1,574.9	5,999.4
Balance sheet total	10,205.5	14,088.6

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.

Our drug candidates

Parkinson's disease: CDNF neuroprotective and neurotrophic factor

Parkinson's disease is an incurable, progressive neurodegenerative disorder that affects an estimated seven million people. Common first symptoms of the disease include tremors, slowness of movement, and muscle stiffness. Although the motor symptoms of the disease can be treated with medication, known treatments do not cure the disease or slow its progression. In addition, the effects of the treatments are typically reduced over time, and the treatments do not help non-motor symptoms such as anxiety or sleep problems. CDNF, patented by Herantis, is a natural human protein, which the company develops for the treatment of Parkinson's disease. CDNF was discovered as a result of long-term Finnish academic research and its effects on Parkinson's disease have been studied in a variety of disease models, where it has shown efficacy. In these models, CDNF has been able to both protect dopamine-producing neurons and restore the functionality of dysfunctional neurons. In disease models, CDNF has addressed both motor and non-motor symptoms as well as disease progression.

Breast cancer associated lymphedema: Lymfactin®

Lymphedema means chronic swelling caused by the malfunction of the lymphatic vessels; secondary lymphedema is a common ailment after surgery, radiotherapy, injuries, and infections. Counting just breast cancer associated lymphedemas alone amount to estimated 30,000 new cases in Europe and the United States annually. There is no cure for lymphedema and no approved medicinal products for its treatment. Herantis develops its Lymfactin® drug candidate primarily for the treatment of breast cancer associated lymphedema. Lymfactin® is based on leading scientific research in its field and attempts to reconstitute the damaged lymphatic system, thereby healing the cause of lymphedema. Lymfactin® is a gene-therapy, which expresses a growth factor called VEGF-C specific to the growth of lymphatic vessels. In preclinical studies Lymfactin® has produced new functional lymphatic vessels. It is the first clinical stage gene therapy in the world that repairs damages of the lymphatic system.

ALS: CDNF neuroprotective and neurotrophic factor

ALS (Amyotrophic Lateral Sclerosis) is a progressive and irreversible neurodegenerative disorder, which degenerates both the upper and lower motor neurons. As the disease progresses, the patient loses the ability to control their muscles. ALS patients have an average life expectancy of two to five years following diagnosis; no efficacious treatments are known. Globally, around 140,000 ALS patients are diagnosed each year. Herantis has preliminary efficacy data on CDNF for the treatment of ALS, the basis of which both the European Medicines Agency EMA and the US FDA have granted it orphan designations.

Business plan

Herantis develops novel treatments for diseases with significant unmet clinical needs. Following the early clinical development the company's strategy is to find commercial partners for late stage development and marketing.

The pharmaceutical industry uses an estimated $2.6 billion to bring a new drug into the market. The majority of this sum consists of the costs of failed projects. The international trend with pharmaceutical companies is the in-licencing of promising drug candidates from small companies or universities: already more than 50 per cent of the new drugs of major pharmaceutical companies originate in sources other than their own development work.

At the same time, aging population increases the costs of health care. For example, the annual financial burden of brain disorders was estimated in 2010 to be approximately €800 billion in Europe. In Finland alone, brain-related diseases cost the society approximately €8.6 billion per year. The majority of this sum comes from indirect costs such as lost productivity and arrangements for supported living. Herantis invests in long-term research so that such expensive diseases, which significantly lower the quality of life, could be treated more effectively.

The development of innovative new drugs requires years or even decades of scientific research and clinical studies. Herantis' drug candidates are results of internationally-acclaimed scientific research in Finland. The company aims to develop its drug candidates through the early development stage and to demonstrate their safety and signals of efficacy in first clinical studies. Following this, the strategy is to find commercial partners for the late stage development and marketing of the products.

CEO's review

The hard work of our team was rewarded in 2016 with two internationally significant achievements. We were the first in the world to treat patients with a gene therapy aiming at repairing damages of the lymphatic system. We were awarded a highly competitive EU grant for a clinical study targeting breakthrough in the treatment of Parkinson's disease. These milestones are even more remarkable as they are independent of each other and they are both based on leading scientific research in their fields.

Some people have asked me why develop a drug for the treatment of Parkinson's disease since such drugs already exist and sell for billions of euro annually. My answer is: Please join me to the next Parkinson's patient association meeting, when they again invite us to share our development updates. Yes, the currently available drugs help patients live with their disease - for a while. I don't think any patient considers those drugs sufficient.

The telegraph was a revolutionary invention at its time. So why did we need telephones? Or mobile phones? The development of biological drugs aims at the same order of magnitude in medical breakthroughs. We want to modify the disease instead of just alleviating its symptoms like many current drugs do. And we want to function via several biologically relevant mechanisms. The interview of professor **Mart Saarma** in this annual report provides an idea of the immense amount of work and the perseverance required to have reached this point where our drug candidate CDNF offers a new promise to patients with Parkinson's disease.

It is even easier to understand the importance of drug development for the treatment of lymphedema: There are no approved therapeutics. Many patients don't even know that this disease, which severely affects their quality-of-life has a name. Too many are ashamed of their symptoms and suffer in silence. Fortunately there are brave women like Hollywood-actress **Kathy Bates** thanks to whom lymphedema awareness has significantly increased and patients have started to demand new treatments more actively. Herantis' Lymfactin® is a gene therapy aiming at curing lymphedema by repairing damages of the lymphatic system. Based on the leading research by professor **Kari Alitalo**, Lymfactin® is the first clinical stage gene therapy in the world designed to repair the lymphatic system.

CDNF and Lymfactin® are both modern, biological drug candidates. The challenges in their development are much greater than in conventional small molecule drugs. The biological drug substances are clearly more complicated by nature; their regulatory requirements and guidelines tend to have much more room for interpretation and demand scientific background work. Development of this kind of drug candidates is in practice continuous problem solving. On the other hand they typically hold a much bigger promise than small molecule drugs. For instance CDNF impacts simultaneously several mechanisms of Parkinson's disease.

In addition, small molecule drugs are usually foreign compounds to our bodies, which can lead to adverse effects. Herantis' CDNF is a protein, which is naturally present in the human brains and blood. Also the active substance of Lymfactin®, VEGF-C, is such an endogenous protein. Our drug candidates aim at leveraging the natural repair mechanisms of the human body based on the latest scientific data.

2016 was a very successful year for us as our hard work and high-class science lead to the first patient treatments with Lymfactin® and a significant, highly competitive EU grant for patient treatments with CDNF. Either achievement alone is a significant, internationally renowned recognition of the academic research of Finland, a nation celebrating 100 years of independency this year. These achievements are also exactly what we are aiming at: Translating top science to clinical work so this leading science could eventually help patients everywhere in the world.

Herantis' public release practice has sometimes been criticized as sparse. Herantis discloses achievements that actually matter, such as those mentioned above. There are even hundreds of scientific experiments and dozens of applications behind a single clinical study authorization. Would it be reasonable investor relations to disclose each of them? Would it be honest to selectively report the most promising ones?

Despite our Spartan release practice we are an open, approachable and patient centric drug developer who takes pride in responding to each patient enquiry. The patient viewpoint was considered for instance in my blogging last September.

2016 was a tough year at Herantis full of hard work; eventually it was also a very rewarding year for the entire team. Our warm thanks especially to all you patients who have contacted us and whose support motivates us from day to day.

Pekka Simula
CEO

Our EU funded project aims at a breakthrough in the treatment of Parkinson's disease.

Pekka Simula, CEO

'I'm a trained physicist from the Helsinki University of Technology. I ended up in the health-technology industry through medical physics, and before Herantis I worked for about five years as the founding CEO of the anti-cancer drug developer, Oncos Therapeutics. Oncos then merged with a Norwegian company and was listed in Oslo.

I became the CEO of Hermo Pharma in late 2013. Over the past three years we have made a tremendous effort in building the current Herantis Pharma to begin clinical studies with entirely new types of drug candidates in 2016 and 2017. The development of biological drug candidates is even more challenging than that of traditional small molecules. On the other hand, their potential is considered to be much greater.

The company's core team has remained the same throughout my term as CEO. A huge thank you to the whole team for the commitment through all the risks and challenges: when I started as CEO, the company could not even afford to pay our salaries! On the other hand, in the background there has always been strong scientific research, in which I'm sure the whole team has tremendous faith. Professor **Mart Saarma** and his internationally acclaimed research work was personally one of the main reasons for me to join the company. Also, a close relative with Parkinson's disease had an impact: it seems unfair that a working person with a healthy lifestyle could fall ill with a serious disease for which there is no proper treatment. When Hermo Pharma grew through the acquisition into Herantis, it was really great to be able to cooperate with another top researcher, Professor **Kari Alitalo.**

The values of Herantis are honesty, openness, patient-orientation, respect for science and expertise, as well as accepting mistakes and learning from them.

Pharmaceutical development is illustrated by risk-taking ability and perseverance. The latter is more challenging for me and I have sometimes had to command myself to have patience. Personal risks are easier to accept when the reason is good. Also, disappointments are an everyday thing in this field - they should be seen as challenges to be overcome.

For me, the most important factor that balances the long days at work is my family. I also believe that in my upbringing I got a touch of do-gooder: as a privileged healthy person I have the responsibility to help others. The world has a lot of unfair diseases for which there is no treatment and which anyone could contract. The potential of our drug candidates is huge: if we succeed we will significantly improve patients' quality of life. For me, a big rewarding factor is the patients' encouragement and appreciation of our work. Against this background, the motivation is easily found.'

Herantis is:

INNOVATIVE:

Our drug candidates, which represent regenerative medicine, are based on leading scientific research in their fields. These drug candidates seek to repair damages in the body to help it function normally, as opposed to traditional drugs that often only treat the symptoms of diseases. Innovation toward clinical breakthroughs requires long-term product development and research.

BRAVE:

We strive for breakthroughs in the treatment of diseases with unmet clinical needs. This can be reached with our agile, light-weight and well networked organisation. Our strengths are above all our experienced core team and close collaboration with leading academic researchers.

HUMANE:

Millions of people suffer from diseases for which there is no known treatment. We are at the front line of drug development to create novel treatments, which can enhance the quality-of-life of patients.

Mart Saarma

'I was born in Tartu and I'm still an Estonian citizen even though I have lived in Finland nearly thirty years already. In terms of my career, one of the most important factors has been the fact that, as a young boy, I had the opportunity to study at a high school that emphasised chemistry. Once a week we studied at university with the guidance of the professors. It gave a huge motivation boost for the studies. It tells something about the level of our science high school that today six of the sixty members of the Estonian science academy are from our class.

I received intellectual values as a family legacy; scientific and intellectual know-how were always present. Because my parents were doctors, and professors at the medical faculty of Tartu University, it was an impossible career choice for me. The remaining options were physics, chemistry, or biology. I studied the latter two, side by side, for two years until I became interested in molecular biology.

I finished my doctoral dissertation in 1974 in the University of Tartu. Thanks to a scientific discovery of mine I had my own laboratory already at the age of twenty-seven. I was the first Baltic researcher to win the young researcher's prize from the Soviet Union Science Academy. This contributed to my career, even though the conditions for scientific research were limited in that current atmosphere.

I worked in Tartu and later on in Tallinn as the director of the Institute of Molecular Genetics from 1980 to 1990. In 1982, I worked for six months in a neuroscientific group in Basel, Switzerland, and then I started a nerve growth factor research. Initially, the focus of my research was on molecules, far from the diseases themselves.

When I moved to Finland in the early 1990s, the world and the research possibilities opened for me in a completely new way.

I am particularly interested in neurodegenerative diseases such as Parkinson's and Amyotrophic Lateral Sclerosis, ALS. The causes of sudden neuronal degeneration are still not known and there are no effective drugs even though plenty is known about the diseases. 1996 was a breakthrough for my research: we discovered a receptor for the neurotrophic factor GDNF. It was a prelude to the discovery of CDNF, a novel neurotrophic factor, ten years later. CDNF is found in the normal human brains and blood circulation, and it has been identified as a neuroprotective and neurotrophic factor specific to the central nervous system. In pre-clinical models of Parkinson's disease and ALS animal models it has proven more efficacious than its competitors.

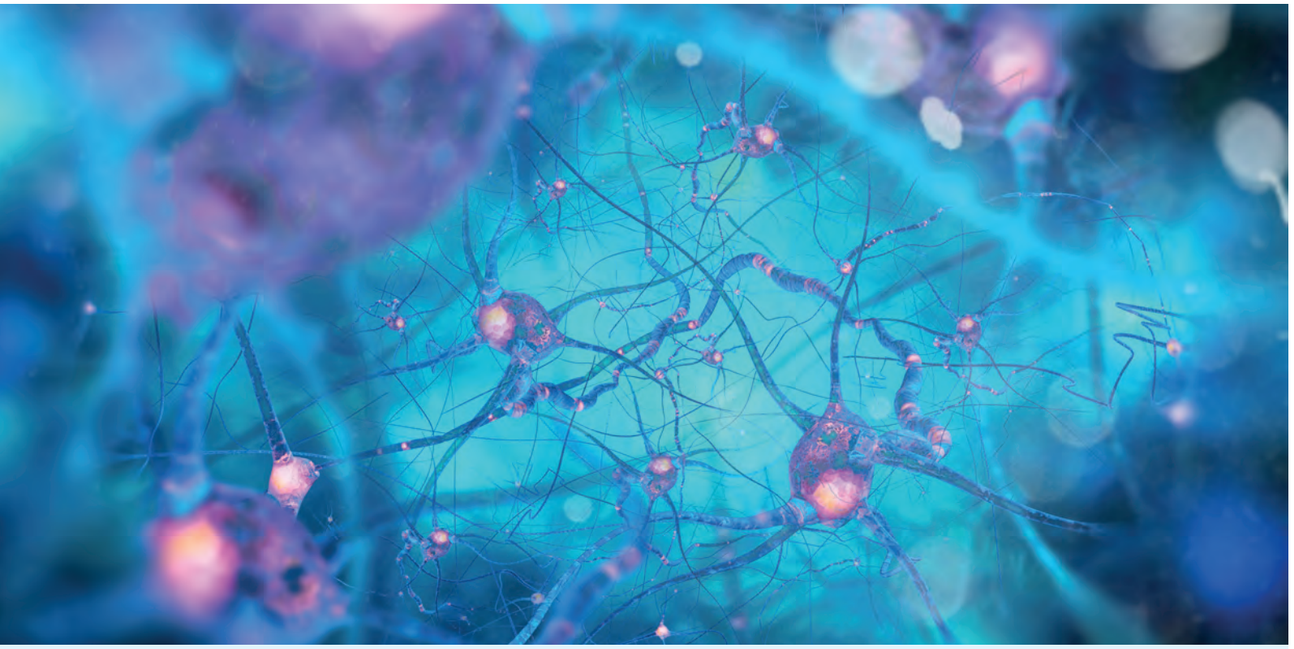
Parkinson's disease is caused by the death of dopamine-producing neurons. Based on scientific studies, CDNF not only protects neurons but is also able to recover degenerating neurons. We have generated strong evidence in animal models: the neurotrophic factor really works and even cures!

After publishing the discovery of CDNF in 2007 I was contacted by numerous pharmaceutical and biotechnology companies. While we were already talking significant amounts of money, in my mind none of the bids was completely satisfactory. I don't think money matters if it is not combined with appreciation of the related competence. Starting a company, Hermo Pharma, with **Heikki Rauvala**, **Eero Castrén** and **Henri Huttunen** was born on exactly this basis. A few years later, Hermo Pharma and Laurantis Pharma merged to form the current Herantis. I would hope that in Finland it would also be more widely understood that the commercialisation of a drug candidate entails respect from the investors towards innovation itself and towards ongoing scientific research.

I have seen in my family how Parkinson's disease progresses all the way to the end. I highly respect the work by the Finnish Parkinson's Association for the patients and their relatives. I have personally talked at their events and received an enormous amount of support to continue my work. A particularly fine moment was when I was able to hold a speech in Stockholm on Noveber 11, 2016, in which I announced that we are going to begin the first clinical studies next year. At this stage CDNF is administered directly into the patients' brains with a neurosurgical procedure. We are tirelessly looking for molecules and treatments with which the blood-brain barrier can be bypassed and the drug delivered by other means.

The word that best describes my research is perseverance. I would even go so far as to say that many people would have surely given up after all the failures that I have encountered. Although the job today includes a lot of travelling, administration, and controlling the research work, I still spend some periods in the laboratory. I enjoy it immensely. It also helps me stay in touch with the real world. Primarily, what motivates me is my endless interest in my work. When I get immersed into the work, time loses its meaning.'

Professor Mart Saarma has owned Herantis' shares since the company was founded. He has bought more shares later on.



NEURODEGENERATIVE DISEASES:

Parkinson's disease, Alzheimer's disease, ALS

Parkinson's disease is an incurable, progressive neurological disease. The main features of the disease include resting tremors, muscle rigidity, slowness of movement, slowness of starting wanted movement, and the reduction of movement speed and range when repeating the movement. The disease is caused by degeneration of certain neurons in the brain involved in movement control.

The destruction is progressive and cannot be stopped with any known treatment. The gradual death of neurons occurs also with normal aging but in Parkinson's disease the destruction begins earlier and is more pronounced. Globally there are up to seven million people suffering from Parkinson's. In Finland, there are around 14,000 Parkinson's patients. The root cause of the disease is not known.

Alzheimer's disease is the most common cause of dementia. Alzheimer's disease is considered to be the aging population's disease. It causes changes in the brain that lead to the destruction of neurons in regions of the brains associated with memory and cognitive functions. The disease usually progresses slowly and in typical phases.

In Finland, it is estimated that there are more than 70,000 Alzheimer's disease patients. The root cause of the disease is unknown and no efficacious treatments are known.

ALS or amyotrophic lateral sclerosis is a progressive motor-neuron disease. The disease de-generates the neurons controlling the operation of muscles. Muscles gradually lose contact with the nerves, and as a result they weaken and atrophy. The disease progresses very individually. Life expectancy is typically 2-5 years after diagnosis.

In Finland, ALS affects about 450-500 people. Worldwide about 140,000 new cases are diagnosed per year. The disease is rare and incurable. The cause of the disease is currently unknown.

Henri Huttunen, Chief Scientific Officer

'I graduated as a doctor in biochemistry from the University of Helsinki. Neurobiology and brain research have always interested me, but more from the molecular perspective than from a clinical viewpoint. Behind my interests are definitely in part my parents who were working in the healthcare field but also my grandparents, as three out of four of them experienced age-related neurodegenerative diseases. Personal experience with such brain disorders has undoubtedly brought extra motivation into my work.

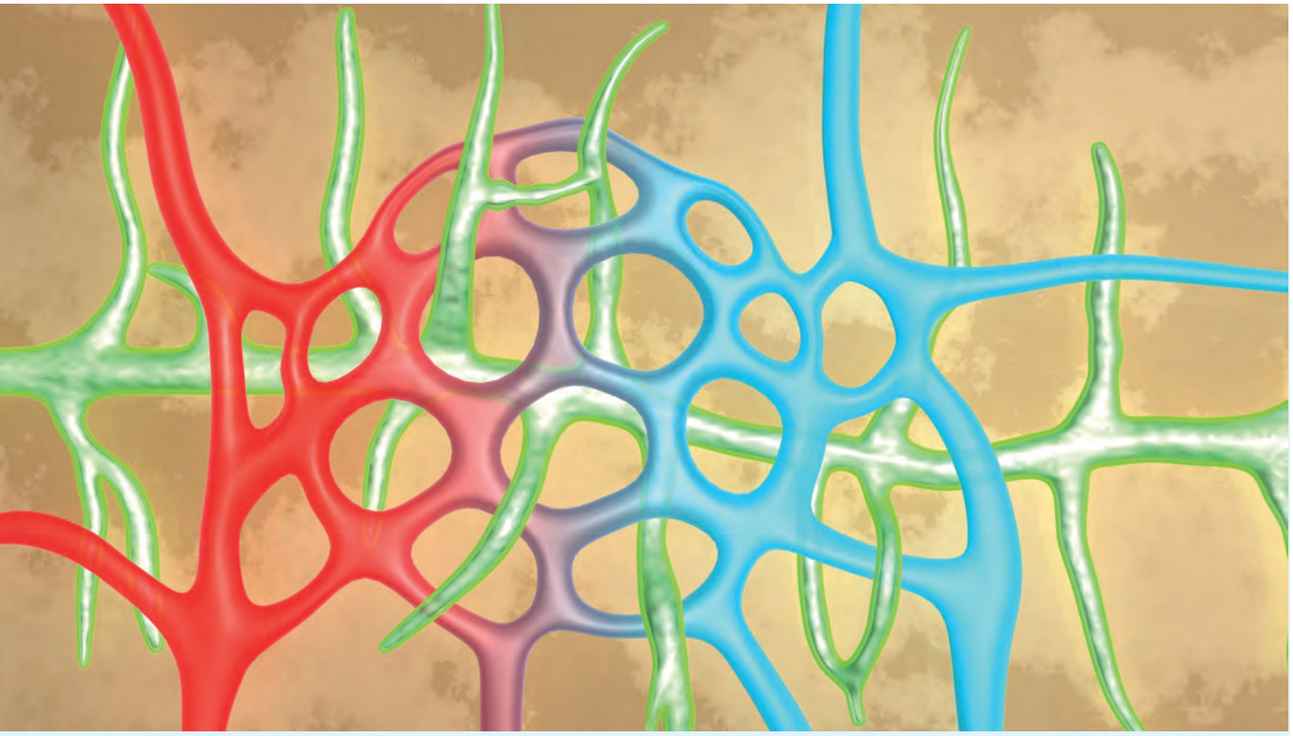
I am one of the founders and the initial CEO of Hermo Pharma, established in 2008. As the company grew, it was natural to me to focus more on the science as the company's Chief Scientific Officer. With the birth of Herantis following the merger, the company's development programmes diversified, which has introduced new challenges to my role. Currently, in addition to my main job, I work part-time at the University of Helsinki as Docent of Neurobiology and lead a research group focusing on the cellular mechanisms of neurodegenerative diseases at the Neuroscience Center, Helsinki Institute of Life Science (HiLife). My academic research is also thematically close to Herantis' product development activities, and this synergy has been very useful for both parties.

As the Chief Scientific Officer of Herantis, I am responsible for the company's non-clinical research as well as our patent portfolio. My duties include scientific support of all of the company's development projects, from the manufacturing of drug candidates to clinical studies and business development. We are a small but close-knit group. Our team, however, is not limited within these walls, as we cooperate all the time with for example academic research groups and contract research organizations, which is also an important way to network. Internationally speaking, a very high level of biomedical research including neuroscience is conducted in Finland. The work of Herantis is in turn a natural continuation of this work as a commercialization channel for academic research discoveries - an area in which I'd hope to see more activity and success stories in Finland. Our challenge is to get the message across to different partners that a drug development program is not a sprint but an ultra marathon.

This year the long project with the CDNF neuroprotective and neurotrophic factor has taken a great leap forward: we are in the process of preparing for the first patient treatments that start next year in Parkinson's disease. Also, the work aimed at the treatment of ALS got a boost when we were granted orphan designations for the drug candidate. It has been truly fascinating to see the progress.

Working as a research scientist requires a lot of patience and tenacity. Also, disappointments should be endured; you need to adapt and improvise. I therefore consider myself like something of an explorer of the 15th century: the courageous journey towards the objective of discovering something new runs through the unknown and sometimes also dangerous waters. I think it is the spice of this work.

Although I am not personally involved in clinical work, thousands of patients and their relatives are present in my work. My dream is that I could do something good for the mankind, leave something behind that would help people in a significant way.'



Lymphedema

Lymphedema means chronic swelling due to lymphatic system failure; secondary lymphedema is a common problem after surgery, radiation therapy, trauma, and infections. Lymphedema develops gradually from an asymptomatic phase to irreversible. Untreated lymphatic system failure can lead to a severe lymphatic filariasis, also known as elephantiasis. The name comes from a limb's swelling into formless. The symptoms impact the patients' quality of life and often also the ability to work and function. Curative treatments are not known.

The American actor and producer, **Kathy Bates** is one of the most famous lymphedema sufferers. She has also been openly vocal about the disease and the problems associated with it. Bates' lymphedema developed following surgery associated with breast cancer. Bates has told (NIH MedlinePlus) that she noticed the first symptoms immediately after surgery in the hospital and was horrified when she realised what was happening. Bates had nineteen lymph nodes removed from her left armpit and three from the right. Bates is still suffering from pain and she is regularly receiving therapy for her symptoms.

Bates has chosen to go public with the illness because many doctors still think that lymphedema is mainly a cosmetic thing. She points out that in the United States alone there are ten million people suffering from lymphedema; more than MS, ALS, Parkinson's disease, and AIDS patients combined. Many are ashamed of the symptoms and suffer alone, which can be fatal. Bates points out that the disease does not only impact the quality of life but at worst may actually be a hindrance to life. If left untreated, infections associated with it may be serious and require hospitalisation. The mental damages cannot be measured.

When discussing with other patients, Bates has noticed that lymphedema has many manifestations including congenital. For some, the disease strikes even at the age of twenty without a triggering factor. Bates urges sufferers to immediately seek the best possible treatment and to also demand it. She regrets that there are still many patients afraid to come out. She herself is active with LE&RN (Lymphatic Education & Research Network), which works for lymphedema awareness, treatment, care, and peer support. Herantis Pharma is also a LE&RN partner.

Jutta Poutanen, Chief Pharmaceutical Officer

'I ended up in the pharmaceutical area of study and work by chance, but after ending up there, I have become progressively more and more excited about it. At the specialisation and the master's degree stage of my studies, I became interested in pharmaceutical technology, and I have now been in the pharmaceutical industry for almost twenty years.

At Herantis, we develop products for illnesses with unmet clinical needs. Drug development is my thing. It is extremely interesting to be involved in product development projects, to develop the required pharmaceutical dosage form with the optimal formulation, in order to deliver the active substance to the desired target in the body.

I have spent the vast majority of this year with the Lymfactin® project. Breast cancer associated lymphedema does not so far have any medical treatment. This autumn, we have taken a great leap forward: we have clinical study actively ongoing in three university hospitals and have carried out the world's first patient treatments with Lymfactin® investigational medicinal product. If we succeed, we will be able to improve the quality of life of lymphedema patients in a significant way. This motivates me.

I think it's great to work for a Finnish company, which is not self-evident in this field. In 2008, after having worked for Orion Pharma I was recruited by the small Finnish drug developer BioCis Pharma. Subsequently through a corporate arrangement I became employed by Laurantis Pharma and eventually by Herantis at our Turku offices.

One of the pros of a small firm is definitely that one can - and must - handle a variety of tasks. We all have our own primary responsibilities, but this work cannot be done alone. We also collaborate a lot with universities and researchers, and we buy services from external service providers. Right here in Turku, we have a long tradition in the pharmaceutical industry and, as a result, an enormous amount of know-how. For me it is important to understand the broader context which my work is a part of.

The development of medicinal products is these days more and more challenging. We have experienced a lot of success, but one has to wait a long time for the final results. For gene-therapy drugs such as Lymfactin®, the authorisation process is also more challenging than for conventional medicinal products, as the approval to proceed to clinical studies is needed not only from the national competent authority for pharmaceuticals such as Fimea in Finland, and the Ethics Committee, but also from the Board of Gene Technology. This job requires perseverance and persistence: nothing ever happens quickly. On the other hand, you may also face acute emergency situations, when you must be able to quickly find solutions and make decisions. It is always a rewarding moment when the impossible becomes possible.'

Drug development

Developing new, more natural treatments requires a long term perspective with years of scientific research and product development.

Drug development is a strictly regulated activity that progresses in stages with regulatory approvals until enough data has been collected for submitting a marketing authorisation application in the desired market areas. The authorities will then evaluate whether the evidence is sufficient to demonstrate a sufficiently favourable benefit/risk ratio for the drug candidate to be granted marketing authorisation. If the authorisation is granted, the results of clinical trials will also influence drug prices or reimbursement.

Drug candidate	Indication	Preclinical	Phase 1	Phase 2
CDNF neuroprotective and neurotrophic factor	ALS	▲		
CDNF neuroprotective and neurotrophic factor	Parkinson´s disease	▲	*	
Lymfactin®	Breast cancer associated lymphedema	▲	▲	

Drug development is a long-term process, which can be divided in the preclinical and clinical stages. Clinical development can be further broken down in usually three phases: The safety of the drug candidate is evaluated in the Phase 1 studies; In Phase 2, the optimal dosing and efficacy in the treatment of the disease are studies; and finally in Phase 3, clinical studies aim to establish statistical significance of the efficacy of the drug candidate in hundreds or thousands of patients for market approval. A pharmaceutical development program can be expected to take 10-15 years to reach market authorizations.

Herantis' drug candidates are independent of each other and are being developed for the treatment of different diseases. This diversifies the risks always present in drug development. Our innovations are based on leading scientific research in their respective fields, conducted for example in the national centres of excellence in neurosciences and translational cancer biology. The current main drug candidates of Herantis aim for a breakthrough in the treatment of Parkinson's disease, as well as in the treatment of breast-cancer associated lymphedema. Such modern biological drug candidates typically aim for a significant improvement compared to current treatments. We also have preliminary data on the potential efficacy of CDNF for the treatment of ALS.

Millions of people suffer from diseases for which there are no known treatments. At the same time, thousands of scientists around the world are working in the early stage of research projects, which may lead to the development of new drugs and therapies for patients in need.

We are heavily involved at the forefront of drug development, aiming to introduce genuinely novel treatments that significantly improve the quality of life of patients. For us it is important to look at things from fresh perspectives and use leading expertise in everything we do.

Herantis as an investment

Herantis Pharma offers the opportunity to participate in the development of treatments for international markets based on globally leading Finnish research.

Herantis' goal is to dramatically improve the treatments of its target diseases. The company offers a huge potential for investors: The market potential in Parkinson's disease and ALS is billions of euro, and in breast-cancer associated lymphedema hundreds of millions of euro.

The market value of Herantis at the end of 2016 is about 11.7 million euro. The group employed seven experts at the end of the financial year. The organisation is intended to remain light and agile in the future as well.

Investing in pharmaceutical development requires patience and the ability to take risks, as well as understanding the particular characteristics of drug development.

Our strengths in drug development are:

- Independent drug candidates based on globally leading science
- An experienced team and board of directors, as well as an extensive national and international co-operation network
- Level-headed strategy, cost structure, and financing needs

Core team

Pekka Simula, MSc

Chief Executive Officer

Pekka Simula joined Herantis Pharma Plc. as CEO in November 2013. Previously he was for instance founding CEO and Board member of Oncos Therapeutics Ltd and Global Program Manager at Varian Medical Systems. Mr. Simula is a board member of Finnish Bioindustries since 2016. He holds a MSc in physics.

Sigrid Booms, MSc, Lic.

Director of Clinical Development

Sigrid Booms has served as Director of Clinical Development of Herantis since August 2011 and previously as regulatory consultant for the company since August 2010. She has almost 20 years of experience in global development of pharmaceuticals for human use, with previous positions in regulatory affairs at Orion Pharma and at a global clinical CRO as Director, Regulatory Affairs. Ms. Booms holds a Licentiate in pharmacy from the University of Utrecht in the Netherlands.

Katarina Jääskeläinen, BEng

Project Manager

Katarina Jääskeläinen has served as Project Manager for Laurantis Pharma Ltd. and subsequently Herantis Pharma plc. since 2012. Previously, Ms. Jääskeläinen has worked as Drug Development Assistant for Laurantis Pharma and BioCis Pharma. Earlier in her career she has worked in several research projects at the Turku University Hospital. Ms. Jääskeläinen holds a Bachelor of Engineering degree in biotechnology from Turku University of Applied Sciences.

Jani Koskinen, MSc

Project Manager

Jani Koskinen joined Herantis Pharma Plc. in December 2014 as Project Manager in manufacturing and process development related programs. Before joining Herantis Mr. Koskinen has worked e.g. for Biotie Therapies, University of Helsinki, and Fit Biotech. He holds a MSc in bioprocess engineering from the Helsinki University of Technology (Aalto-university).

Henri Huttunen, PhD

Chief Scientific Officer

Henri Huttunen co-founded Herantis Pharma Plc. in 2008 and served as the company's founding CEO until becoming its Chief Scientific Officer in February 2010. Dr. Huttunen has previously held research positions at the University of Helsinki, Orion Pharma, and Massachusetts General Hospital, Harvard Medical School (USA). Dr. Huttunen holds a PhD in biochemistry from the University of Helsinki and has more than 15 years of experience in neuroscience research. As an adjunct professor, Dr. Huttunen also leads an academic research group focusing in molecular mechanisms of neurodegenerative diseases at the Neuroscience Center, University of Helsinki.

Jutta Poutanen, MSc

Chief Pharmaceutical Officer

Jutta Poutanen has served as Chief Pharmaceutical Officer at Laurantis Pharma Ltd. and subsequently Herantis Pharma Plc. since August 2010. In her earlier career she worked for instance as Senior Research Scientist at Orion Pharma. She has over 15 years of working experience in pharmaceutical industry in formulation, product and process development and holds a MSc in pharmacy from the University of Helsinki.

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.

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 Pharma Plc since 2013, member of the Board of Insense Ltd., and has had management positions at Phillips Pharma Enterprise Limited. Dr. Phillips' earlier positions include Chairman of the Board of Prosonix 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

Herantis board member since 2012, Dr. Veromaa was the CEO and President of Biotie Therapies Corp. from 2005 until its acquisition by Acorda Therapeutics in 2016.

Frans Wuite, MD, MBA

Member of Herantis' Board since 2014 and Laurantis' Board 2010–2014, Dr. Wuite is currently CEO of Acesion Pharma. He has held management positions in the pharmaceutical industry for over 25 years including CEO of Oncos Therapeutics Oy, Board of Kompassi GmbH and Faron Pharmaceuticals Oy, COO of Araim Pharmaceuticals Inc. and Warren Pharmaceuticals Inc., and member of the European Management Team of Amgen.

REVIEW OF OPERATIONS AND FINANCIAL STATEMENT 2016

Review of Operations and Financial Statement 2016

Review of operations January 1–December 31, 2016

Herantis Pharma Plc is an innovative drug development company focused on regenerative medicine and unmet clinical needs.

Herantis' drug development

Herantis develops innovative drug based on leading scientific research in their fields and aiming at breakthrough in unmet clinical needs. The company's objective is to establish the safety of its drug candidates in early-stage clinical studies, show signals of their efficacy, and then close commercialization agreements with larger pharmaceutical companies. In 2016 the drug development of Herantis proceeded favorably with the first clinical study with Lymfactin® launched and the first clinical study with CDNF awarded a significant EU grant.

Lymfactin® for breast cancer associated lymphedema

Breast cancer treatments can cause damage to lymph nodes, which may lead into secondary lymphedema. The common symptoms of secondary lymphedema are persistent swelling of the affected limb, thickening and hardening of skin, limited limb mobility, pain, and increased sensitivity to inflammations. Secondary lymphedema is a chronic, progressive disease that severely decreases the patient's quality of life. Current treatments such as compression garments, special massage, and exercise may relieve symptoms but do not cure the condition, which is caused by damage to the lymphatic system.

Herantis' Lymfactin® is a gene therapy drug that produces a growth factor called VEGF-C, which is highly selective to the growth of lymphatic vessels. Based on preclinical results Lymfactin® is expected to promote the regeneration of lymphatic vessels and thus repair damages of the lymphatic system. Lymfactin® is based on research at an Academy of Finland Centre of Excellence led by Professor Kari Alitalo at the University of Helsinki.

In 2016 Herantis started a Phase 1 clinical study with Lymfactin®. The primary objective of the study is to evaluate the safety and tolerability of Lymfactin®. Signals of efficacy of Lymfactin® will also be assessed. The study is conducted at three university hospitals in Finland aiming to complete patient recruitment in 2017.

CDNF neuroprotective and neurotrophic factor for Parkinson's disease

Herantis develops its drug candidate CDNF for the treatment of Parkinson's disease. Parkinson's disease is a slowly progressing neurodegenerative disease that cannot be cured. Estimated 7 million people worldwide have Parkinson's disease. Known treatments only alleviate the motor symptoms of the disease but have no effect on its progress. In addition, the effect of the treatments may be reduced over time. Herantis aims at significant improvement to current treatments.

CDNF, a naturally present protein in humans that was discovered in long-term academic research led by Professor Mart Saarma, has in preclinical studies alleviated both motor and non-motor symptoms of Parkinson's disease and also slowed down its progress. Herantis has completed the toxicology studies on CDNF required by the regulatory authorities. Owing to the promising scientific results and strong development work the European Union awarded a grant of €6 million for the Phase 1-2 clinical study with CDNF in Parkinson's disease. The grant period starts formally Jan 1st, 2017 and patient recruitment is intended to begin in the first half of 2017. The objectives of the clinical study are evaluating safety and signals of efficacy in 18 patients with Parkinson's disease at three university hospitals in Finland and Sweden.

CDNF neuroprotective and neurotrophic factor for ALS

ALS (Amyotrophic Lateral Sclerosis) is a fatal motor neuron disease. As the disease progresses the patient loses control of her muscles, which leads to difficulties in motion, speech, swallowing, and breathing. The estimated average survival from symptom onset is from two to five years. There is no known cure; present treatments can only alleviate the symptoms of ALS. An estimated 140,000 people contract ALS annually.

The European Medicines Agency EMA and the US Food and Drug Administration FDA both granted Orphan Designation for Herantis' CDNF for the treatment of ALS in 2016 based on the preliminary preclinical results on its possible efficacy. The company is exploring possibilities to start a clinical development program in ALS. Decisions on starting such a program have not been made and no funding is allocated.

Cis-UCA eye drops for dry eye

Dry eye syndrome (Keratoconjunctivitis sicca) is the most common cause of irritation in the eye. Its typical symptoms include dryness of the eye, a burning sensation, pain, redness and the sensation of a foreign body in the eye. Severe or prolonged dry eye syndrome may damage the surface of the eye and reduce eyesight.

Herantis' Phase 2 randomized clinical study of the cis-UCA eye drop for the treatment of dry eye was completed in 2015. The study did not show statistically significant improvements in the primary endpoints in comparison with placebo. Herantis will however continue partnership negotiations in 2017 for product development collaboration.

Financial review January 1–December 31, 2016

Income from business operations, R&D expenses

Herantis Group did not have essential revenues in 2016 or in the corresponding period in the previous year.

The R&D expenses for the review period were €1.8 million, recorded in the profit and loss statement as an expense for the period. The R&D expenses for the review period mainly comprised for the preparation expenses for the clinical trials of CDNF for the treatment of Parkinson's disease and Lymfactin® for the treatment of breast cancer associated lymphedema.

The Group's R&D expenses for the corresponding period in the previous year, €4.9 million, were recorded as the review period's expenses in the profit and loss statement.

The profit for the review period was €-4.4 million. The consolidated profit for the comparison period was €-16.0 million.

Financing and capital expenditure

The company's cash and cash equivalents on December 31, 2016 amounted to €2.8 (€5.5) million.

In addition the company has R&D loans previously granted by the Finnish Funding Agency for Innovation, Tekes, to be drawn in the amount of €1.9 million. During the review period Herantis draw about €0.4 (1.2) million in Tekes loans.

In addition the European Union has awarded a grant of about €6.0 million for the project TreatER. The TreatER project is essentially the Phase 1-2 clinical study of Herantis with CDNF for the treatment of Parkinson's disease.

The consolidated cash flow from operations in the review period was €-3.0 (€-7.4) million.

Acquisitions and directed share issues

Herantis reported on January 14, 2016 that in accordance with the authorization by the company's annual meeting of shareholders 2015, the Board of Directors decided on December 1, 2015 on a directed share issue to Broadview Ventures I, LLC according to a subscription agreement between the parties. Broadview Ventures I, LLC fully subscribed to this share issue, a total of 32,311 new shares for a subscription price of €10.00 per share. As a result of the share issue, the total number of shares of the company increased to 4,118,305 shares on January 12, 2016.

The share capital did not increase with subscriptions. The entire subscription price of EUR 323,110.00 was entered in the invested unrestricted equity reserve of the company. As a result of the share subscriptions, the number of shares of Herantis Pharma Plc increased to 4,118,305 shares. The new shares were subject to trading on the Nasdaq Helsinki Ltd's First North marketplace together with the old shares as of 14 January 2016.

In 2016, Herantis redeemed the entire share capital of its subsidiary Laurantis Pharma Ltd. Previously Herantis had held approximately 99% of the shares in Laurantis Pharma Ltd.

Balance sheet

The consolidated balance sheet on December 31, 2016 stood at €10.2 million. At the end of the previous review period on December 31, 2015 the consolidated balance sheet stood at €14.1 million.

At the end of the review period on December 31, 2016, the consolidated balance sheet included short-term debt in the amount of

€0.7 (0.6) million, long-term loans in the amount of €7.9 (7.4) million, and capital loans in the amount of €0.1 (0.1) million. Financing earnings and expenses totaled €0.0 (0.1) million.

No R&D expenses were capitalized during the review period.

Equity

Consolidated equity on December 31, 2016 was €1.6 million. At the end of the previous review period on December 31, 2015, consolidated equity amounted to €6.0 million.

Personnel, management, and administration

The number of personnel at the end of the review period on December 31, 2016 was 7 (7) persons.

During the review period, the company's Board of Directors comprised Pekka Mattila (Chairman), Jim Phillips, Aki Prihti, Timo Veromaa and Frans Wuite. The Managing Director for the company was Pekka Simula.

Ordinary Annual General Meeting 2016

Herantis' ordinary Annual General Meeting (AGM) was held on April 11, 2016.

The AGM adopted the annual accounts for financial year 2015 and resolved to discharge the members of the Board of Directors and the Managing Director from liability. In accordance with the proposal by the Board of Directors, the AGM resolved that no dividend be paid for the financial period January 1–December 31, 2015, and that the loss for the period be recorded on the profit and loss account.

The AGM resolved that the remuneration for the members of the Board of Directors shall be €1,000 per month, with the exception of its Chairman, whose remuneration shall be €2,000 per month. It was further resolved that the Board members shall be eligible to subscribe to stock options of option program 2014 I, according to the rules of which the Board members can be granted stock options for each full 12-month period as a Board member.

The AGM decided that the Auditor will be paid reasonable remuneration in accordance with its invoice approved by the company. The firm of authorized public accountants PricewaterhouseCoopers Oy was appointed Herantis Pharma Plc's Auditor for the term ending at the closing of the next Annual General Meeting of shareholders, with Mr. Martin Grandell, APA, as the responsible auditor.

Share based incentive program

Herantis has five stock option programs: Stock option program 2010, Stock option program 2014 I, Stock option program 2014 II, Stock option program 2014 III, and Stock option program 2016 I, whereby stock options have been offered to senior employees of the company to increase their commitment toward long-term contribution to growing shareholder value. The essential details of the stock option programs are listed in the table below. More detailed information is provided on the company's web site at www.herantis.com .

Stock option program	Number of shares at most[1]	Share subscription price	Decision on the stock option program made by
2010	37,600	€ 0.00005	General Meeting 26.8.2010
2014 I	50,800	€ 0.00005	General Meeting 20.3.2014
2014 II A	24,027	€ 7.32	General Meeting 29.4.2014
2014 II B	0	€ 20.73	General Meeting 29.4.2014
2014 II C	0	€ 0.02	General Meeting 29.4.2014
2014 II D	22,349	€ 8.78	General Meeting 29.4.2014
2014 II E	16,342	€ 10.00	General Meeting 29.4.2014
2014 II F	10,253	€ 10.00	General Meeting 29.4.2014
2014 III G	10,232	€ 10.00	General Meeting 29.4.2014
2014 III H	10,232	€ 10.00	General Meeting 29.4.2014
2016 I	70,000	€ 2.92	General Meeting 9.4.2015, Board Meeting 19.5.2016
TOTAL	**251,835**	**-**	**-**

[1] The maximum number of shares to be subscribed by stock options. However the share subscription periods of Stock option programs 2014 II and 2014 III have expired by 31 Dec 2016 and their subscriptions will no longer be accepted.

Risks and uncertainties

Herantis is a drug development company and the general risks and uncertainties present in drug development also apply to its operations. Further, Herantis develops novel biological drugs based on novel scientific research and with mechanisms different from currently approved drugs. Therefore the risks and uncertainties can be considered larger than in conventional drug development.

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. The medical risk related to the cis-UCA eye drop is partly realizing as the efficacy of the drug candidate proved weaker in the Phase 2 clinical studies than expected on the basis of preclinical studies.

Environmental factors

The need for better treatments for many diseases such as Parkinson's disease and breast cancer associated lymphedema increases with ageing population. This contributes to the growing importance of the business of Herantis.

Herantis' business is capital intensive; challenges in the global economic situation could have an adverse impact on the availability of financing. Herantis has no immediate funding needs and therefore the present environmental factors can be considered favorable.

Shares and shareholders

The market capitalization of Herantis Pharma Plc at the end of the review period on December 31, 2016 was €11.7 million. The closing price of the company's share on December 31, 2016 was €2.85. The highest share price during the review period was €4.50, lowest €0.77, and average €1.25.

According to Herantis' shareholder register dated on December 31, 2016, the company had 633 registered shareholders.

The members of Herantis' Board of Directors and the CEO held in aggregate 53,366 (Dec 31, 2015: 39,761) shares including shares held through their controlled companies, or 1.3 (0.9) percent of the company's total stock. Information on insider trading with the company's shares is published on the company's website.

Events after the review period

No essential updates have taken place after the review period.

Outlook for 2017

Herantis' long-term goal is to significantly increase its business through commercialization agreements for its drug candidates. The company continues discussing collaboration possibilities with potential development partners for its development programs. Thanks to the significant grant awarded by the European Union's the company can continue its drug development further than previously estimated before signing any collaboration agreements to optimize shareholder value in Herantis.

The main objectives for 2017 are recruiting and safely treating patients in the clinical trials with Lymfactin® and CDNF. Both of these drug candidates aim at a breakthrough in unmet clinical needs and are based on leading science in their fields.

Guidance for 2017

The company does not expect essential revenues in 2017. The company continues to invest in its ongoing development programs in Secondary Lymphedema and Parkinson's disease, and expects to be cash positive at the end of the year.

The Board's proposal for the use of distributable funds

The parent company of Herantis Pharma group is Herantis Pharma Plc whose distributable equity was €6.9 million according to balance sheet 31 December 2016. Herantis Pharma Plc had no essential revenue in 2016. The financial result of the parent company for 2016 was €-2.7 million.

The Board of Directors proposes to the Annual General Meeting convening on April 11, 2017 that no dividend be paid for the financial period January 1–December 31, 2016.

Consolidated income statement

Currency EUR	1.7.2016 31.12.2016	1.7.2015 31.12.2015	1.1.2016 31.12.2016	1.1.2015 31.12.2015
NET TURNOVER		800.00	25,291.91	1 955.00
Other operating income	29.28	0.00	29.28	16.47
Raw materials and services				
External Services			-27,088.64	
Staff expenses				
Wages and salaries	-329,313.28	-464,872.08	-766,051.48	-1,121,083.87
Social security expenses				
Pension expenses	-54,147.42	-72,953.93	-129,008.71	-155,779.86
Other social security expenses	-13,765.71	-28,269.69	-47,085.48	-55,244.93
	-397,226.41	-565,295.70	-942,145.67	-1,332,108.66
Depreciation and reduction in value				
Depreciation according to plan	-495,520.20	-723,499.96	-990,092.88	-9,212,362.07
Depreciation from consolidation difference	-108,445.99	-104,381.99	-212,827.98	-208,763.98
	-603,966.19	-1 393,177.65	-1 202,920.86	-9,421,126.05
Other operating charges	-846,147.54	-1,042,498.56	-2,273,345.55	-5,414,990.10
OPERATING PROFIT (LOSS)	-1,847,310.86	-2,435,676.21	-4,420,179.53	-16,166,253.34
Financial income and expenses				
Other interest and financial income				
From others	45,241.23	6,358.11	78,199.47	205,814.03
Interest and other financial expenses				
For others	-24,955.61	-30,166.18	-82,528.51	-84,244.08
	20,285.62	-23,808.07	-4,329.04	121,569.95
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	-1,827,025.24	-2,459,484.28	-4,424,508.57	-16,044,683.39
PROFIT (LOSS) FOR THE FINANCIAL YEAR	-1,827,025.24	-2,459,484.28	-4,424,508.57	-16,044,683.39
CONSOLIDATED PROFIT (LOSS)	-1,827,025.24	-2,459,484.28	-4,424,508.57	-16,044,683.39

Consolidated balance sheet

Currency EUR	31.12.2016	31.12.2015
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Development expenses	6,590,230.15	7,517,935.15
Intangible rights	166,655.52	226,126.96
Consolidation difference	544,011.25	695,879.23
	7,300,896.92	8,439,941.34
Tangible assets		
Machinery and equipment	8,749.23	1,287.06
	8,749.23	1,287.06
Investments		
Participating interests	1 ,162.50	1 ,162.50
	1, 162.50	1, 162.50
	7,310,808.65	8,442,390.90
CURRENT ASSETS		
Debtors		
Short-term		
Other debtors	41,606.58	87,203.63
Prepayments and accrued income	23,599.20	18,473.94
	65,205.78	105,677.57
Securities	2,047,288.94	5,000,000.00
Cash in hand and at banks	782,186.03	540,558.76
	2,894,680.75	5,646,236.33
ASSETS TOTAL	**10,205,489.40**	**14,088,627.23**
LIABILITIES		
CAPITAL AND RESERVES		
Subscribed capital	80,000.00	80,000.00
Other reserves		
Free invested equity reserve	32,976,176.82	32,976,176.82
Retained earnings (loss)	-27,056,772.27	-11,012,088.87
Profit (loss) for the financial year	-4,424,508.57	-16,044,683.39
	1,574,895.98	5,999,404.56
CAPITAL LOANS	98,300.00	98,300.00
CREDITORS		
Long-term		
Loans from credit institutions	7,919 291.65	7,413,259.65
	7,919 291.65	7,413,259.65
Short-term		
Loans from credit institutions	102,853.00	212,970.00
Trade creditors	186,074.28	188,759.88
Other creditors	177,757.93	29,824.10
Accruals and deferred income	146,316.55	146,109.04
	613,001.76	577,663.02
	8,532,293.41	7,990,922.67
LIABILITIES TOTAL	**10,205,489.40**	**14,088,627.23**

Cash flow statement

Currency EUR	1.7.2016 31.12.2016	1.7.2015 31.12.2015	1.1.2016 31.12.2016	1.1.2015 31.12.2015
Cash flow from operating activities				
Profit (loss) before appropriatiosn and taxes	-1,827,025.24	-2,459,484.28	-4,424,508.57	-16,044,683.39
Corrections:				
Depreciation According to plan and amortization	495,520.20	723,499.96	990,092.88	9,212,362.07
Depreciation from consolidation difference	108,445.99	104,381.99	212,827.98	208,763.98
Unrealized exchange rate profits and losses	-1,600.28	7,654.01	-278.97	-167,891.92
Other financial income and expences	-18,685.34	251,639.95	4,608.01	289,461.87
Cash flow before change in working capital	**-1,243,344.67**	**-1,372,308.37**	**-3,217,258.67**	**-6,501,987.39**
Change in working capital:				
Increase(-)/decr.(+) in short-term interest-free receivables	32,509.62	-274,891.91	40,377.01	62,011.11
Increase(+)/decr.(-) in short-term interest-free liabilities	247,748.90	-566,998.96	125,372.66	-911,416.65
Cash flow from operations before financial items and taxes	**-963,086.15**	**-2,214,199.24**	**-3,051,509.00**	**-7,351,392.93**
Interest paid and pmts for other financ. exp. from operat.	-6,658.47	-16,976.42	-60,339.73	-71,054.32
Financial income received from operations	47,121.95	822.36	76,188.55	24,732.35
Cash flow from operations before appropriations and taxes	**-922,622.67**	**-2,230,353.30**	**-3,035,660.18**	**-7,397,714.90**
Cash flow from operating activities (A)	**-922,622.67**	**-2,230,353.30**	**-3,035,660.18**	**-7,397,714.90**
Cash flow from investments:				
Investments in tangible and intangible assets	-3,790.00	-6,151.51	-10,378.61	-6,151.51
Capital expenditure on other investments	-60,960.00	0.00	-60,960.00	0.00
Cash flow from investments (B)	**-64,750.00**	**-6,151.51**	**-71,338.61**	**-6,151.51**
Cash flow from financing:				
Share issue		323,110.91	0.00	323,122.76
Long-term loans	182,945.00	870,900.00	395,915.00	1,204,900.00
Cash flow from financing (C)	182,945.00	1,194,010.91	395,915.00	1,528,022.76
Change in cash and cash equivalents(A+B+C) incr.(+)/decr.(-)	-804,427.67	-1,042,493.90	-2,711,083.79	-5,875,843.65
Cash and cash equivalents at beginning of period	**3,633,902.64**	**6,583,052.66**	**5,540,558.76**	**11,416,402.41**
Cash and cash equivalents at end of period	**2,829,474.97**	**5,540,558.76**	**2,829,474.97**	**5,540,558.76**

Statement of changes in equity

Currency EUR

	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			-2,445,218	
Issue of shares for cash		15,464,085		
IPO in connection with combination of business operations	77,500	13,644,952		
Equity on Jun 30, 2014	80,000	32,653,054	-5,871,736	26,861,318

	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

	Share capital	Other funds	Retained earnings	Equity total
Equity on Dec 31, 2014	80,000	32,653,054	-6,910,570	25,822,484
Profit/loss for the period			-1,779,093	
Issue of shares for cash		12		
IPO in connection with combination of business operations				
Equity on Jun 30, 2015	80,000	32,653,066	-8,689,663	24,043,403

	Share capital	Other funds	Retained earnings	Equity total
Equity on Dec 31, 2014	80,000	32,653,054	-6,910,570	25,822,484
Profit/loss for the period			-15,486,524	
Issue of shares for cash		323,123		
Equity on Dec 31, 2015	80,000	32,976,177	-22,397,094	10,659,083

	Share capital	Other funds	Retained earnings	Equity total
Equity on Dec 31, 2015	80,000	32,976,177	-22,397,094	10,659,083
Profit/loss for the period			-1,714,156	
Issue of shares for cash		0		
Equity on Jun 30, 2016	80,000	32,976,177	-24,111,250	8,944,927

	Share capital	Other funds	Retained earnings	Equity total
Equity on Dec 31, 2015	80,000	32,976,177	-22,397,094	10,659,083
Profit/loss for the period			-2,728,780	
Issue of shares for cash		0		
Equity on Dec 30, 2016	80,000	32,976,177	-25,125,874	7,930,303

Key indicators

Consolidated

€ thousands	1-12/2016	1-12/2015	1-12/2014
Revenue	25.3	2.0	0.8
Profit for the period	-4,424.5	-16,044.7	-8,356.4
Operating profit	-4,420.2	-16,166.3	-7,656.6
Gross profit ratio %	N/A	N/A	N/A
Cash flow from operations	-3,035.7	-7,397.7	-4,346.4

	1-12/2016	1-12/2015	1-12/2014
Return on equity %	-116.8	-117.4	N/A
Equity ratio %	15.4	42.6	72.3

Parent company

€ thousands	1-12/2016	1-12/2015	1-12/2014
Revenue	25.3	0.0	0.0
Profit for the period	-2,728.8	-15,486.5	-3,484.1
Operating profit	-2,782.9	-3,602.5	-2,899.0
Gross profit ratio %	N/A	N/A	N/A
Cash flow from operations	-2,481.0	-3,516.4	-2,839.9

	1-12/2016	1-12/2015	1-12/2014
Return on equity %	-29.4	-84.9	-26.9
Equity ratio %	67.2	74.3	88.8
Earnings per share €	-0.66	-3.94	-3.21
Number of shares at end of period	4,118,305	4,085,994	4,062,214
Average number of shares	4,117,331	4,070,468	2,606,773

Formulas used in calculating key indicators

Equity ratio = Equity / balance sheet total
Return on equity % = 100 x profit for the period / (average of shareholder's equity at the beginning and the end of the period)
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.

Appendices to the financial statement

Domicile: Helsinki

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 except for subsidiary shares held by Herantis Pharma Plc whose original acquisition cost was written down in the previous fiscal year by a total of 7,349,333.33 euro due to a weaker than expected result in a dry eye study.

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

Depreciations
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.

Depreciation plan

Intangible assets		
	Development expenses	straight line depreciation 10 yr.
	Intangible rights	straight line depreciation 10 yr.
	Consolidated goodwill	straight line depreciation 10 yr.
Tangible assets		
	Machinery and equipment	cost depreciation 25%

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.

Transactions in foreign currency
Differences in exchange rates are differences in funding transactions. A positive cumulated difference is recorded in Profit and Loss statement in Other interest and financial income from others, and a negative cumulated difference is recorded in Interest and other financial expenses for others. Exchange rate gains and losses arising from foreign-currency transactions are recorded in adjustments.

Foreign currency translation
Assets denominated in foreign currency are translated into euros using the exchange rates in effect on the balance sheet date.

Appendix information concerning the preparation of consolidated financial statement

Principles for preparation of consolidated financial statement

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 31.12.2016, the remaining 6,176,011.25 euro of denominated goodwill 544,011.25 euro relates to a subsidiary goodwill and 5,632,000.00 euro 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.

Appendix information concerning subsidiary and associated companies

Consolidated companies

Name	Domicile	Combined shareholding
Laurantis Pharma Oy	Helsinki	100%
BioCis Pharma Oy	Helsinki	100%
Laurantis Pharma GmbH	Munich, Germany	100%

Non-consolidated associated shareholding companies

Opia Games Oy
Domicile: Helsinki
Shareholding 46.5%
Grounds for not consolidating: No essential impact

Own equity 31.12.2016	1,537.02 €
Profit/loss for the financial year	-291.00 €

Appendix information concerning the profit and loss account

Dividend incomes, interest incomes and interest expenses, total amounts

	Parent 1.1.-31.12.2016	Parent 1.1.-31.12.2015	Consolidated 1.1.-31.12.2016	Consolidated 1.1.-31.12.2015
Interest yields	14,254.32	128,202.58	232.99	155.75
Interest expenses	-34,019.02	-28,183.97	-77,329.38	-70,761.63
	-19,764.70	100,018.61	-77,096.39	-70,605.88

Appendix information concerning the balance sheet

Non-current assets

Intangible assets

Goodwill
Consolidated goodwill resulting from the acquisition of the shares of Laurantis Pharma Oy was 17,043,819.91 of which 16,000,000.00 has been allocated towards development costs and 1,043,819.91 to goodwill.

During the fiscal period Herantis redeemed the entire share capital of its subsidiary Laurantis Pharma Oy. The consolidated goodwill resulting from the acquisition (1% of shares in Laurantis Pharma Oy) amounting to 60,960.00€ was allocated towards goodwill and it will be deprecated according to the same depreciation plan as the initially acquired subsidiary shares.

Consolidated	1.1.-31.12.2016	1.1.-31.12.2015
Consolidated goodwill acquisition costs	1,043,819.91	1,043,819.91
Additions	60,960.00	0.00
Cumulated previous depreciations	-347,940.68	-139,176.70
Depreciations during financial period	-212,827.98	-208,763.98
Goodwill 31.12.2016	544,011.25	695,879.23

Development costs

Parent company
Development expenses that were not depreciated and included in long-term expenses, a total of 958,230.15 euro consist of the development costs of the CDNF project.

Consolidated
16,000,000.00 euro of the consolidated goodwill resulting from the acquisition of the shares of Laurantis Pharma Oy has previously been allocated toward development costs. The amount of 7,349,333.33 euro was additionally written down during the previous financial period due to weaker than expected results in the development of cis-UCA Eye Drops.

Currency EUR	Parent 1.1.-31.12.2016	Parent 1.1.-31.12.2015	Consolidated 1.1.-31.12.2016	Consolidated 1.1.-31.12.2015
Development costs CDNF 1.1	1,117,935.15	1,277,640.15	1,117,935.15	1,277,640.15
Development costs Amblyopia 1.1	0.00	459,247.05	0.00	459,247.05
Development costs total 1.1	1,117,935.15	1,736,887.20	1,117,935.15	1,736,887.20
Development costs consolidated 1.1	6,400,000.00	14,933,333.33		
Total			7,517,935.15	16,670,220.53
Additions CDNF				
Additions Amblyopia				
Additions consolidated				
Additions total				
Depreciation for the accounting period CDNF	-159,705.00	-159,705.00	-159,705.00	-159,705.00
Depreciation for the accounting period Amblyopia	0.00	-459,247.05	0.00	-459,247.05
Depreciation for the accounting period, consolidated			-768,000.00	-1,184,000.00
Additional depreciation for the accounting period				-7,349,333.33
Depreciation for the accounting period, total	-159,705.00	-618,952.05	-927,705.00	-9,152,285.38
Development costs 31.12	958,230.15	1,117,935.15	6,590,230.15	7,517,935.15

Patents

Currency EUR	Parent 1.1.-31.12.2016	Parent 1.1.-31.12.2015	Consolidated 1.1.-31.12.2016	Consolidated 1.1.-31.12.2015
Acquisition costs				
At the beginning of the accounting period	160,000.00	200,000.00	226,126.96	279,637.74
Additions during the accounting period	0.00	0.00	0.00	6 151.51
Accounting period depreciations	-40,000.00	-40,000.00	-59,471.44	-59,662.29
At the end of the accounting period	120,000.00	160,000.00	166,655.52	226,126.96
Book value in the financial statement	120,000.00	160,000.00	166,655.52	226,126.96

Current assets

Receivables from companies in the concern

Currency EUR	Parent 31.12.2016	Parent 31.12.2015
Other receivables	1,366,146.25	842,159.93
Total	1,366,146.25	842,159.93

Difference between activated acquisition costs and market value of securities other than current assets

	31.12.2016	31.12.2015
Investments		
Other shares amd similar rights of ownership		
Market value	2,161,702.31	5,107,444.71
Estimated acquisition cost	2,047,288.94	5,000,000.00
Difference	114,413.37	107,444.71

Appendix information concerning balance sheet liabilities

Own equity

Changes in own equity assets

Currency EUR	Parent 1.1.-31.12.2016	Parent 1.1.-31.12.2015	Consolidated 1.1.-31.12.2016	Consolidated 1.1.-31.12.2015
Restricted own equity				
Share equity at the start of the acc. period	80,000.00	80,000.00	80,000.00	80,000.00
Share equity at the end of the acc. period	80,000.00	80,000.00	80,000.00	80,000.00
Restricted own equity, total	**80,000.00**	**80,000.00**	**80,000.00**	**80,000.00**
Non-restricted own equity				
Invested unrestricted own equity fund at beginning of acc. period	32,976,176.82	32,653,054.06	32,976,176.82	32,653,054.06
The amount of the subscription price of the shares marked to the fund	0.00	323,122.76	0.00	323,122.76
Invested unrestricted equity fund at the end of the acc. period"	32,976,176.82	32,976,176.82	32,976,176.82	32,976,176.82
Loss from previous acc, period, at the beginning of acc. period	-22,397,093.62	-6,910,570.11	-27,056,772.27	-11,012,088.87
Loss at the end of the previous acc. period	-22,397,093.62	-6,910,570.11	-27,056,772.27	-11,012,088.87
Loss for the accounting period	-2,728,780.30	-15,486,523.51	-4,424,508.57	-16,044,683.39
Unrestrected equity, total	7,850,302.90	10,579,083.20	1,494,895.98	5,919,404.56
Own equity, total	**7,930,302.90**	**10,659,083.20**	**1,574,895.98**	**5,999,404.56**

Calculation of distributable non-restricted own equity

Currency EUR	31.12.2016
Invested unrestricted equity fund	32,976,176.82
Profit funds from previous financial years	-22,397,093.62
Loss for the financial year	-2,728,780.30
Development expenses in balance sheet	-958,230.15
Distributable unrestrected equity total	6,892,072.75

Liabilities

Long-term liabilities maturing after more than five years

Currency EUR	Parent 31.12.2016	Parent 31.12.2015	Consolidated 31.12.2016	Consolidated 31.12.2015
Total	589,318.65	1,417,250.00	0.00	2,312,844.00

Securities and contingent liabilities off-balance sheet

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

Currency EUR	Emo 31.12.2016	Emo 31.12.2015	Konserni 31.12.2016	Konserni 31.12.2015
For payment during the next acc. period	322.28	664.56	322.28	664.56
For payment later	0.00	32.28	0.00	332.28
Total	322.28	996.84	322.28	996.84

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

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

Currency EUR	Parent	Consolidated
Rental liabilities		
Rental liabilities due in 2017	22,248.06	22,248.06
Rental liabilities due later than 2017	0.00	0.00
Rental liabilities, total	22,248.06	22,248.06

Appendix information on the remuneration of the auditor

Currency EUR	Parent 1.1.-31.12.2016	Parent 1.1.-31.12.2015	Consolidated 1.1.-31.12.2016	Consolidated 1.1.-31.12.2015
PricewaterhouseCoopers Oy				
Audit fees	11,408.38	33,242.59	11,408.38	34,570.09
Other fees	0.00	0.00	1182.18	0.00

Appendix information on the personnel and members of corporate bodies

Average number of staff during the financial year, broken down by category

	Parent 1.1.-31.12.2016	Parent 1.1.-31.12.2015	Consolidated 1.1.-31.12.2016	Consolidated 1.1.-31.12.2015
Average number for the financial year	6	5	7	6
of which employees	6	5	7	6

Remuneration of directors and management

Currency EUR	1.1.-31.12.2016	1.1.-31.12.2015
CEO and deputy CEO	198,919.50	232,899.59
Directors of the Board and deputies	72,000.00	76,000.00
	270,919.50	308,899.59

Information on the report of the Board of Directors according to corporate act

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.-31.12.2016 is 3,932.00 euro.

Cumulative unregistered interest is altogether 47,593.04 euro.

Signatures

In Helsinki on 27 February 2017

Pekka Mattila
Chairman of the Board

Timo Veromaa
Member of the Board

Aki Prihti
Member of the Board

Frans Wuite
Member of the Board

James Phillips
Member of the Board

Pekka Simula
CEO

Auditor's Report

To the Annual General Meeting of Herantis Pharma Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion, the financial statements give a true and fair view of the group's and the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

What we have audited
We have audited the financial statements of Herantis Pharma Oyj (business identity code 2198665-7) for the year ended 31 December 2016. The financial statements comprise the balance sheets, the income statements, cash flow statements and notes for the group as well as for the parent company.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland an comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion
- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the information included in the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 27 February 2017
PricewaterhouseCoopers Oy
Authorised Public Accountants

Martin Grandell
KHT

Share Information

Major shareholders on December 31, 2016	Number	%
Inveni Life Sciences Fund I Ky	661,891	16.1
Helsingin Yliopiston Rahastot	497,438	12.1
Aloitusrahasto Vera Oy	497,260	12.1
Sijoitusrahasto Nordea Nordic Small Cap	242,200	5.9
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	200,000	4.9
Pensionsförsäkringsaktiebolaget Veritas	173,946	4.2
Saarma Mart	159,000	3.9
Castren Eero Hemminki	155,000	3.8
Rauvala Heikki Matti Eemeli	155,000	3.8
Skandinaviska Enskilda Banken Ab (Publ) Helsingin Sivukonttori	149,046	3.6
Nordea Pankki Suomi Oyj	103,310	2.5
Inveni Pre-Exit Financing Vehicle Ky	81,773	2.0
Huttunen Henri Juhani	74,050	1.8
Leino Lasse Tapani	41,736	1.0
Lombard International Assurance S.A.	34,300	0.8
Nordea Henkivakuutus Suomi Oy	25,435	0.6
Lähitapiola Keskinäinen Henkivakuutusyhtiö	23,650	0.6
Oy Etra Invest Ab	22,183	0.5
Simula Pekka Ilmari	21,103	0.5
Ac Invest Oy	20,000	0.5
Enegren Jan-Anders	20,000	0.5
Jarafi Oy	20,000	0.5
Kalau Oy	20,000	0.5
Pim Partners Ab	20,000	0.5
Tamares Holdings Sweden Ab	20,000	0.5

Information on trading with the share

Trading code:	HRTIS
Currency	EUR
ISIN code:	FI4000087861
Legal Entity Identifier (LEI code):	743700W4CQVYAT3WKK38
Market place:	First North Helsinki
Number of shares on 31 Dec 2016:	4,118,305
Highest share price Jan 1 - Dec 31, 2016:	4.50 euro
Lowest share price Jan 1 - Dec 31, 2016:	0.77 euro
Closing price 31 Dec 2016:	2.85 euro
Average share price Jan 1 - Dec 31, 2016:	1.25 euro
Trading volume Jan 1 - Dec 31, 2016:	637,145 shares
Trading volume in percentage of outstanding shares:	15.5%
Market capitalization on 31 Dec 2016:	11,737,169.25 euro

Shares held by management

Pekka Mattila, Chairman of the Board*	20,150 shares
Jim Phillips, Board Member	2,906 shares
Timo Veromaa, Board Member	2,000 shares
Frans Wuite, Board Member	580 shares
Pekka Simula, Managing Director*	27,730 shares

*Including shares held through controlled companies

Accounting policies

These financial statements have been prepared according to good accounting practice, local legislation and the rules of the First North market. The figures in the financial statements are audited. The figures are individually rounded from exact figures.

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 Helsinki Ltd's First North marketplace, 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 invites the Annual General Meeting 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, and decides the remuneration of the Board of Directors and the auditors. The Annual General Meeting also elects 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 four to 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.

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.

The management team of Herantis is responsible for the organization and planning, implementing and monitoring of risk management and reporting of this to the board of directors.

Certified Advisor

The shares of Herantis Pharma Plc are listed for trading on Nasdaq Helsinki Ltd's First North Finland marketplace, 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. UB Securities Ltd is the Certified Advisor to Herantis Pharma Plc.

Remuneration

Remuneration of the directors

The shareholders of the company decide the remuneration of the Board of Directors at the Annual General Meeting in compliance with the Finnish Companies Act.

Herantis Board members were paid in total EUR 72,000 as remuneration for participation in board meetings during fiscal year 1 Jan

2016 – 31 Dec 2016. No remuneration was paid to the board members of the subsidiaries of Herantis.

On 11 April 2016 the Annual 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 to stock options of option program 2014 I at the end of each calendar year.

None of the members of the Board of Directors are in an employment relationship or have service contracts with the Company or have voluntary pension policies from 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 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 without specified reasons. If terminated by the Company the CEO is not entitled to any additional compensation.

For 2015, the current CEO of Herantis Pharma was paid a performance based bonus of EUR 9,450.00. Possible performance based bonuses for 2016 will be paid in June 2017.

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

Insiders

Upon implementing the Market Abuse Regulation (596/2014/EU) the Company has decided to continue maintaining a voluntary, public list of its top managers, as well as a list showing changes that have occurred in their own security holdings as well as in the holdings of their family relationships and influence-over organizations. These lists are available on the company's web site.
The Board of the Directors of the company has approved an Insider Policy, which ensures compliance with Finnish law, EU regulations and directives, and the rules and guidelines of Nasdaq Helsinki Ltd.

Insider holdings

Insider trading on the company's securities has been compliant with the Insider Policy of the company. Insider holdings in the company as of 31 December 2016 are:
Chairman of the Board Pekka Mattila: 20,150 shares, of which 17,650 shares through controlled company Musta Aukko Oy
Board member James Phillips: 2,906 shares
Board member Timo Veromaa: 2,000 shares
Board member Frans Wuite: 580 shares
CEO Pekka Simula: 27,730 shares, of which 6,627 shares through controlled company Meles Consulting Oy
Director of clinical development Sigrid Booms: 2,400 shares
Chief scientific officer Henri Huttunen: 74,050 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 is authorised public accountants Pricewaterhouse-Coopers Oy (Business ID 0486406-8); the 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 related to public disclosure and disclosure channels is available on the company's web site www.herantis.com.

Information for the shareholders

Annual General Meeting 2017

Shareholders of Herantis Pharma Plc are invited to attend the Annual General Meeting of the Company on Tuesday, April 11, 2017, 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 12.30 p.m.
Each shareholder, who is registered on March 30, 2017 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 no later than on week 11 of 2017.

For more information please see herantis.com/AGM

Dividend

The parent company of Herantis Pharma group is Herantis Pharma Plc whose distributable equity was €6.9 million according to balance sheet 31 December 2016. Herantis Pharma Plc had no essential revenue in 2016. The financial result of the parent company for 2015 was €-2.7 million.

The Board of Directors proposes to the Annual General Meeting convening on April 11, 2017 that no dividend be paid for the financial period January 1–December 31, 2016.

Shareholder register

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

Financial statement releases

Financial results of the first half of 2017 shall be released on Tuesday, 29 August 2017. Where discrepancies exist between the texts, the Finnish-language text shall prevail.

HERANTIS
PHARMA