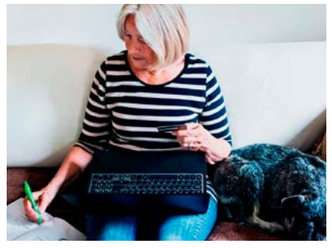
HERANTIS PHARMA

Annual Report 2019

Content



Lymfactin® aims to become the first approved drug to treat secondary lymphedema

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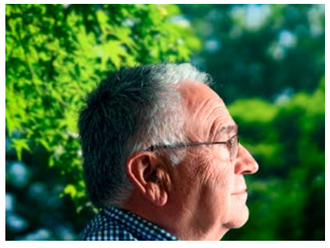

CDNF is intended to become the first disease-modifying treatment of Parkinson's disease and has therapeutic potential in other neurodegenerative diseases

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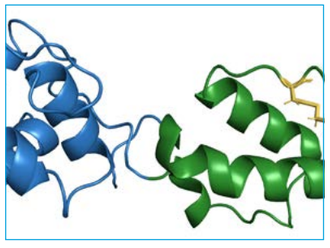

The xCDNF development program aims to create a drug carrying the cell-protective properties of CDNF allowing less invasive peripheral administration

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Herantis in brief

Herantis has built a path aimed at success having achieved major milestones since the Company's inception in 2014.

December 2016
€6 million EU Horizon 2020 grant for CDNF development

May 2016
Start of Lymfactin®
Phase 1 trial

September 2017
Start of CDNF clinical Phase 1–2 trial

June 2018
Start of Lymfactin®
Phase 2 trial

July 2018
Initiation of non-invasive CDNF development

December 2019
Completion of treatments in two clinical studies (Lymfactin® and CDNF main study)

December 2019
Herantis' IPO on Nasdaq First North Stockholm

June 2014
Herantis' IPO on Nasdaq First North Finland

April 2014
Hermo Pharma acquires Laurantis Pharma. Herantis Pharma is established

2012
Process established for producing CDNF in GMP

2010
Michael J. Fox Foundation grant for CDNF research

2008
Hermo Pharma founded by four neuroscientists from the University of Helsinki

Herantis' mission – Innovative therapies for better lives

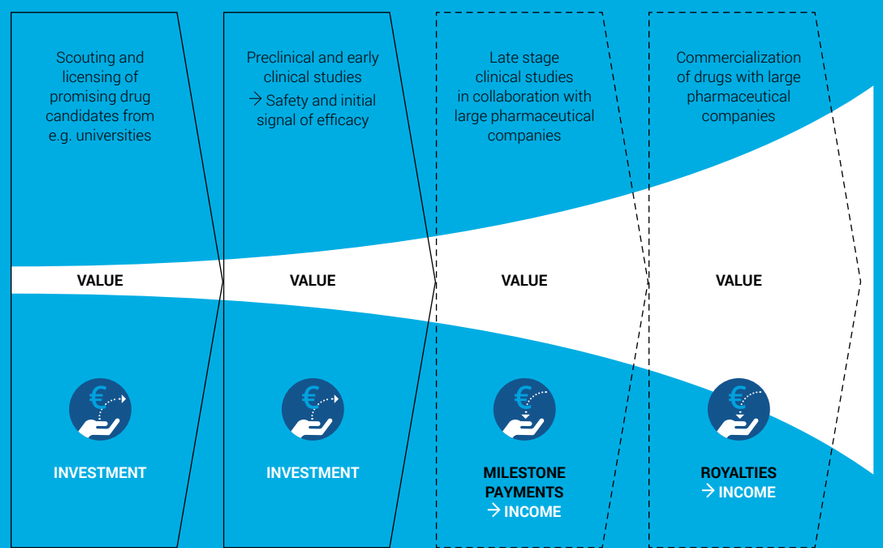
Herantis Pharma is a publicly listed (Helsinki: HRTIS and Stockholm: HRNTS) drug development company aiming to revolutionize the treatment of diseases with unmet clinical needs. Based on leading academic research published in high-impact journals including *Nature* and *Science*, the two ongoing clinical development programs explore the potential of our novel drug candidates in Parkinson's disease and secondary lymphedema.

For Parkinson's disease, our neuroprotective and neurorestorative drug candidate, CDNF, is intended to become the first disease-modifying treatment with therapeutic potential in other neurodegenerative diseases.

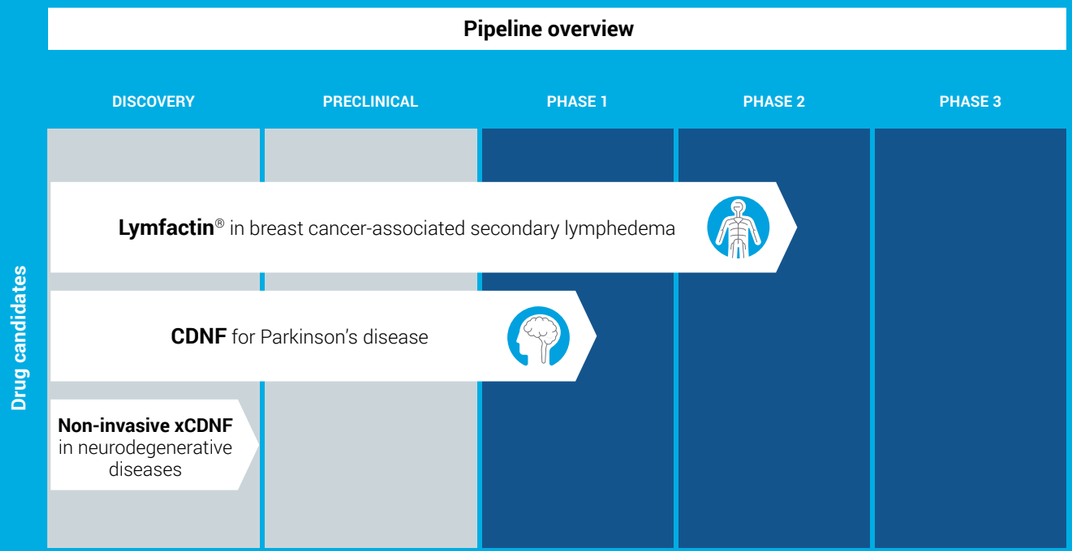
Our Lymfactin® gene therapy is targeted to become the first curative drug for the treatment of cancer-associated secondary lymphedema.

Both Parkinson's disease and lymphedema remain conditions in which current treatments only address symptoms and therefore do not enable long-term improvement for patients. To successfully move forward our vision of breaking the boundaries of standard therapeutic approaches, Herantis has assembled a group of highly experienced professionals for the Management Team, Board of Directors and Scientific Advisory Board.

Business model of Herantis



Pipeline overview



Lymfactin®

Lymfactin® is currently in a randomized, double-blind, placebo-controlled, multicenter, Phase 2 clinical study in Finland and Sweden in patients suffering from breast cancer-associated secondary lymphedema. The patient recruitment and treatments were completed in December 2019. The study continues with a 12-month follow-up phase, and the topline results are expected in Q1/2021.

CDNF

CDNF is currently being tested in the second part of a Phase 1–2 randomized, placebo-controlled, double-blind, multicenter clinical study in Sweden and Finland for the treatment of Parkinson's disease. Patient treatments in the first part of the study, the main study, were completed in December 2019 with the topline results announced at the end of February 2020. Treatments with CDNF will continue for an additional six months with results expected in Q3/2020.

xCDNF – non-invasive next generation CDNF

The program to develop a CDNF-based, peripherally administered therapeutic was initiated in July 2018 following the license agreement with the University of Helsinki. Three xCDNF lead molecules were selected for further development in December 2019. The lead optimization phase is presently ongoing.

CEO’s review

2019 was the best year so far in the history of Herantis. We strengthened our financial position, listed our shares in Sweden, and reached important milestones in all three drug development programs.

Drug development requires patience. At Herantis, we develop first-in-class drugs based on novel science. Risks, challenges, and continuous problem solving are business as usual for us. As such, our team certainly has a good reason to be proud for 2019: All patient treatments have been completed in the Phase 2 clinical study with Lymfactin® and in the main part of the Phase 1 – 2 clinical study with CDNF. In addition, we have selected lead molecules for our next generation xCDNF development.

This means we are looking forward to a very interesting next 12 months. To start, we have kicked off 2020 with the announcement of topline results from our Phase 1 – 2 clinical trial testing CDNF in patients with Parkinson's disease. The topline analysis confirmed positive safety and tolerability of CDNF and the observation of some promising signals in some patients, for instance in dopamine transporter PET imaging. Patient treatments will continue until the summer in the second part of the study and the patients will then be followed-up for several years.

From the other side of our pipeline, we are gearing up for the data from the Lymfactin® Phase 2 study after the 12-month blinded follow-up period. This will give us insight into whether the drug candidate works as expected.

In the meantime, as we wait for the next set of results from the ongoing clinical trials, we are busy making preparations to continue to advance our drug candidates. This includes the initiation of planning for the Phase 2 trial testing CDNF in addition to a Phase 3 study related to Lymfactin®. All these forward-looking preparations are also important for possible partnering and/or financing discussions. Establishing the safety and efficacy of a drug candidate is not enough for commercialization. It is equally important, for example, that it can be manufactured cost-efficiently, sold, distributed and priced appropriately for each market.

Ground-breaking drug development is not possible without strong collaboration. As such, we extend our warmest thanks to everyone who has contributed to our progress this year. In particular, thank you patients and the professional staff of our clinical studies. Thank you to the scientists, subcontractors, and partners. Thanks to our supportive shareholders and the wonderful team at Herantis. Thanks to all of you. We are looking forward to a very exciting 2020!

Pekka Simula
CEO

Lymfactin® aims to become the first drug for treating secondary lymphedema

Lymfactin® is currently in a randomized, double-blind, placebo-controlled, multi-center, Phase 2 clinical study in Finland and Sweden in patients suffering from breast cancer-associated secondary lymphedema. A total of 39 patients were recruited and enrolled in the study. Initial data after 12 months of efficacy assessment and unblinding is expected to be published in Q1/2021. Currently, there are no drugs available for the treatment of secondary lymphedema, a common consequence of cancer staging and therapy affecting millions of patients in the US and Europe.

About Lymfactin®

Lymfactin® is based on the scientific discovery of VEGF-C, the natural human protein necessary for the growth of new lymphatic vessels. Lymfactin® is a gene therapy product, which delivers the human gene coding for VEGF-C and thereby promotes the formation of new lymphatic vessels. Lymfactin® is administered locally at the site with injuries in the lymphatic system with the aim of repairing those injuries.

In disease models, the local VEGF-C expression, which lasts about two weeks, has resulted in the formation of new lymphatic vessels. This may eventually normalize the lymphatic flow and thereby stop the accumulation of the lymph in the patient's tissue. If Lymfactin® works in human patients as well as it has worked in disease models, it can lead to a significant breakthrough in the treatment of secondary lymphedema. VEGF-C was discovered by Professor Kari Alitalo and his research group at the University of Helsinki.

If Lymfactin works in human patients as well as it has worked in disease models, it can lead to a significant breakthrough in the treatment of secondary lymphedema.

Lymfactin® Clinical Development Status

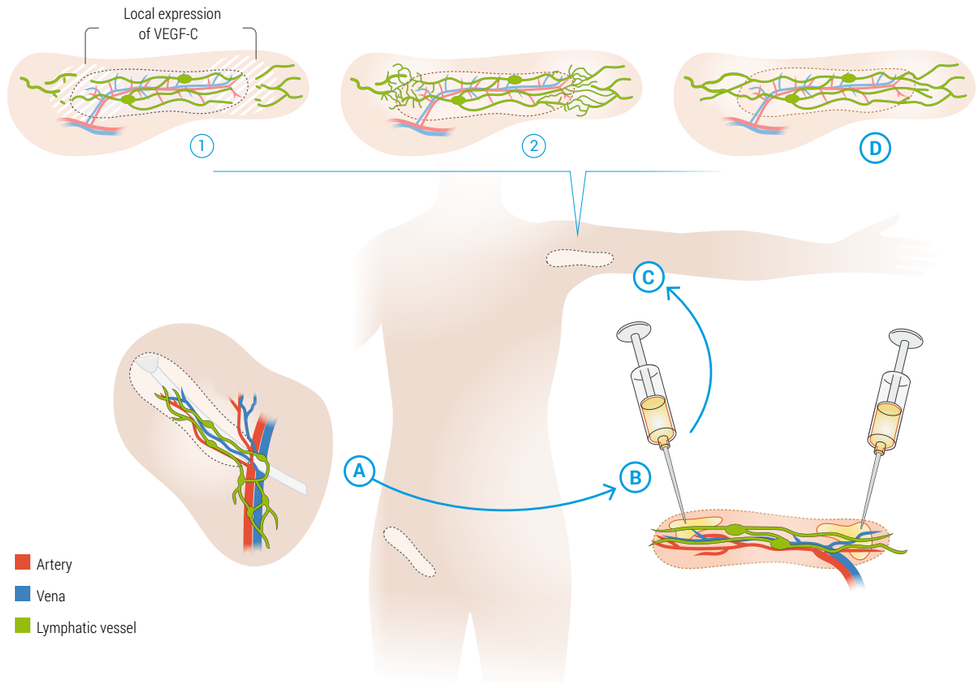
Lymfactin® is presently being developed for the treatment of breast cancer-associated secondary lymphedema (BCAL) in patients who undergo lymph node transplantation surgery. A Phase 1 clinical study is currently in a long-term follow-up and a randomized Phase 2 clinical study is ongoing.

The ongoing Phase 2 clinical study is a multi-center, randomized, double-blind, placebo-controlled study. A total of 39 patients were enrolled in the study in Finland and Sweden at five university hospitals in Uppsala, Stockholm, Helsinki, Tampere, and Turku. The Phase 2 study will assess the efficacy, safety, and tolerability of Lymfactin®. Half of the patients received one dose of Lymfactin® and half received placebo in combination with the lymph node transplantation surgery. The efficacy endpoints include the volume measurement of the affected vs. non-affected limb prior and after the treatment, lymphoscintigraphy prior vs. after the treatment for assessing the functionality of the lymphatic system, and the assessment of quality-of-life.

More information about the ongoing clinical study can be found at www.lymfactin.eu.

The Phase 1 clinical study recruited 15 patients. Out of the 15, three patients received a lower dose and 12 patients received a higher dose of Lymfactin®. Both doses were safe and well-tolerated based on the one-year follow-up. The higher dose was selected for the Phase 2 clinical study. The Phase 1 study continues with a long-term follow-up on all patients. In the Phase 1 study, there was no control group and, therefore, no conclusions of the efficacy of Lymfactin® can be made.

Lymfactin® mode-of-action



A. A soft tissue flap containing lymph nodes is harvested from the patient's lower abdominal wall or groin area.

B. Lymfactin® is administered into the flap *ex vivo* as a single dose administration.

C. The flap is transplanted into the axillary region of the patient's affected upper limb.

1. Local expression of VEGF-C for about two weeks
2. Lymphangiogenesis

D. A functional lymphatic network is formed treating the underlying cause of secondary lymphedema.

About Secondary Lymphedema

Secondary lymphedema is caused by local injuries of the lymphatic system, which can manifest as a result of cancer treatments such as surgery and radiotherapy. The injuries of the lymphatic system may disrupt the normal flow of lymph, which will then start to accumulate in tissue, for instance in a limb. This results in chronic, progressive swelling.

Secondary lymphedema is a painful, deforming disease that often has a significant impact on the quality of life of the patients. Symptoms of secondary lymphedema include progressive swelling of the affected limb, pain, decreased mobility, and increased forming of connective tissue. Many patients also suffer from repeated infections of the affected tissue. Patients are often ashamed of their deformed appearance and may fail to seek appropriate treatment.

According to the global patient organization, LE&RN, misdiagnosis is common. Patients or even their treating oncologists or physicians may not know they are suffering from a disease.

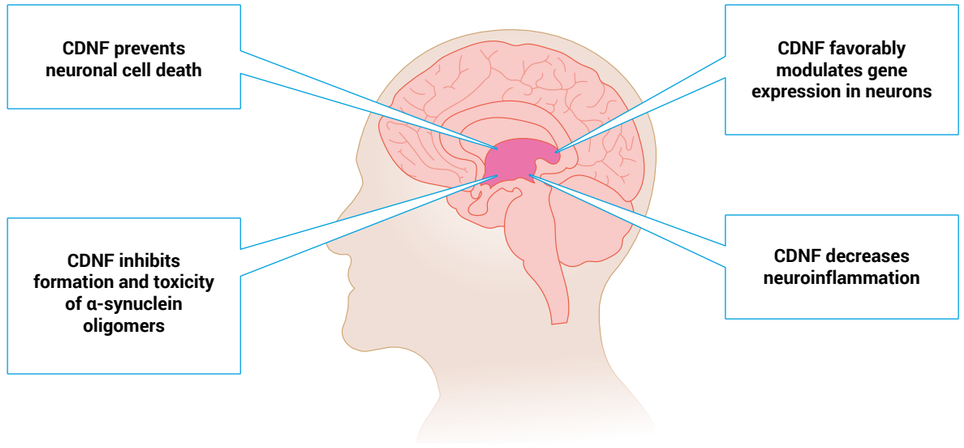
There is currently no curative treatment for lymphedema. Depending on the case, the symptoms of lymphedema can be alleviated by physiotherapy or massage. Many patients who have lymphedema of the arm wear a compression garment. These kinds of treatments do not repair injuries of the lymphatic system, which cause the disease. Surgical procedures such as lymph node transplantation, lymphaticovenous anastomosis, and lymphaticolymphatic bypass are also used.

Based on published cancer incident data we estimate that about 30,000 breast cancer-associated secondary lymphedema cases are diagnosed annually in the USA and Europe. For example, breast cancer patients whose axillary lymph nodes have been resected have over 20% risk of developing lymphedema in the arm. In the USA it has been estimated that the treatment of breast cancer-associated secondary lymphedema costs over 10,000 USD a year per patient.

Secondary lymphedema is also associated with other cancers including melanoma, gynecologic cancers, and genitourinary cancers resulting in estimated 150,000 new secondary lymphedema cases annually in the USA and Europe.

CDNF for the treatment of Parkinson's disease

CDNF is currently in a Phase 1–2 clinical study in Sweden and Finland for the treatment of Parkinson's disease. The recruitment in the study was completed in June 2019 at 17 patients and the treatments in the main study, the first entity of this tripartite clinical study, were finished in December 2019. 15 patients continue in the extension study, in which the treatments are expected to be completed latest in Q3/2020.



In February 2020, we announced the first set of results which confirmed positive safety and tolerability of CDNF in advanced-stage Parkinson's disease patients. In addition, encouraging biological responses as measured by PET imaging were observed in some patients.

All patients who completed the first part of the trial volunteered to participate in the extension study in which every patient, including those previously randomly assigned to the placebo group, will receive one of the two dose levels of CDNF on a monthly basis. The next set of results, including details on the exploratory endpoints, are expected to be announced in Q3/2020.

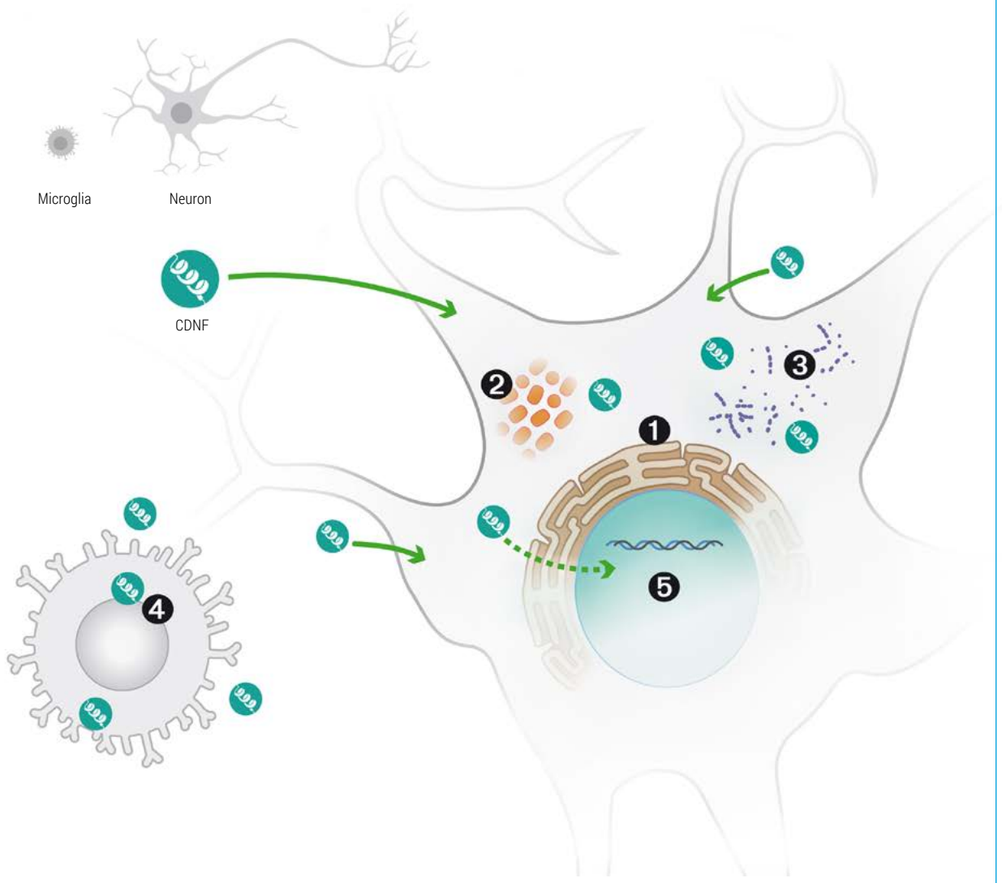
This first set of topline data provides a solid basis for the next part of the study and confirms the positive safety and tolerability profile of CDNF.

About CDNF

CDNF is a protein naturally present in humans. It was discovered by Professor Mart Saarma at the University of Helsinki and was published in the leading scientific journal *Nature* in 2007. Following this, Herantis patented CDNF worldwide and launched a drug development program based on this discovery. The research and development efforts have confirmed that CDNF is a promising neuroprotective and neurorestorative drug candidate, which functions via several mechanisms relevant to Parkinson's disease. It can protect neurons from degeneration and restore the function of already degenerating neurons. This suggests that CDNF has the potential to stop the progression of Parkinson's disease, which would make a significant therapeutic impact on the lives of patients. If successful, CDNF therapy would enable Parkinson's patients to maintain their quality of life.

CDNF Mode-of-action

CDNF promotes neuronal survival and recovery through multiple mechanisms



CDNF has a multi-modal mechanism by which it improves neuronal survival in Parkinson's disease and other neurodegenerative diseases.

1. **CDNF promotes neuronal survival and functionality by reducing endoplasmic reticulum (ER) stress**

   CDNF is internalized by stressed neurons and reduces endoplasmic reticulum (ER) stress, a common feature in neurodegenerative diseases. Reduced ER stress levels support recovery of neuronal functionality via multiple mechanisms, such as improved calcium homeostasis, mitochondrial function, and protein translation and secretion and functionality by reducing endoplasmic reticulum (ER) stress. CDNF is internalized by stressed neurons and reduces endoplasmic reticulum (ER) stress, a common feature in neurodegenerative diseases. Reduced ER stress levels support recovery of neuronal functionality via multiple mechanisms, such as improved calcium homeostasis, mitochondrial function, and protein translation and secretion.

2. **CDNF promotes neuronal survival by activating Protein kinase B (Akt)**

   Akt is a protein kinase that is centrally involved in neuronal survival signaling. CDNF stimulates Akt activity in neurons.

3. **Inhibiting formation and toxicity of alpha-synuclein aggregates**

   Aggregated alpha-synuclein is the main component of Lewy bodies which are abnormal protein inclusions found in the brains of Parkinson's disease patients. Alpha-synuclein is an aggregation-prone protein and various abnormal forms of alpha-synuclein can be toxic to neurons. CDNF protects neurons by reducing the formation and toxicity of alpha-synuclein aggregates.

4. **Decreasing neuroinflammation**

   CDNF reduces production and secretion of pro-inflammatory cytokines, such as TNF-alpha, interleukin-1beta, and interleukin-6, by glial cells, thereby reducing chronic neuroinflammation in the brain, which is an important pathological mechanism in most neurodegenerative diseases.

5. **Improving functionality of stressed and degenerating neurons**

   CDNF has long-term effects in the brain which are related to the regulation of gene transcription and the maintenance of functionality of dopamine neurons.

CDNF Clinical Development Status

CDNF is currently in a Phase 1–2 randomized, placebo-controlled, double-blind, multi-center clinical study in three university hospitals in Sweden and Finland for the treatment of Parkinson's disease.

The Phase 1–2 clinical study entity consists of three parts: main, extension, and follow-up stages.

The patient recruitment was completed with 17 randomized patients in June 2019 and the treatments in the main study were completed in December 2019. 15 out of the 17 main study patients continue in the extension study, in which the treatments are expected to be completed in Q3/2020 at the latest. Two patients discontinued in the main study due to reasons not related to CDNF. The long-term follow-up study is also already ongoing.

The results from the first part of the study, announced in February 2020, confirmed positive safety and tolerability. At this early stage of data review, the Company observed promising signals in some patients, for instance in dopamine transporter PET imaging, which is an indirect measure of the dopaminergic function. As the trial is a first-in-human study involving a small number of patients at an advanced disease stage, this is an encouraging initial outcome. The Company will continue to assess the results through the extension part of the study which will last six months.

As a protein, CDNF cannot pass the blood-brain barrier, the organ protecting our brains from toxins that may appear in the circulating blood stream. Therefore, in the Phase 1–2 clinical study, CDNF is administered using a drug delivery device that directly targets the putamen, a specific area in the brain that is affected in Parkinson's disease. Implanting the clinically tested device requires a neurosurgical procedure comparable to the placement of a Deep Brain Stimulation device, a common procedure in advanced-stage Parkinson's patients. The drug delivery device used in the Phase 1–2 clinical study is manufactured by Renishaw Plc.

The clinical trial, also called TreatER, is partially financed by the European Union.

More details on the study are available here:
www.treater.eu

Building on the established safety profile and encouraging observations, we have initiated the planning for a Phase 2 study with a longer treatment period that will assess the efficacy of CDNF in earlier-stage, well-characterized Parkinson's patients. We currently expect to initiate patient enrolment in 2021.

About Parkinson's Disease

Parkinson's disease is an incurable, progressive brain disorder estimated to affect over seven million patients worldwide. It is caused by the degeneration of dopamine-producing neurons in the brain. The underlying reasons that trigger degeneration of dopamine neurons in Parkinson's disease remain poorly understood. However, the symptoms are a consequence of reduced brain levels of dopamine, a neurotransmitter, in the brain. The typical symptoms include tremors, slowness of movement, muscle stiffness, and impaired balance. As the disease progresses, symptoms get worse and various non-motor symptoms may occur including sleep problems, depression, speech changes, and severe constipation.

Available treatments for Parkinson's disease do not cure the disease or even slow down its progression because the pathological processes resulting in degeneration and death of dopamine neurons are not affected. Current standard-of-care treatments are drugs, such as L-dopa, that increase dopamine levels in the brain. Typically, the efficacy of L-dopa is gradually lost with disease progression as an increasing amount of the dopamine-producing neurons have degenerated. One currently available treatment for advanced-stage Parkinson's disease patients is Deep Brain Stimulation, which together with the required neurosurgery, can cost over EUR 75,000.

Parkinson's disease is associated with a significant societal economic burden in addition to the immense human suffering. The majority of costs are not linked to treatments but, for instance, lost productive years and supported living arrangements for disabled patients. In 2010 the societal costs of Parkinson's disease in Europe alone totaled approximately EUR 14 billion. A study in the USA suggested that a treatment, which could stop the progression of Parkinson's disease, could save society about EUR 400,000 per patient. This is Herantis' goal with CDNF.

CDNF has also shown preclinical activity in other neurodegenerative diseases

CDNF affects cellular mechanisms that are involved in pathophysiology of a variety of central nervous system diseases. Particularly, endoplasmic reticulum stress, unfolded protein response, and neuroinflammation are involved in many chronic neurodegenerative diseases. Preclinical data suggests that CDNF has therapeutic potential in diverse neurodegenerative diseases in addition to Parkinson's disease. It is possible that CDNF could be used as a basis for developing novel disease-modifying treatments for e.g. Alzheimer's disease and amyotrophic lateral sclerosis (ALS).

xCDNF – Next generation CDNF development program

The xCDNF program aims to develop novel drug candidates that carry the cell-protective properties of CDNF in a miniaturized format enabling less invasive peripheral delivery to patients.

What is xCDNF?

CDNF was originally described as a novel neurotrophic factor a little over a decade ago. In preclinical disease models, CDNF has turned out to be an efficacious drug candidate in a number of neurodegenerative diseases in addition to Parkinson's disease. As CDNF is a protein, it cannot be administered to patients orally. Since it does not penetrate the blood-brain barrier, peripheral administration, via subcutaneous or intravenous administration for example, is not possible. Although exciting novel technology for intracranial drug delivery is now available, the invasive drug delivery device implantation procedure includes risks and is not suited for all patients. For these reasons, the aim is now to develop a next generation xCDNF drug candidate which can be delivered to patients via peripheral routes.

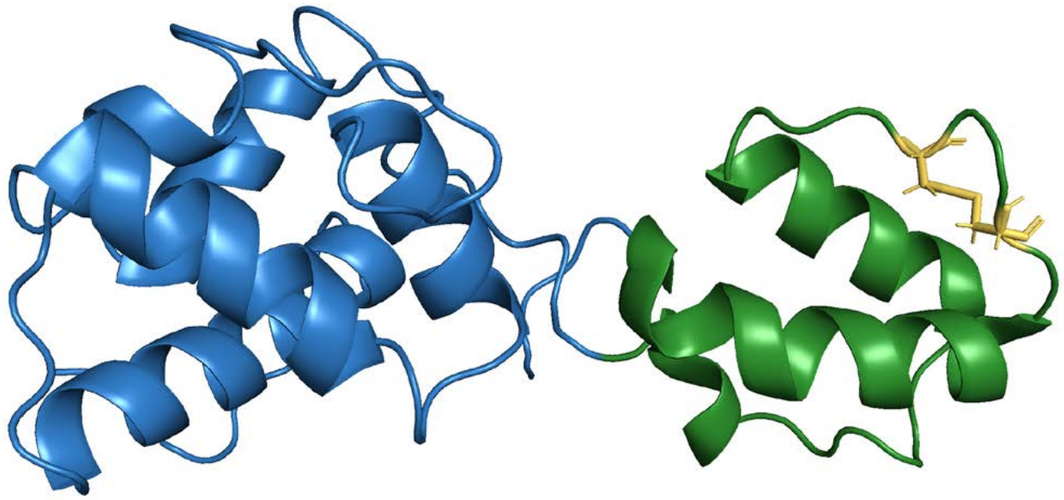
The University of Helsinki research group lead by Professor Mart Saarma have shown that the cell-protective properties of CDNF are located in a small fragment of the protein, a peptide which has an improved ability to pass cell membranes. This finding serves as the basis for the development of xCDNF, a peripherally administered CDNF-based therapeutic for treatment of e.g. neurodegenerative diseases. Herantis announced its xCDNF development program in 2018 after acquiring related intellectual property rights from the University of Helsinki.

ER stress as a drug target

The endoplasmic reticulum (ER) is a subcellular structure at the core of eukaryotic cells, an organelle that has a broad range of functions related to e.g. the synthesis of proteins and lipids and to the regulation of calcium. Disturbations in ER function lead to ER stress, and prolonged ER stress can lead to cellular dysfunction and death. Mechanistically ER stress is also connected to the regulation of inflammation. ER stress is now known to be involved in many chronic diseases, such as neurodegenerative diseases, rheumatoid arthritis, inflammatory bowel disease, and insulin resistance.

Some drugs that modulate ER stress levels have been shown to be efficacious in preclinical models of aging-related chronic diseases. As CDNF modulates ER stress levels in cells, xCDNF compounds will be tested preclinically in diverse models of chronic human diseases involving ER stress.

Though still in early stage of development, the properties of our xCDNF lead candidates suggest exciting potential for drug development even beyond Parkinson's disease.



The CDNF protein consists of two domains: the N-terminal domain (blue) and the C-terminal domain (green). The CXXC motif (yellow) located in the C-terminal domain has been shown to be important for the biological activity of CDNF. Herantis' proprietary xCDNF peptides comprise the CXXC motif and other essential structural elements in order to retain the neuroprotective properties of the full-length CDNF protein.

xCDNF program is in lead optimization phase

xCDNF development has progressed from the selection of lead molecules to the lead optimization phase. In general, the benefit of peptide-based drugs is their specificity and safety compared to small-molecule drugs. On the other hand, compared to protein drugs, peptide-based drugs are less expensive to manufacture, more stable, and less complicated to administer to patients. However, natural non-modified peptides are highly susceptible to metabolic processes of the human body, such as proteolytic degradation.

The goal of xCDNF lead optimization phase is to modify the lead molecules so that their pharmacokinetic properties are better suited for therapeutic use in humans. Optimally, xCDNF could be an orally or subcutaneously administered drug that stays in circulation long enough to pass the blood-brain barrier and effectively modulates ER stress, reduces cell death, and promotes functional recovery in the target tissue. If xCDNF development progresses as planned, a novel xCDNF-based drug candidate could enter clinical trials in the next few years.

Herantis team

Our team is made up of a combination of diverse educational and professional backgrounds, know-how and experience

Herantis Management Team

Pekka Simula, M.Sc., CEO
Sigrid Booms, M.Sc., Lic., Dir. Clin. Development
Henri Huttunen, Ph.D., CSO
Jutta Poutanen, M.Sc., CPO
Antti Vuolanto, D.Sc., COO

Chief Medical Officers

Outi Lahdenperä, MD, Ph.D., consultant for Lymfactin program
Magnus Sjögren, MD, Ph.D., consultant for CDNF program

Senior Scientists

Arnab Bhattacharjee, Ph.D.
Natalia Kulesskaya, Ph.D.

Project Managers

Rebecka Holmnäs, M.Sc.
Katarina Jääskeläinen, B.Eng.
Satu Leikas, B.Pharm.
Päivi Vuorio, Ph.L

Head of Quality and CMC Development

Jani Koskinen, M.Sc. (Tech)

As a team, we are united in our goal of breaking the boundaries of standard therapeutic approaches with the vision of improving outcomes for patients.

Board of Directors

From left to right: Jim Phillips, Frans Wuite, Timo Veromaa, Ingrid Atteryd Heiman, Pekka Mattila, Aki Prihti

Pekka Mattila – Chairman of the Board

Herantis Board member since 2013. Currently CEO of Desentum Oy, Pekka Mattila was the founding CEO of Finnzymes Oy for 25 years until its acquisition by Thermo Fisher Scientific in 2010. Board memberships also in e.g. Fimmic Oy, Oy Medix Biochemica Ab, and Institute of Molecular Medicine FIMM.

Jim Phillips

MD, MBA, Herantis Board member since 2014. Currently Director and CEO of Imevax GmbH, Jim (James) Phillips has held a number of non-executive directorships in Europe including Insense Ltd and Healthcare Brands International Ltd. Previously e.g. CEO for Midatech, President of EUSA Pharma Europe prior to its sale in 2012 to Jazz Pharma, and CEO & founder of Talisker Pharma (acquired by EUSA in 2006). Previous positions at Johnson & Johnson and Novartis as a senior executive.

Timo Veromaa

MD, MBA, Herantis Board member since 2012. Timo Veromaa is the former Executive Chairman of Domainex Ltd and the CEO and President of Biotie Therapies Corp. from 2005 until its acquisition by Acorda Therapeutics in 2016. Towards the beginning of his career he was a Medical Director of Schering Ltd in Finland, Senior Scientist and project Director of Collagen Corp. and Postdoctoral Fellow at Stanford University. He has a PhD in immunology from the University of Turku and holds a Special Competence in Pharmaceutical Medicine.

Ingrid Atteryd Heiman

Herantis Board member since 2019. Currently the Chairman of Doxa AB, Ingrid Atteryd Heiman holds Board positions in several companies and organizations including Parkinson Research Foundation, Redwood Pharma AB, and Dignitana AB. Previously she was e.g. Chairman of Ellen AB, Board member in Radix Kompetens AB, Chairman of Food Supplement Europe and Svensk Egenvård, and interim CEO for Ellen AB.

Aki Prihti

Herantis Board member since 2014. Currently CEO of Aplagon Oy, Aki Prihti was one of the founding partners of Inveni Capital Ltd, a venture fund focused on life sciences. Chairman of Inveni Capital Ltd and Medeia Therapeutics Ltd. Previously e.g. the Chairman of Laurantis Pharma Oy for 2010-2014 and a board member for several growth companies in life science sector. Prior to transitioning to life science venture capital he worked in the corporate finance arm of Salomon Brothers in London.

Frans Wuite

MD, MBA, Herantis Board member since 2014. Currently CEO of Acesion Pharma ApS, Frans Wuite has a long international career with a track record of successfully launching and growing pharmaceutical and biotech businesses. Previous CEO and President of Oncos Therapeutics, COO of Warren Pharmaceuticals, and Co-founder of Board Director of Araim Pharmaceuticals. Previously also a member of Amgen's European management team in charge of establishing the anemia franchise. Before Amgen, President of Pharmacia-Leiras BV.

HERANTIS PHARMA

Board of Directors' Report and Financial Statements

January 1–December 31, 2019

1 Review of operations January 1–December 31, 2019

Herantis' drug development

Herantis Pharma Plc is an innovative drug development company breaking the boundaries of standard therapeutic approaches. The Company's regenerative medicine drug candidates, CDNF and Lymfactin®, aim to revolutionize the treatment of Parkinson's disease and other neurodegenerative diseases, and of secondary lymphedema.

In 2019 Herantis' drug development programs proceeded as planned and reached the following key milestones:

- CDNF: Patient recruitment was completed, and all patient treatments completed, in the main part of the Phase 1–2 clinical study in Parkinson's disease
- Non-invasive, next generation xCDNF: Lead candidates for preclinical development were selected
- Lymfactin®: Patient recruitment was completed in the Phase 2 clinical study AdeLE in breast cancer-associated lymphedema

CDNF for the treatment of Parkinson's disease

Herantis develops its drug candidate CDNF for the treatment of Parkinson's disease (PD). Parkinson's disease is a slowly progressing neurodegenerative disease that cannot be cured. An estimated 7 million people worldwide have Parkinson's disease. Currently available treatments only alleviate the motor symptoms of the disease and their efficacy is typically reduced with disease progression. Herantis aims at significant improvement over current treatments.

CDNF is a novel neuroprotective and neurorestorative factor highly distinct from conventional neurotrophic factors, discovered by Professor **Mart Saarma's** group at the University of Helsinki. An innovative drug candidate for the treatment of neurodegenerative diseases, CDNF is patented internationally by Herantis. In disease models, CDNF has protected and regenerated dopamine-generating cells in the midbrain suggesting potential for disease modification of PD. It has also shown efficacy in non-motor symptoms of PD.

CDNF is currently in a Phase 1–2 clinical trial in Parkinson's disease. The trial is fully recruited and the patient treatments in the first part, the main study, are completed. The clinical trial continues with the extension study, which is expected to be completed in Q3/2020. The clinical trial has received funding from the European Union's research and innovation program, Horizon 2020 under the grant agreement number 732386.

Next generation, non-invasive CDNF: xCDNF

Herantis' xCDNF development program is based on peptides derived from the natural CDNF protein. The xCDNF compounds have been shown to penetrate the blood-brain barrier and retain the cell-protecting properties of CDNF, which suggests potential for a non-invasive drug candidate for the treatment of neurodegenerative diseases. Herantis announced its xCDNF development program in 2018 after acquiring related intellectual property rights from the University of Helsinki. Herantis has also filed additional patent applications to further strengthen its position in the development of xCDNF. Herantis has not announced a timeline or target indication of a possible clinical development program with xCDNF.

Lymfactin® for the treatment of secondary lymphedema

Injuries of the lymphatic system caused e.g. by an accident, surgery, or illness can lead to secondary lymphedema. Its common symptoms are permanent swelling of the affected limb, thickening and hardening of skin, limited limb mobility, pain, and increased sensitivity to infections. Secondary lymphedema is a chronic, progressive disease that often severely impairs the patient's quality of life. Known therapies such as compression garments, special massage, and exercise may relieve the symptoms in some patients, but they do not address the cause the disease.

Professor **Kari Alitalo's** group at the University of Helsinki discovered the human growth factor VEGF-C, which is necessary for the development of lymphatic vessels. Herantis' drug candidate Lymfactin® is based on this scientific breakthrough. It is the first clinical stage gene therapy that aims to repair the lymphatic system.

The development of Lymfactin® is currently in a Phase 2 clinical study in which its safety and efficacy are compared to placebo in patients with breast cancer-associated lymphedema. The patient recruitment in the study has been completed and results are expected by Q1/2021.

If the safety and efficacy of Lymfactin® are established in the treatment of breast cancer-associated lymphedema, the findings are expected to be applicable also for the treatment of other secondary lymphedemas.

2 Financial review January 1–December 31, 2019

Income from business operations, R&D expenses

Herantis Group did not have material revenues in 2019 or in the corresponding period in the previous year.

The R&D expenses for the review period were 4.0 million euros, recorded in the income statement as an expense for the period. The R&D expenses for the review period mainly comprised of the clinical trials of CDNF for the treatment of Parkinson's disease and Lymfactin® for the treatment of breast cancer-associated lymphedema, and the early preclinical development of xCDNF.

The Group's R&D expenses for the corresponding period in the previous year, 2.1 million euros, were recorded as the review period's expenses in the income statement.

The profit for the review period was -8.0 million euros. The consolidated profit for the comparison period was -4.2 million euros.

Financing and capital expenditure

The company's cash and cash equivalents on December 31, 2019 amounted to 7.0 (at the end of the previous reporting period on December 31, 2018: 2.2 million euros).

During the review period Herantis drew the last remaining tranche of an R&D loan previously granted by Business Finland. The last tranche was about 0.8 million euros.

In addition, the European Union has awarded a grant of about 6.0 million euros for the project TreatER, which started on January 1, 2017. The TreatER project is essentially the Phase 1–2 clinical study of Herantis with CDNF for the treatment of Parkinson's disease. In the review period, the TreatER project was granted an extension of one year, continuing the project to 31 December 2020. The extension does not impact the grant amount.

The consolidated cash flow from operating activities in the review period was -6.0 (-3.7) million euros.

Directed share issues

During the review period Herantis completed two financing transactions whereby the Company raised, before expenses, approximately 5.8 million euros in March and approximately 4.2 million euros in December. Details are provided below.

Herantis announced on 12 March 2019 that the Board of Directors of Herantis had decided on a directed share issue of 1,111,982 new shares at a per-share subscription price of 5.20 euros to certain institutional investors and a limited number of investors other than qualified investors as well as to certain directors of the Company. The share capital was not increased. Instead, the entire subscription price of 5,782,306.40 euros was recorded in the invested unrestricted equity reserve of the Company. The issued new shares were registered in the Trade Register on 22 March 2019, as of which date the new shares have carried shareholder rights. As a result of the share subscriptions the number of shares in Herantis increased to 6,030,287 shares.

Herantis announced on 28 May 2019 that 32,000 new shares of Herantis had been subscribed with option rights of the option programs 2010 and 2014. The new shares were registered into the Trade Register on 28 May 2019, as of which date the new shares established shareholder rights. The share capital did not increase with subscriptions. The entire aggregate subscription price for the new shares of 1.60 euros was entered in the invested unrestricted equity reserve of the company. As a result of the share subscriptions, the number of shares of Herantis increased to 6,062,287 shares.

Herantis announced on 2 December 2019 that the Company's directed share issue announced on 11 November 2019 was oversubscribed multiple times and completed as planned. In this share issue the Company issued a total of 618,018 new shares at a per-share subscription price of 71 SEK. The share capital did not increase with subscriptions. The entire subscription price for the new shares of 4,162,547.80 euros was entered in the invested unrestricted equity reserve of the company. The issued new shares were registered into the Trade Register on 9 December 2019, as of which date the new shares established shareholder rights. As a result of the share subscriptions, the number of shares of Herantis increased to 6,680,305 shares.

Balance sheet

The consolidated balance sheet total on 31 December 2019 stood at 11.1 (7.1) million euros.

At the end of the review period on December 31, 2019, the consolidated balance sheet included short-term debt in the amount of 2.0 (1.4) million euros, long-term loans in the amount of 7.2 (5.9) million euros, and capital loans in the amount of 0.0 (0.0) million euros. Financing earnings and expenses totaled -0.8 (0.7) million euros.

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

Equity

Consolidated equity on December 31, 2019 was 1.9 (-0.1) million euros. The change is the result of the share issues and consolidated loss of the review period.

Personnel, management, and administration

The number of personnel at the end of the review period on December 31, 2019 was 12 (10) persons.

During the review period, the company's Board of Directors comprised of Pekka Mattila (Chairman), Ingrid Atteryd Heiman (from 12 March 2019), Jim Phillips, Aki Prihti, Timo Veromaa (Vice Chairman from 29 May 2019), and Frans Wuite. The CEO for the company was Pekka Simula.

Ordinary Annual General Meeting 2019

Herantis' ordinary Annual General Meeting (AGM) was held in Helsinki, Finland on Thursday, April 11, 2019.

The AGM adopted the consolidated and parent company financial statements for the financial year 2018 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 shall be paid for the financial period January 1–December 31, 2018, and that the loss for the period shall be recorded on the profit and loss account.

The AGM resolved that the remuneration for the members of the Board of Directors shall be 1,500 euros per month except for the Chairman of the Board who shall be paid 2,500 euros per month, and a possibly elected Vice Chairman of the Board who shall be paid 2,000 euros per month. Board members are also reimbursed reasonable travel expenses related to Board of Director's duties.

The AGM decided that the Auditor will be paid reasonable remuneration in accordance with its invoice approved by the company.

Six members were elected in the Board of Directors: Ingrid Atteryd Heiman, Pekka Mattila, James (Jim) Phillips, Aki Prihti, Timo Veromaa, and Frans Wuite.

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.

Following the AGM, the Board of Directors held a constitutive meeting and elected Pekka Mattila as Chairman of the Board of Directors.

Share based incentive program

Herantis has four stock option programs: Stock option program 2010, Stock option program 2014 I, Stock option program 2016 I, and Stock option program 2018 I, whereby stock options have been offered to key employees of the company to increase their commitment toward long-term contribution to growing shareholder value. The main 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	Maximum number of shares[1]	Per share subscription price	Decision on the stock option program made by
2010	35,600	€ 0.00005	General Meeting 26.8.2010
2014 I	20,800	€ 0.00005	General Meeting 20.3.2014
2016 I	70,000	€ 2.92	General Meeting 9.4.2015, Board Meeting 19.5.2016
2018 I	100,000	€ 5.85	General Meeting 9.4.2015, Board Meeting 28.8.2018
TOTAL	**226,400**	**-**	**-**

[1] The maximum number of shares to be subscribed by stock options.

Risks and uncertainties

Herantis is a drug development company and the general risks and uncertainties present in drug development also apply to its operations. For instance, the production, stability, safety, efficacy, and regulatory aspects of drug candidates involve risks, the realization of which can render the commercialization of the drug candidate impossible or significantly delayed. One common challenge in drug development is that preclinical disease models may not accurately simulate the real disease. Promising preclinical results therefore do not guarantee that the drug candidate is efficacious in real patients.

Since Herantis develops biological drugs based on novel scientific research and their mechanisms differ from known drugs, the risks and uncertainties can be considered greater than in the development of conventional drugs. Further, the company has not commercialized any drug candidates, it does not have any history of profitable operations, and it has not so far closed any commercialization agreements pursuant to its strategy.

Drug development requires significant investments. Since Herantis is a pre-revenue company it must finance its drug development programs from external sources such as grants, R&D loans, or equity investments. Factors such as delays in the company's development programs or a weak financial market can impact the company's ability to raise funding and continue its operations.

Even if the safety and efficacy of a drug candidate was established in clinical studies its commercialization involves risks such as pricing or reimbursement, organizing a sales network, competition from other emerging treatments, unexpected adverse events in long-term use, strength of the company's patents, patent infringement claims raised against the company and other factors.

Usual business risks and uncertainties are also relevant to the operations of Herantis, such as data protection risks, dependencies on subcontractors and other third parties, and the ability to recruit and keep the necessary senior team and other employees.

A thorough assessment of the risks of Herantis is presented in the English-language information memorandum published on the Company's website on 11 November 2019. Herantis has protected its operations against risks to its best ability and is not aware of any such risks or uncertainties, which would essentially differ from the usual risks and uncertainties in its business.

Environmental factors

Herantis is very conscious about protecting the environment. Herantis' Quality instructions and practices consider the environment and encourage the use of public transportation, limit travelling to strictly necessary business needs, and endorse the use of virtual meetings where possible. Printing and waste are minimized, and office waste is recycled appropriately.

Shares and shareholders

On December 16, 2019 the Company's shares were listed in the Nasdaq First North Growth Market Sweden with ticker symbol "HRNTS", in addition to its previous listing in the Nasdaq First North Growth Market Finland with ticker symbol "HRTIS".

The market capitalization of Herantis Pharma Plc at the end of the review period on December 31, 2019 was approximately 51.8 million euros. The closing price of the company's share in the Nasdaq First North Growth Market Finland on December 31, 2019 was 7.75 euros. The highest share price during the review period was 10.80 euros, lowest 4.80 euros, and average 8.17 euros.

The trading volume of the company's share in 2019 was 924,403 shares, corresponding to approximately 13.8% of all shares in the company. According to Herantis' shareholder register dated on December 31, 2019 the company had 2,047 registered shareholders.

On December 31, 2019 the members of Herantis' Board of Directors and the CEO held in aggregate 107,792 (70,992)

shares including shares held through their controlled companies, or 1.6 (1.4) percent of the company's shares. Information on insider trading with the company's shares is published on the company's website.

3 Events after the review period

The Company announced on February 25, 2020 topline results of the Phase 1–2 clinical study with CDNF. Topline analysis confirmed positive safety and tolerability of CDNF in advanced-stage Parkinson's disease patients, with encouraging biological responses as measured by PET imaging in some patients. Results from the second part of trial, in which all patients receive CDNF for an additional six months, are expected in Q3/2020.

4 Outlook for 2020

Herantis' long-term goal is to significantly increase its business through commercialization agreements for its drug candidates. While developing its assets, the company continues to discuss collaboration opportunities with potential partners for its drug development programs.

The main objectives for 2020 are to present initial results of the Phase 1–2 clinical study of CDNF in Q1, and twelve-month follow-up results in Q3. The main objective of this first-in-human clinical study with CDNF is to demonstrate its safety in patients. For Lymfactin®, the Company will continue preparations for a Phase 3 clinical study while expecting Phase 2 results in Q1/2021.

5 Guidance for 2020

Herantis does not expect material revenues in 2020. The company continues to invest in its ongoing drug development programs: CDNF for the treatment of Parkinson's disease, and Lymfactin® for the treatment secondary lymphedema, as well as in xCDNF: the next generation, non-invasive CDNF.

6 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 11.7 million euros according to the balance sheet December 31, 2019. Herantis Pharma Plc had no material revenues in 2019. The financial result of the parent company for 2019 was -5.6 million euros.

The Board of Directors proposes to the Annual General Meeting convening on April 8, 2020 that no dividend shall be paid for the financial period January 1– December 31, 2019.

7 Key figures

Consolidated

EUR thousands	1-12/2019	1-12/2018	1-12/2017
Revenue	0.0	0.0	0.0
Profit for the period	-8,004.6	-4,179.7	-2,164.5
Operating profit	-7,115.2	-4,870.5	-3,944.7
Gross profit ratio %	N/A	N/A	N/A
Cash flow from operations	-5,958.2	-3,732.2	-2,599.0
Return on equity %	-908.7	-52.2	-19.1
Equity ratio %	16.7	-1.2	35.3

Parent company

EUR thousands	1-12/2019	1-12/2018	1-12/2017
Revenue	0.0	0.0	0.0
Profit for the period	-5,597.5	-2,162.2	-2,546.5
Operating profit	-4,772.7	-3,021.8	-2,396.4
Gross profit ratio %	N/A	N/A	N/A
Cash flow from operations	-4,294.4	-2,674.1	-1,690.6
Return on equity %	-55.6	-24.1	-28.3
Equity ratio %	64.8	62.6	67.0
Earnings per share €	-0.96	-0.44	-0.60
Number of shares at end of period	6,680,305	4,918,305	4,918,305
Average number of shares	5,844,621	4,918,305	4,221,319

8 Formulas used in calculating key figures

Equity ratio = Equity / Balance sheet total

Return on equity % = 100 • 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.

9 Accounting policies

These financial statements have been prepared according to generally accepted accounting practices, local legislation, and the rules of the Nasdaq First North Growth Market. The figures in the financial statements are audited. The figures are individually rounded from exact figures.

10 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 First North Growth Market, and the Company's Articles of Association.

10.1 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 results shown in the balance sheet, grants the discharge of the Board of Directors and the Managing Director from liability, decides the number of the members of the Board of Directors, and the remuneration of the Board of Directors and the auditors. The Annual General Meeting also elects Board members and auditors, as well as deals with any other matters on the agenda.

10.2 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 eight ordinary members. The term of the Board member shall begin from the General Meeting where he or she has been elected and last until the closing of the following Annual General Meeting. The Board of Directors shall elect a Chairperson and, if it finds it warranted, a Vice-Chairperson from among its members for one term at a time.

All Board members of Herantis Pharma are deemed to be independent of the company. With the exception of Mr. Aki Prihti all Board members are also deemed to be independent of any significant shareholders. Mr. Aki Prihti is not independent of Inveni Life Sciences Fund I Ky, a significant shareholder of Herantis Pharma, based on his position as Partner at Inveni Capital.

10.3 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. The 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. The CEO guides and supervises the company and its businesses and 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.

10.4 Management team

Along with the CEO, Herantis' Management team includes the Director of Clinical Development, Chief Scientific Officer (CSO), Chief Pharmaceutical Officer (CPO), and Chief Operational Officer (COO).

10.5 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.

10.6 Certified Advisor

The shares of Herantis Pharma Plc are listed for trading on the Nasdaq First North Growth Market Finland with ticker symbol "HRTIS" and Nasdaq First North Growth Market Sweden with ticker symbol "HRNTS". The First North Growth Markets require the nomination of a Certified Advisor. The Certified Advisor is responsible for ensuring that the company complies with the rules and regulations of First North Growth Market.

UB Securities Ltd, a company residing at Aleksanterinkatu 21A, FI-00100 Helsinki, Finland, is the Certified Advisor to Herantis Pharma Plc. UB Securities' phone number is +358 9 25 380 246 in Finland, and +46 72 888 43 83 in Sweden.

10.7 Remuneration

10.7.1 Remuneration of the directors

Herantis' Board members were paid in total 120,000.00 euros as remuneration during fiscal year 1 Jan 2019 – 31 Dec 2019. During the same period the board members of other companies of the Herantis group were not paid any remuneration.

On 11 April 2019 the General Meeting of Herantis resolved that the remuneration payable to the members of the Board of Directors shall be 1,500 euros per month except for the Chairman of the Board who shall be paid 2,500 euros per month and a possibly elected Vice Chairman who shall be paid 2,000 euros per month. The board members are also reimbursed reasonable travel expenses related to Board of Director's duties.

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

10.7.2 Remuneration of the management team members

The Board of Directors is responsible for appointing the CEO, and for preparing and approving the remuneration of the CEO and other management team members. The Board of Directors considers the interests of shareholders when deciding on the remuneration. The remuneration of the CEO and other management team members comprises fixed basic salary, fringe benefits (such as company phone), a performance-based bonus, and a stock option plan. The bonus payments are assessed and decided upon annually by the Board of Directors, and a possible bonus is paid in June of the following year. The maximum bonus for the CEO is 35% and for other management team members 25% of fixed annual compensation.

In 2019, the total salary of the CEO including fringe benefits and performance-based bonus was EUR 211,172.88, and for the Management Team excluding CEO, EUR 474,993.92.

The CEO contract may be terminated by the Company or by the CEO with a three-month notice period. If terminated by the Company the CEO shall not be paid any special benefits.

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

10.8 Public 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. The list of insider holdings is provided below. A complete list of insider transactions is available on the web site of the Company.

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 rulebook of the Nasdaq First North Growth Market.

10.8.1 Insider holdings

Insider trading on the company's securities has been compliant with the Insider Policy of the company. Insider holdings in the company at the end of the review period, compared to the previous:

Top manager	31 Dec 2019	31 Dec 2018
Pekka Mattila (Chairman)[1]	30,850	22,650
Ingrid Atteryd Heiman (Board member)	0	0
James Phillips (Board member)	5,706	2,906
Aki Prihti (Board member)	0	0
Timo Veromaa (Vice Chairman)	8,900	4,500
Frans Wuite (Board member)	6,280	3,080
Pekka Simula (CEO)[2]	56,056	37,856
Sigrid Booms (Director of Clinical Development)	2,400	2,400
Henri Huttunen (Chief Scientific Officer)	74,050	74,050
Jutta Poutanen (Chief Pharmaceutical Officer)	0	0
Antti Vuolanto (Chief Operating Officer)	1,100	1,100

[1] 24,150 shares held through controlled company Musta Aukko Oy
[2] 11,030 shares held through controlled company Meles Consulting Oy

10.9 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 authorized public accountants PricewaterhouseCoopers Oy (Business ID 0486406-8), principal auditor is Martin Grandell, APA.

10.10 Public disclosure

Herantis complies with the disclosure obligations as defined in the Market Abuse Regulation ((EU) No 596/2014) to disclose information to the public in a timely and consistent manner.

Herantis Pharma publishes its company announcements both in Finnish, which is the official reporting language, and in English. Amendments to previously published information are made in the same manner that was used for publishing the original information.

In addition to company announcements the most important disclosure channel for information related to the Company's activities and financial situation is the Company's website www.herantis.com.

Herantis publishes its company announcements through Nasdaq Helsinki Ltd and in the most relevant public media. All company announcements are also published simultaneously on the Company's website in both English and Finnish.

Herantis Pharma publishes any essential materials presented in possible public events, such as result presentations and analyst meetings, on its website as simultaneously as possible.

More information on the Company's disclosure principles is available on the Company's website under Corporate Governance.

11 Information for the shareholders

Annual General Meeting 2020

Shareholders of Herantis Pharma Plc are invited to attend the Annual General Meeting of the Company on Wednesday, April 8, 2020, commencing at 1:00 pm EET. The meeting venue will be informed in the formal notice to convene the Annual General Meeting. The reception of participants and the distribution of voting tickets will commence at 12:30 pm.

The Annual Report is available on the company's web site www.herantis.com no later than March 17, 2020.

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 2020 shall be released on Thursday, 27 August 2020. The Annual General Meeting is planned to convene on Wednesday, 8 April 2020.

Where discrepancies exist between the language versions of this Report by the Board of Directors, the Finnish-language text shall prevail.

12 Financial Statement

Consolidated income statement

Currency EUR	1.1.–31.12.19	1.1.–31.12.18
NET TURNOVER	0.00	0.00
Other operating income	225,350.02	230,100.24
Staff expenses		
Wages and salaries	-1,174,389.07	-1,033,104.09
Social security expenses		
Pension expenses	-188,556.04	-172,736.23
Other social security expenses	-40,257.37	-38,029.09
	-1,403,202.48	-1,243,869.41
Depreciation, amortization and impairments		
Depreciation and amortization according to plan and impairments	-968,935.38	-969,345.49
Amortization of goodwill	-77,715.29	-233,147.98
	-1,046,650.67	-1,202,493.47
Other operating charges	-4,930,695.91	-2,654,272.99
OPERATING PROFIT (LOSS)	**-7,155,199.04**	**-4,870,535.63**
Income from other investments held as non-current assets	0.00	3,036.87
Financial income and expenses		
Other interest and financial income		
From others	616.11	767,645.57
Impairment of securities in current assets	18,822.66	-19,178.29
Interest and other financial expenses		
For others	-868,796.01	-60,635.31
	-849,357.24	687,831.97
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	-8,004,556.28	-4,179,666.79
PROFIT (LOSS) FOR THE FINANCIAL YEAR	-8,004,556.28	-4,179,666.79
CONSOLIDATED PROFIT (LOSS)	**-8,004,556.28**	**-4,179,666.79**

Consolidated balance sheet

Currency EUR	31.12.19	31.12.18
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Development expenses	3,807,115.15	4,734,820.15
Intangible rights	0.00	40,000.00
Goodwill	0.00	77,715.29
	3,807,115.15	4,852,535.44
Tangible assets		
Machinery and equipment	3,691.16	4,921.54
	3,691.16	4,921.54
	3,810,806.31	4,857,456.98
CURRENT ASSETS		
Debtors		
Short-term		
Other debtors	244,889.22	93,704.42
Prepayments and accrued income	16,949.32	10,839.55
	261,838.54	104,543.97
Securities	985,243.95	1,466,421.29
Cash in hand and at banks	6,012,690.80	719,105.72
	7,259,773.29	2,290,070.98
ASSETS TOTAL	**11,070,579.60**	**7,147,527.96**
LIABILITIES		
CAPITAL AND RESERVES		
Share capital	80,000.00	80,000.00
Other reserves	47,601,032.62	37,656,176.82
Retained earnings (loss)	-37,825,463.62	-33,645,796.83
Profit (loss) for the financial year	-8,004,556.28	-4,179,666.79
	1,851,012.72	-89,286.80
CREDITORS		
Long-term		
Loans from credit institutions	7,205,979.65	5,878,418.65
	7,205,979.65	5,878,418.65
Short-term		
Loans from credit institutions	5,661.00	507,461.00
Trade creditors	1,624,904.91	199,608.19
Other creditors	34,122.46	27,556.54
Accruals and deferred income	348,898.85	623,770.37
	2,013,587.22	1,358,396.10
	9,219,566.87	7,236,814.75
LIABILITIES TOTAL	**11,070,579.60**	**7,147,527.96**

Consolidated cash flow statement

Currency EUR	1.1.–31.12.19	1.1.–31.12.18
Cash flow from operating activities		
Profit (loss) before appropriatiosn and taxes	-8,004,556.28	-4,179,666.79
Corrections:		
Depreciation and amortization according to plan and impairments	968,935.38	969,345.49
Amortization of goodwill	77,715.29	233,147.98
Unrealized exchange rate gains and losses	0.00	0.00
Bankruptcy/dissolution of a subsidiary	0.00	-3,036.87
Other financial income and expenses[1]	849,357.24	-687,831.97
Cash flow before change in working capital	-6,108,548.37	-3,668,042.16
Change in working capital:		
Increase(-)/decr.(+) in short-term interest-free receivables	-157,294.57	-17,225.16
Increase(+)/decr.(-) in short-term interest-free liabilities	1,156,991.12	-61,531.51
Cash flow from operations before financial items and taxes	-5,108,851.82	-3,746,798.83
Interest paid and pmts for other financ. exp. from operat.	-849,973.35	-60,635.31
Financial income received from operations	616.11	75,187.57
Cash flow from operations before appropriations and taxes	-5,958,209.06	-3,732,246.57
Cash flow from operating activities (A)	**-5,958,209.06**	**-3,732,246.57**
Cash flow from investments:		
Investments in tangible and intangible assets	0.00	0.00
Financial resources lost in bankruptcy of a subsidiary	0.00	0.00
Acquisition of subsidiary's shares	0.00	7,165.78
Cash flow from investments (B)	**0.00**	**7,165.78**
Cash flow from financing:		
Share issue	9,944,855.80	0.00
Long-term loans drawn	831,422.00	508,616.00
Short-term loan repayments	-5,661.00	0.00
Cash flow from financing (C)	**10,770,616.80**	**508,616.00**
Change in cash and cash equivalents(A+B+C) incr.(+)/decr.(-)	4,812,407.74	-3,216,464.79
Cash and cash equivalents at beginning of period	2,185,527.01	5,401,991.80
Cash and cash equivalents at end of period	**6,997,934.75**	**2,185,527.01**

[1] Other financial income and expenses includes 692458,00 euros of Business Finland loans voided in the previous period

Parent income statement

Currency EUR	1.1.–31.12.19	1.1.–31.12.18
NET TURNOVER	0	0
Other operating income	225,350.02	230,100.24
Staff expenses		
Wages and salaries	-1,174,389.07	-1,033,104.09
Social security expenses		
Pension expenses	-188,556.04	-172,736.23
Other social security expenses	-40,257.37	-38,029.09
Staff expenses total	-1,403,202.48	-1,243,869.41
Depreciation, amortization and impairments		
Depreciation, amortization according to plan and impairments	-200,535.65	-200,812.53
Depreciation, amortization and impairments total	-200,535.65	-200,812.53
Other operating charges	-3,394,297.02	-1,807,184.86
OPERATING PROFIT (LOSS)	**-4,772,685.13**	**-3,021,766.56**
Financial income and expenses		
Other interest and financial income		
From group companies	0	146,847.42
From others	24.45	767,408.65
Reduction in value of current assets securities	18,822.66	-19,178.29
Interest and other financial expenses		
For others	-843,697.15	-35,545.31
Financial income and expenses total	-824,850.04	859,532.47
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	-5,597,535.17	-2,162,234.09
PROFIT (LOSS) FOR THE FINANCIAL YEAR	**-5,597,535.17**	**-2,162,234.09**

Parent balance sheet

Currency EUR	31.12.2019	31.12.2018
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Development expenses	479,115.15	638,820.15
Intangible rights	0.00	40,000.00
Intangible assets total	479,115.15	678,820.15
Tangible assets		
Machinery and equipment	2,491.95	3,322.60
Tangible assets total	2,491.95	3,322.60
Investments		
Holdings in group undertakings	6,781,225.84	6,781,225.84
Investments total	6,781,225.84	6,781,225.84
NON-CURRENT ASSETS TOTAL	7,262,832.94	7,463,368.59
CURRENT ASSETS		
Debtors		
Long-term		
Amounts owed by group undertakings	4,905,435.79	3,088,403.93
Long-term total	4,905,435.79	3,088,403.93
Short-term		
Other debtors	42,170.34	34,935.55
Prepayments and accrued income	16,949.32	10,839.55
Short-term total	59,119.66	45,775.10
Securities		
Other securities	985,243.95	1,466,421.29
Securities total	985,243.95	1,466,421.29
Cash in hand and at banks	5,693,050.13	552,664.88
CURRENT ASSETS TOTAL	11,642,849.53	5,153,265.20
ASSETS TOTAL	**18,905,682.47**	**12,616,633.79**

Currency EUR	31.12.2019	31.12.2018
LIABILITIES		
CAPITAL AND RESERVES		
Subscribed capital		
Subscribed capital	80,000.00	80,000.00
	80,000.00	80,000.00
Other reserves		
Free invested equity reserve	47,601,032.62	37,656,176.82
Other reserves total	47,601,032.62	37,656,176.82
Retained earnings (loss)	-29,834,612.98	-27,672,378.89
Profit (loss) for the financial year	-5,597,535.17	-2,162,234.09
CAPITAL AND RESERVES TOTAL	12,248,884.47	7,901,563.84
CREDITORS		
Long-term		
Loans from credit institutions	4,696,979.65	3,871,218.65
Long-term total	4,696,979.65	3,871,218.65
Short-term		
Loans from credit institutions	5,661.00	5,661.00
Trade creditors	1,624,338.20	198,883.36
Other creditors	34,122.46	27,556.54
Accruals and deferred income	295,696.69	611,750.40
Short-term total	1,959,818.35	843,851.30
CREDITORS TOTAL	6,656,798.00	4,715,069.95
LIABILITIES TOTAL	**18,905,682.47**	**12,616,633.79**

Parent cash flow statement

Currency EUR	31.12.19	31.12.18
Cash flow from operating activities		
Profit (loss) before appropriations and taxes	-5,370,808.51	-2,162,234.09
Corrections:		
Depreciation and amortization according to plan and impairments	200,535.65	200,812.53
Other financial income and expenses	598,123.38	-859,532.47
Cash flow before change in working capital	-4,572,149.48	-2,820,954.03
Change in working capital:		
Increase(-)/decr.(+) in short-term interest-free receivables	-13,344.56	37,879.26
Increase(+)/decr.(-) in short-term interest-free liabilities	1,115,967.05	-58,067.24
Cash flow from operations before financial items and taxes	-3,469,526.99	-2,841,142.01
Interest paid and pmts for other financ. exp. from operat.	-824,874.49	-54,723.60
Financial income received from operations	226,751.11	221,798.07
Cash flow from operations before appropriations and taxes	-4,067,650.37	-2,674,067.54
Cash flow from operating activities (A)	**-4,067,650.37**	**-2,674,067.54**
Cash flow from investments:		
Granted loans	-2,043,758.52	-1,139,407.05
Loans repayments	0.00	-3,594.42
Cash flow from investments (B)	**-2,043,758.52**	**-1,143,001.47**
Cash flow from financing:		
Share issue	9,944,855.80	0.00
Long-term loans drawn	831,422.00	508,616.00
Short-term loan repayments	-5,661.00	0.00
Cash flow from financing (C)	**10,770,616.80**	**508,616.00**
Change in cash and cash equivalents(A+B+C) incr.(+)/decr.(-)	4,659,207.91	-3,308,453.01
Cash and cash equivalents at beginning of period	2,019,086.17	5,327,539.18
Cash and cash equivalents at end of period	**6,678,294.08**	**2,019,086.17**

Notes to the financial statements

Domicile: Helsinki

Note 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 depreciation and amortization, according to the plan discussed below.

The book 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 financial year 2015 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 expected value.

Financial assets securities are valued at their acquisition cost or a lower expected net realisable value.

Allocation principles and methods

Depreciations

The acquisition cost of non-current intangible and tangible assets is depreciated or amortized, in accordance with the pre-prepared plan. Depreciation and amortization 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 balance method of depreciation.

The acquisition cost of non-current intangible and tangible assets is depreciated or amortized, in accordance with the pre-prepared plan. Depreciation and amortization 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 balance method of depreciation.

Depreciation plan	
Intangible assets	
• Development expenses	straight line amortization 10 yr.
• Intangible rights	straight line amortization 10 yr.
• Consolidated goodwill	straight line amortization 5 yr.
Tangible assets	
• Machinery and equipment	25% reducing balance method of depreciation

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 markets.

Comparability of the reported financial year and the previous year

Business Finland has decided in 2018 to waive a total of 692,458.00 euro of loan principal. This has been presented in the income statement as other financial income.

In December 2019 the Company's shares were listed in the Nasdaq First North Growth Market Sweden. The expenses related to the listing are presented in interest and other financial expeses for others.

Transactions in foreign currency

Business Finland has decided in 2018 to waive a total of 692,458.00 euro of loan principal. This has been presented in the income statement as other financial income.

In December 2019 the Company's shares were listed in the Nasdaq First North Growth Market Sweden. The expenses related to the listing are presented in interest and other financial expeses for others.

Note information concerning the preparation of consolidated financial statements

Principles for preparation of consolidated financial statements

Mutual shareholdings

The ownership of the subsidiary shares within the group has been eliminated, using the acquisition cost method. The amount paid of the subsidiary shares exceeding the share of equity of the acquired shares has been activated in the consolidated balance sheet as goodwill. In the consolidated balance sheet 31.12.2019, the remaining 3,807,115.15 euros relate to development costs.

Inter-company transactions and margins

The group's inter-company transactions, receivables and liabilities, internal distribution of profits, as well as the group's internal margins are eliminated.

Note information concerning subsidiary and associated companies

Consolidated companies

Name	Domicile	Combined shareholding
Laurantis Pharma Oy	Helsinki	100%

Note information concerning income statement

Dividend incomes, interest incomes and interest expenses, total amounts

Currency EUR	Parent		Consolidated	
	1.1.–31.12.2019	1.1.–31.12.2018	1.1.–31.12.2019	1.1.–31.12.2018
Interest income		146,847.42	0.00	0.00
Interest expenses	-42,946.55	-34,693.94	68,045.41	-59,783.94
	-42,946.55	**112,153.48**	**68,045.41**	**-59,783.94**

Note information concerning the balance sheet assets

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 financial period January 1 – December 31, 2016 Herantis acquired the minority interest of Laurantis Pharma Oy (1%). The consolidated goodwill resulting from the acquisition amounting to 60,960.00€ was allocated to goodwill and it will be amortized according to the same plan as the initially acquired subsidiary shares.

Consolidated	1.1.–31.12.2019	1.1.–31.12.2018
Consolidated goodwill acquisition costs	1,104,779.91	1,104,779.91
Additions	0.00	0.00
Accumulated amortization	-1,027,064.62	-793,916.64
Amortization during financial period	-77,715.29	-233,147.98
Goodwill, December 31st	0.00	77,715.29

Development costs

Parent company

Development expenses that were not amortized and included in long-term expenses, a total of 638,820.15 euros consist of the development costs of the CDNF project. The development costs associated with the Amblyopia project were amortized in the financial period 1 January 2015 – 31 December 2015.

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 financial year 2015 due to weaker than expected results in the development of cis-UCA Eye Drops.

Currency EUR	Parent		Consolidated	
	1.1.–31.12.2019	1.1.–31.12.2018	1.1.–31.12.2019	1.1.–31.12.2018
Development costs CDNF, January 1st	638,820.15	798,525.15	4,734,820.15	5,662,525.15
Development costs Amblyopia, January 1st	0.00	0.00	0.00	0.00
Development costs total, January 1st	638,820.15	798,525.15	4,734,820.15	5,662,525.15
Development costs consolidated, January 1st			0.00	0.00
Total			**4,734,820.15**	**5,662,525.15**
Additions CDNF				
Additions Amblyopia				
Additions consolidated				
Additions total				
Amortization for the accounting period CDNF	-159,705.00	-159,705.00	-159,705.00	-159,705.00
Amortization for the accounting period Amblyopia	0.00	0.00	0.00	0.00
Amortization for the accounting period, consolidated			-768,000.00	-768,000.00
Amortization for the accounting period, total	-159,705.00	-159,705.00	-927,705.00	-927,705.00
Development costs December 31st	**479,115.15**	**638,820.15**	**3,807,115.15**	**4,734,820.15**

Patents

Currency EUR	Parent		Consolidated	
	1.1.–31.12.2019	1.1.–31.12.2018	1.1.–31.12.2019	1.1.–31.12.2018
At the beginning of the accounting period	40,000.00	80,000.00	40,000.00	80,000.00
Additions during the accounting period	0.00	0.00	,	0.00
Accounting period amortization	-40,000.00	-40,000.00	-40,000.00	-40,000.00
At the end of the accounting period	0.00	40,000.00	0.00	40,000.00
Book value in the financial statement	**0.00**	**40,000.00**	**0.00**	**40,000.00**

Current assets

Receivables from group companies

Currency EUR	Parent 31.12.2019	Parent 31.12.2018
Other receivables	4,905,435.79	3,088,403.93
Total	**4,905,435.79**	**3,088,403.93**

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

Securities

Currency EUR	Consolidated 31.12.2019	Consolidated 31.12.2018
Other shares and similar rights of ownership		
Market value	985,243.95	1,466,421.29
Estimated acquisition cost	985,243.95	1,466,421.29
Difference	**0.00**	**0.00**

Note information concerning balance sheet liabilities

Equity

Changes in equity assets

Currency EUR	Parent		Consolidated	
	1.1.–31.12.2019	1.1.–31.12.2018	1.1.–31.12.2019	1.1.–31.12.2018
Restricted 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 equity, total	**80,000.00**	**80,000.00**	**80,000.00**	**80,000.00**
Invested unrestricted equity reserve at beginning of acc. period	37,656,176.82	37,656,176.82	37,656,176.82	37,656,176.82
The amount of the subscription price of the shares marked to the reserve	9,944,855.80	0.00	9,944,855.80	0.00
Invested unrestricted equity reserve at the end of the acc. period	47,601,032.62	37,656,176.82	47,601,032.62	37,656,176.82
Loss from previous acc, period, at the beginning of acc. period	-29,834,612.98	-27,672,378.89	-37,825,463.61	-33,645,796.83
Loss at the end of the previous acc. period	-29,834,612.98	-27,672,378.89	-37,825,463.61	-33,645,796.83
Loss for the accounting period	-5,597,535.17	-2,162,234.09	-8,004,556.28	-4,179,666.79
Unrestricted equity, total	12,168,884.47	7,821,563.84	1,771,012.73	-169,286.80
Equity, total	**12,248,884.47**	**7,901,563.84**	**1,851,012.73**	**-89,286.80**

Calculation of distributable unrestricted equity

Currency EUR	31.12.2019
Invested unrestricted equity reserve	47,601,032.62
Retained earnings (loss)	-29,834,612.98
Loss for the financial year	-5,597,535.17
Development expenses in balance sheet	-479,115.15
Distributable unrestricted equity total	**11,689,769.32**

Liabilities

Long-term liabilities maturing after more than five years

Currency EUR	Parent		Consolidated	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Total	580,600.00	1,024,850.00	6,622,562.45	4,113,253.93

Collaterals, commitments and off-balance sheet arrangements

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

Currency EUR	Parent	Consolidated
Rental commitments		
Rental commitments due in 2020	66,510.60	66,510.60
Rental commitments due later than 2020	0.00	0.00
Rental commitments, total	**66,510.60**	**66,510.60**

Note information on the remuneration of the auditor

Currency EUR	Parent		Consolidated	
	1.1.–31.12.2019	1.1.–31.12.2018	1.1.–31.12.2019	1.1.–31.12.2018
PricewaterhouseCoopers Oy				
Audit fees	44,598.96	19,604.52	48,218.96	19,604.52

Note information on the personnel and members of corporate bodies

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

Currency EUR	Parent		Consolidated	
	1.1.–31.12.2019	1.1.–31.12.2018	1.1.–31.12.2019	1.1.–31.12.2018
Average number for the financial year	11	9	11	9
of which employees	11	9	11	9

Remuneration of directors and management

Currency EUR	1.1.–31.12.2019	1.1.–31.12.2018
CEO and deputy CEO	211,171.88	213,301.10
Directors of the Board and deputies	120,000.00	92,000.00
	331,171.88	305,301.10

Signatures

In Helsinki, 27th of February 2019

Pekka Mattila
Chairman of the Board

Ingrid Atteryd Heiman
Board Member

Jim Phillips
Board Member

Aki Prihti
Board Member

Timo Veromaa
Board Member

Frans Wuite
Board Member

Pekka Simula
CEO

The Auditor's Note

A report on the audit performed has been issued today in Helsinki, 27th of February 2020

Martin Grandell
Authorised Public Accountant (KHT)

12 Auditor's Report

To the Annual General Meeting of Herantis Pharma Oyj (Translation of the Finnish Original)

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 financial period 1 January – 31 December 2019. 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.

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

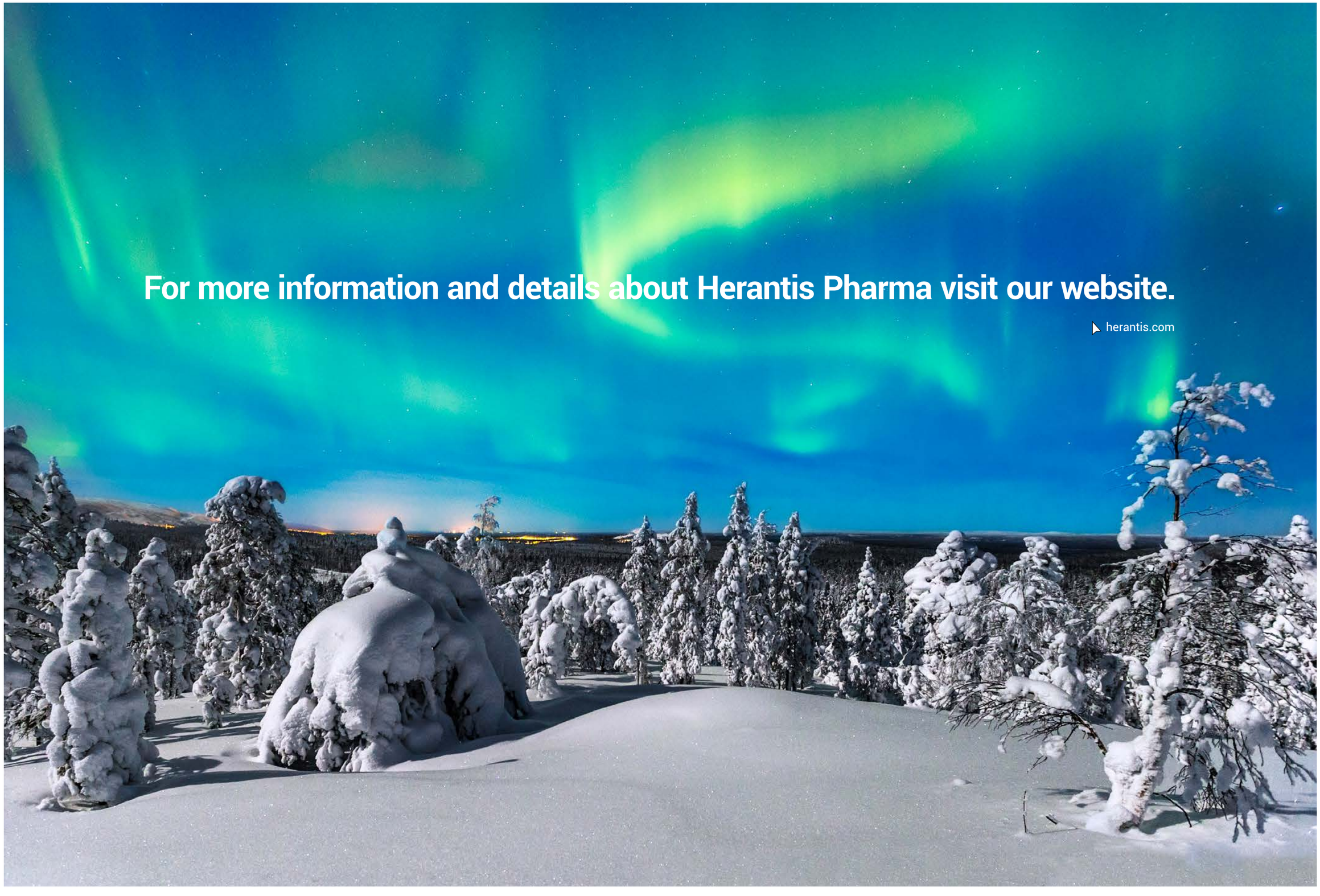
In our opinion, the information in the report of the Board of Directors is consistent with the information in the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

Helsinki 27 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Martin Grandell
Authorised Public Accountant (KHT)


For more information and details about Herantis Pharma visit our website.
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