**FARON PHARMACEUTICALS OY**


29 November 2019

**Company description of Faron Pharmaceuticals Oy concerning the listing of its shares on Nasdaq First North Growth Market, a multilateral trading facility operated by Nasdaq Helsinki Ltd**

Nasdaq First North Growth Market is a registered SME growth market, in accordance with the Directive on Markets in Financial Instruments (EU 2014/65) as implemented in the national legislation of Denmark, Finland and Sweden, operated by an exchange within the Nasdaq group. Issuers on Nasdaq First North Growth Market are not subject to all the same rules as issuers on a regulated main market, as defined in EU legislation (as implemented in national law). Instead they are subject to a less extensive set of rules and regulations adjusted to small growth companies. The risk in investing in an issuer on Nasdaq First North Growth Market may therefore be higher than investing in an issuer on the main market. All issuers with shares admitted to trading on Nasdaq First North Growth Market have a Certified Adviser who monitors that the rules are followed. The respective Nasdaq exchange approves the application for admission to trading.

All the Company's regulatory releases are available at https://www.faron.com/investors/regulatory-news. The language of the Company's releases is English.

# INFORMATION REGARDING THIS COMPANY DESCRIPTION

The Company has prepared this Company Description to enable the listing of the Company's Ordinary Shares on a multilateral trading facility operated by the Exchange. This Company Description has been drawn up under the responsibility of the Company and it has been reviewed by the Exchange. This Company Description is not a prospectus referred to in the Finnish Securities Markets Act (746/2012, as amended) or Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, and the provisions laid down in chapters 3 to 5 of the Act or set out in the Regulation are not applicable to it. This Company Description has not been approved by or registered with the Financial Supervisory Authority or any other authority for the use of offering of any securities to the public. This Company Description should not be interpreted as a recommendation to purchase securities or as marketing of securities. As this Company Description does not contain all the information disclosed by the Company concerning its business, investors are advised to acquaint themselves with the announcements released by the Company.

In this Company Description, all monetary values are expressed in euro unless otherwise mentioned.

**Forward looking statements**

This document contains forward-looking statements that involve risks and uncertainties. The Company's results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Company, which are described later in section "Risks and Uncertainties" and elsewhere in the document. Additional risks and uncertainties not currently known to the Board may also have an adverse effect on the Company's business.

The specific and general risk factors detailed later in section "Risks and Uncertainties" do not include those risks associated with the Company which are unknown to the Directors.

Investors should therefore consider carefully whether investment in the Company is suitable for them, in light of the risk factors outlined later in section "Risks and Uncertainties", their personal circumstances and the financial resources available to them.

**Liability statement of the Board of Directors**

We declare that, to the best of our knowledge, the information provided in the Company Description is accurate and that, to the best of our knowledge, the Company Description is not subject to any omissions that

may serve to distort the picture the Company Description is to provide, and that all relevant information in the minutes of Board meetings, auditors' records and other internal documents is included in the Company Description.

Turku, 28 November 2019

FARON PHARMACEUTICALS OY

Board

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# IMPORTANT INFORMATION

## IMPORTANT DATES

First date of trading at Nasdaq First North Growth Market: 3 December 2019
2019 Financial statement release: 20 March 2020
Next AGM: 13 May 2020

## INFORMATION REGARDING THE SHARES

Trading code: FARON
ISIN code: FI4000153309

## TRADING ON LONDON STOCK EXCHANGE'S ALTERNATIVE INVESTMENT MARKET, AIM

Faron's shares are currently traded on AIM with the ticker FARN. Trading on AIM is facilitated through Depositary Interests, which are trading securities issued by Computershare Investor Services PLC that allow share transfer and settlement for non-UK companies. Each Depositary Interest represents one ordinary share in Faron. See section "Listing of Faron shares on AIM and trading on AIM" for further information.

## DOCUMENTS PRESENTED AS ATTACHMENT TO THIS COMPANY DESCRIPTION

Following documents are presented as separate attachments to this Company Description and they constitute part of the Company's financial information. These documents are available in internet at https://www.faron.com/investors and in the Company's registered address during normal office hours.

- Annual Financial Report 2018
- Annual Financial Report 2017
- Half year report for period 1 January – 30 June 2019
- Articles of Association

# DEFINITIONS

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| "Admission" | The admission of the Company's Ordinary Share capital to trading on First North becoming effective in accordance with the Rules; |
| "AGM" | the annual General Meeting of the Company; |
| "AIM" | the market of that name operated by the London Stock Exchange; |
| "AIM Rules" | the AIM Rules for Companies and the AIM Rules for Nominated Advisers; |
| "AIM Rules for Companies" | the rules which set out the obligations and responsibilities in relation to companies whose shares are admitted to AIM as published by the London Stock Exchange from time to time; |
| "AIM Rules for Nominated Advisers" | the rules which set out the eligibility, obligations and certain disciplinary matters in relation to nominated advisers as published by the London Stock Exchange from time to time; |
| "Articles" | the articles of association of the Company for the time being; |
| "Board" | the current Directors of the Company, whose names are set out on page 12 of this document; |
| "Business Finland" | Finnish government organisation for innovation funding and trade, travel and investment promotion; |
| "CEO" | the chief executive officer of the Company; |
| "Certified Adviser" | an adviser that each First North company is required to have pursuant to the Rules. Based on an agreement dated 22 May 2019, the Company's Certified Adviser is Sisu Partners Oy; |
| "CFO" | the chief financial officer of the Company; |
| "Companies Act" | the Finnish Limited Liability Companies Act (624/2006, as amended); |
| "Company" or "Faron" | Faron Pharmaceuticals Oy, a company registered in Finland with business identity code 2068285-4 whose parallel company name is Faron Pharmaceuticals Ltd, including, except where the context may otherwise require, its consolidated subsidiaries; |
| "Company Description" | this document together with any documents presented as attachment to it; |
| "CREST" | the computerised settlement system to facilitate the transfer of title of shares in uncertificated form operated by Euroclear UK & Ireland Limited; |
| "Depositary Interests" or "DIs" | the depositary interests representing Ordinary Shares which may be traded |

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| | through CREST in uncertificated form, details of which are set out on page 13 of this document; |
| "DI Holders" | the holders of Depositary Interests from time to time; |
| "Director" | a member of the Board; |
| "EGM" | the extraordinary General Meeting of the Company; |
| "Exchange" | Nasdaq Helsinki Ltd; |
| "Faron Ventures" | Faron Ventures Oy, a company incorporated in Finland with business identity code 1790854-1; |
| "Financial Supervisory Authority" or "FIN-FSA" | the Finnish Financial Supervisory Authority; |
| "First North" | the multilateral trading facility Nasdaq First North Growth Market operated by the Exchange; |
| "General Meeting" | a general meeting of Shareholders called in accordance with the Articles and the Companies Act; |
| "IPO" | initial public offering; |
| "London Stock Exchange" | London Stock Exchange plc; |
| "MTF" | multilateral trading facility; |
| "Ordinary Shares" | ordinary shares in the issued share capital of the Company from time to time; |
| "Rules" | the Nasdaq First North Growth Market Rulebook as published by the Exchange from time to time; |
| "Shareholders" | the persons who are registered as holders of Ordinary Shares and, for the purpose of this document unless specified otherwise, the persons who are registered as DI Holders; and |
| "Tekes" | see Business Finland. |

GLOSSARY OF TECHNICAL AND SCIENTIFIC TERMS

The following technical and scientific terms apply throughout this document, unless the context requires otherwise:

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| "ARDS" | acute respiratory distress syndrome; |
| "CALIBER" | the CALIBER study is a proposed new Phase III study of Traumakine® in the treatment of ARDS; |
| "CD73" | a cell surface molecule that is an ectoenzyme capable of converting AMP into adenosine; |
| "Clevegen®" | a human antibody against Clever-1 to control tumour immunity and cancer spread (in preclinical development); |
| "Clever-1" | a human receptor which mediates lymphocyte (white blood cell transmigration through vascular and lymphatic endothelium; |
| "clinical development" | human testing (healthy volunteers and patients) of pharmaceutical products; |
| "CRC" | colorectal cancer; |
| "EMA" | the European Medicines Agency; |
| "FDA" | the US Food and Drug Administration; |
| "IO" | immuno-oncology meaning cancer treatment that aims to activate the bodies' own immune system to attack cancer; |
| "IND" | Investigational New Drug applications through the FDA; |
| "INN" | international nonpriority name, provided by the WHO; |
| "interferon beta" | human recombinant interferon beta-1a, the API of Traumakine®; |
| "INTEREST" | the INTEREST Study was a double-blinded and randomised Phase III clinical study to investigate efficacy and safety of FP-1201-lyo (lyopholised form of interferon beta) compared to placebo in patients with moderate or severe ARDS; |
| "MATINS" | the MATINS study is a first-in-human open label Phase I/II adaptive clinical trial in selected metastatic or inoperable solid tumours to investigate the safety and efficacy of Clevegen®; |
| "MHRA" | the Medicines & Healthcare products Regulatory Agency, the UK regulator; |
| "MOF" | multi-organ failure; |
| "MxA" | interferon induced human MxA protein; |

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| "ODD" | orphan drug designation, a designation applied to medicines intended for the treatment of rare diseases, accompanied by incentives offered by regulatory bodies such as providing a period of market exclusivity; |
| "Phase I study" | assess the safety of a drug and usually includes a small number of healthy volunteers The study is designed to determine the effects of the drug on humans including how it is absorbed, metabolised, and excreted. This phase also investigates the side effects that occur as dosage levels are increased. |
| "Phase I/II study" | the first subjects receiving Clevegen® are cancer patients and not healthy volunteers as in a normal Phase I study which focuses on safety and tolerability. When a drug is first time administered to real patients the first study phase is usually referred as phase I/II as the study can provide information not only on safety and tolerability, but also efficacy in that indication, automatically expanding to a Phase II study to determine preliminary efficacy so as to achieve a clinical proof of concept in an expedited manner; |
| "Phase II study" | clinical trials in a small number of patients (usually 20–30) to determine safety and efficacy of a new medicine and the nature of any side effects; |
| "Phase III study" | the final stage of clinical trials prior to seeking regulatory approval, to determine efficacy and safety in a large number of patients (usually several hundred); |
| "TAM" | tumour associated macrophage; and |
| "WHO" | World Health Organization. |

# ADVISOR CONTACTS

## ADVISERS IN RELATION TO THE FIRST NORTH LISTING

**Certified Adviser**
Sisu Partners Oy
Aleksanterinkatu 44
00100 Helsinki
Finland

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Lago Kapital Ltd
Hämeentie 19
00500 Helsinki
Finland

**Legal counsel**
Jones Day
21 Tudor Street
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United Kingdom

*As to Finnish law*
Hannes Snellman Attorneys Ltd
Eteläesplanadi 20
00130 Helsinki
Finland

**Auditor**
PricewaterhouseCoopers Oy
Itämerentori 2
00180 Helsinki
Finland

**Registrar**
Euroclear Finland Oy
Urho Kekkosen katu 5 C
00100 Helsinki
Finland

## ADVISERS IN RELATION TO THE AIM LISTING

**Nominated Adviser and Broker**
Panmure Gordon (UK) Limited
1 New Change
London
EC4M 9AF
United Kingdom

**Equity Adviser**
Rx Securities Limited
1 Fore Street Avenue
London
EC2Y 9DT
United Kingdom

**Public Relations**
Consilium Strategic Communications Ltd
41 Lothbury
London
EC2R 7HG
United Kingdom

**Depositary**
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS13 8AE
United Kingdom

OTHER ADVISERS

**US Public Relations**
Westwicke Partners, LLC
2800 Quarry Lake Drive
Baltimore, MD 21209
USA

# COMPANY AND ADMISSION IN BRIEF

Faron Pharmaceuticals Oy was incorporated in 2006. Faron is a clinical stage biopharmaceutical company developing novel treatments for medical conditions with significant unmet needs. Faron's drug development is based on extensive knowledge of receptors involved in regulation of immune responses and vascular dysfunctions. The Company currently has two technology platforms (Clevegen® and Traumakine®) and a pipeline based on the receptors involved in regulation of immune response, in oncology and organ damage.

The pharmaceutical market is global by its nature, but as the Company does not yet have any approved products it has not yet entered into any specific geographic markets.

Faron's strategy is to maximise the potential of its pipeline of drug candidates and to progress the development of its two major programmes. Faron collaborates with its strategic partners in research, manufacturing and drug development with a view to bringing or having brought new pharmaceutical products to market in a timely and cost-effective manner and has formed a core team of leading scientists in capillary biology and diseases arising from these receptors. The Company has established links with leading laboratories and clinics around Europe and the US, although major collaboration is exercised with the University of Turku.

Faron monitors and evaluates potential commercial opportunities for its established drug candidates and its technologies as and when they arise, and will consider how best to crystallise as much value as possible for Shareholders, which may include holding rights in main territories for as long as it is feasible or, in certain circumstances, up to the marketing stage. The Company plans to discuss the next steps for Traumakine® with the FDA and the EMA, including feedback on design of a Phase III study, and is also advancing partnering discussions in respect of both Traumakine® and Clevegen®.

**Revenue, other income and expenses**
The Company's revenue was €0.0 million for the year ended 31 December 2018 (2017: €nil). Revenue for the first six months in 2018 was €0.0 million (2017: €nil).

The R&D costs were €19.1 million in 2017 and €16.5 million in 2018 and administrative expenses were €3.1 million in 2017 and €3.7 million in 2018. R&D costs for the first six months in 2017 were €6.0 million (2018: €11.7 million); administrative expenses were at the same period €1.5 million (2018: €2.4 million).

Loss before income tax was €21.1 million in 2017 and €20.1 million in 2018, representing a loss of €0.76 per share in 2017 and €0.65 per share in 2018 (adjusted for the changes in the number of issued shares). Loss before income tax for the first six months in 2017 was €7.1 million (2018: €14.1 million).

**Company management and auditor**
On the date of this Company Description, the Board comprises Dr Frank Armstrong as chair, Matti Manner as vice-chair, Leopoldo Zambeletti, John Poulos and Dr Gregory Brown as non-executive Directors and Dr Markku Jalkanen, CEO, as executive Director. In addition to the CEO, the Company's senior management consists of Yrjö Wichmann (VP, Financing and IR), Toni Hänninen (CFO), Dr Jami Mandelin (Research Director), Dr Matti Karvonen (CMO), Dr Maria Lahtinen (Director, Supplier Management) and Dr Juho Jalkanen (CDO). The AGM of 28 May 2019 re-elected PricewaterhouseCoopers Oy as the Company's auditor, Panu Vänskä acting as the key audit partner.

**Listing of Faron shares on First North**
The first date of trading on First North pursued by the Company is 3 December 2019.

**Listing of Faron shares on AIM and trading on AIM**

Faron's shares have been traded on the London Stock Exchange AIM market since November 2015. Trading on AIM is conducted through DIs with each DI representing one Ordinary Share of the Company. The DIs may be traded in uncertificated form through CREST, a UK-based computerised share transfer and settlement system. The DIs are issued by Computershare Investor Services PLC, which holds one Ordinary Share for each DI issued. The shares are held on a nominee account by a custodian bank on behalf of Computershare. As Finnish residents are not allowed to hold shares of a Finnish company on a nominee account, they are not allowed to hold Faron's DIs. Thus, Finnish residents who wish to sell Faron's shares on AIM must first convert their shares held on their Finnish book-entry account into DIs through the custodian chain. When buying Faron's shares they must convert the acquired DIs back into shares held on a Finnish book-entry account. Further details regarding DIs are available in Faron's AIM admission document which is available on its web-site.

**EIS and VCT status and shares**

In relation to its fund raisings on AIM, Faron has issued shares to investors who are eligible for certain tax reliefs according to UK law ("EIS/VCT Shares"). These reliefs are Enterprise Incentive Scheme ("EIS") for UK private individuals and Venture Capital Trust ("VCT") scheme for investment funds. In order to be eligible to issue EIS/VCT Shares, it is intended that the Company will be managed so that the EIS/VCT Shares remain eligible for tax reliefs under the rules of these schemes, including among others an obligation to maintain a permanent establishment in the UK; however, there is no guarantee that such status will be maintained. In total EIS/VCT investors have invested EUR 9.0 million in Faron.

# RISKS AND UNCERTAINTIES

Faron is a clinical stage biopharmaceutical company and, in common with other companies operating in this field, is subject to a number of risks and uncertainties. The principal risks and uncertainties identified by Faron are described below. All risks cannot be described here, and they need to be evaluated together with the other information presented in this Company Description and the general economic environment. The description of risks below is not exhaustive, and the order of presentation does not indicate their relative importance or probability.

## RISKS RELATING TO RESEARCH AND DEVELOPMENT

**Faron's main products are in clinical development and may not be successful, and the Company may not be able to develop approved or marketable products**

The Company's main products, Clevegen® and Traumakine®, are in clinical development and therefore may be subject to clinical failure. If the Company's products are subject to clinical failure, the Company may not be able to develop approved or marketable products but may still incur significant development costs. Industry experience indicates that there may be a very high incidence of delay or failure to produce valuable scientific results that could result in a viable product being developed. The Company's Clevegen® product is currently in a Phase I/II open label study. Whilst the Directors believe that early data on initial patients in the study have been encouraging, there is a risk that the early results seen are not replicated in future patients in the current study or in future clinical trials and that insufficient clinical benefit is seen to allow the Company to seek regulatory approval for the product. The Company's Traumakine® product did not meet its primary endpoint in recent Phase III studies. Whilst the Company believes that it has identified the potential reason for this outcome, there is no guarantee that the Company will successfully demonstrate the efficacy of Traumakine® in future trials. The Company will continue to incur significant costs for the development of these products unless licensing agreements are entered into which provide funding or sharing of costs.

**Technical risk is present at each stage of the discovery and development process of other, earlier stage products with challenges including the ability to produce candidate drugs with appropriate safety, efficacy and usability characteristics**

The Company's entire product pipeline is currently in clinical development. As a result, the safety and efficacy of the Company's products have not yet been fully established and may not result in commercially viable products, whether for many years or at all. There is a risk that safety issues may arise when the products are further tested in humans. The risk is common to all new classes of drugs and, as with all other drug companies, there is a risk that trials may not be successful.

**Drug development is a highly regulated environment which itself presents technical risk through the need for study designs and data to be accepted by regulatory agencies**

The Company's future success is dependent upon its ability to obtain regulatory approval for its product candidates. There can be no assurance that the design and results of the clinical trials for the Company's products will receive regulatory approval. The Company's product candidates could fail to receive regulatory approval for many reasons. Any of the Company's future products could take a significantly longer time to gain regulatory approval than expected or may never gain regulatory approval.

**The manufacturing of the Company's intended products could become impossible or products would be supplied in lower quantities than needed**

There can be no assurance that the Company's proposed products will be capable of being manufactured in sufficient quantities and standards for clinical trials or in commercial quantities, in compliance with regulatory requirements and at an acceptable cost or within an acceptable timeframe.

RISKS RELATING TO COMMERCIAL PRODUCTS AND MANUFACTURING

**Faron's industry is very competitive. Many of the Company's competitors have substantially greater financial, technical and other resources, such as larger R&D resources and staff**

The Company expects competition for those of its products which are currently under development. Competition may come from companies which have greater research, development, marketing, financial and personnel resources than the Company. Competitors may precede the Company in development of competing products and receiving regulatory approval or may succeed in developing products that are more effective or economically viable than products developed by the Company. Such activities could render the Company's technology or products obsolete and/or otherwise uncompetitive

**Competitors may succeed in developing, acquiring or licensing drug product candidates that are more effective or less costly than the Company's product candidates**

It is possible that another company might develop rival products that prove to be superior or more cost effective than those being developed by the Company or that are approved prior to the Company's products. As a result, the Company's competitors may implement more effective sales and marketing programmes. The results of such increased competition may have a material adverse effect on the Company's financial results.

**There can be no guarantee that the Company will be able to monetise the value of its intellectual property through licensing or other co-operation deals**

The Company's strategy includes seeking partners for the development and commercialisation of certain of its products and product candidates in certain territories. Such agreements may provide important funding to the Company through signature and milestone payments and fees and potentially the funding of additional trials required in certain territories. The Company may be unable to establish commercial arrangements on favourable terms within targeted timeframes, or at all, and any such arrangement or agreement may not prove successful. If the Company is unable to establish commercial arrangements or, following negotiations with the relevant partners, terminates an agreement, no assurance can be given that the Company will be able to pursue the development and commercialisation of the respective product in certain territories.

RISKS RELATING TO DEPENDENCE ON KEY PERSONNEL AND COLLABORATORS

**The Company's success is highly dependent on the expertise and experience of the Company's Board of Directors, the key management and personnel**

The Company's future development and prospects depend to a significant degree on the experience, performance and continued service of its senior management team, including the Directors. The loss of any key individual for whatever reason may have an adverse effect on the future of the Company. Future success depends on its ability to attract and retain key management and employees and there can be no assurance that the Company will be able to attract and retain such persons.

**There is a shortage of appropriately qualified personnel in the pharmaceutical industry and the Company is likely to face significant competition in recruitment**

The ability to continue to attract, hire and retain employees with the appropriate expertise and skills cannot be guaranteed. Finding and hiring any additional personnel and replacements could be costly. The Company has entered into contractual arrangements with these individuals to secure the services of each of them. However, retention of these services or the identification of suitable replacements, however, cannot be guaranteed.

**The loss of the services of any of the Directors or other members of the senior management team and the costs of recruiting replacements may have a material adverse effect on the Company**
The loss of the services of any of the Directors or other members of the senior management team and the costs of recruiting replacements may have a material adverse effect on the Company and its commercial and financial performance and reduce the value of an investment in the Ordinary Shares.

RISKS RELATING TO THE REGULATORY ENVIRONMENT

**The Company operates in a highly regulated environment and there can be no guarantee that the Company will comply with all applicable regulations and reporting requirements, which could result in the Company being unable to successfully commercialise its products**
The extent of clinical trials required to test the safety and efficacy of the Company's products will vary depending on the product, the treatment being evaluated, the trial results and regulations applicable to the particular product. The results of clinical trials to date of the Company's proposed products do not necessarily predict the results of later stage clinical trials. Proposed products in the later stages of clinical trials may fail to show the desired safety and efficacy despite having progressed through initial clinical trials. There can be no assurance that the data collected from clinical trials of the Company's proposed products will be sufficient to support regulatory approvals.

**The Company will need to obtain various regulatory approvals, including from the FDA and the EMA, and there is no guarantee that any product will be able to achieve the necessary regulatory approvals**
The Directors cannot accurately predict when the planned clinical trials will be completed, if at all. The Company's proposed products may produce unexpected side effects or serious adverse events which could interrupt, delay or halt clinical trials of the products and could result in regulatory authorities denying approval of its products for any or all targeted treatments. An independent safety monitoring board, a regulatory authority or the Company itself may suspend or terminate trials at any time. There can be no assurances that any of the Company's proposed products will ultimately prove to be safe for human use. The Company's clinical trials could also be delayed or terminated in the event that the product being tested is in the same class of drug as a marketed product that is revealed to cause side effects. Furthermore, the time it takes to receive regulatory feedback or delays in regulatory feedback could impact the Company's ability to expand clinical trials as planned.

**The Company may be required to incur significant costs in obtaining or maintaining its regulatory approvals**
The clinical testing of the Company's proposed products and its ongoing R&D are subject to regulation by government and regulatory agencies in countries where the Company or any of its potential licensees or collaborators intend to test, manufacture or market products. There can be no assurance that any of the Company's proposed products will successfully complete these processes or that regulatory approvals to manufacture and market the proposed products will ultimately be obtained. If regulatory approval is obtained, the products and their manufacture are subject to continual review and there can be no assurance that such approval will not be withdrawn or restricted. Changes in the application of legislation or regulatory policies or the discovery of unexpected side effects and other problems with the products or their manufacture may result in the imposition of restrictions on the products or their manufacture, withdrawals of the drug from the market, voluntary or mandatory drug recalls, government investigations and the imposition of penalties.

RISKS RELATED TO INTELLECTUAL PROPERTY AND PROPRIETARY TECHNOLOGY

**The intellectual property rights on which the Company's business is based are a combination of patents, patent applications and confidential business know-how. There is no certainty that any currently pending or future patent applications will result in patents being granted**

The commercial success of the Company will depend to a great extent on its ability to secure and maintain patent protection for its products, to preserve the confidentiality of its knowhow and to operate without infringing the proprietary rights of third parties. The Company relies upon a combination of patents, trade secrets and confidentiality agreements to protect the intellectual property related to its product candidates. No assurance can be given that any pending patent applications or any future patent applications will result in granted patents.

**There can be no guarantee that patents will be granted on a timely basis, that the scope of any patent protection will be sufficient, that any of the Company's patents will be held valid if challenged, or that third parties will not claim proprietary rights held by the Company**

No assurance can be given that the scope of any patent protection will exclude competitors or provide competitive advantages to the Company, that any of the Company's patents will be held valid if challenged or that third parties will not claim rights in, or ownership of the patents and other proprietary rights held by, the Company.

**Third parties may attempt to copy, or obtain and use the Company's intellectual property rights and other technology that is incorporated into its pharmaceutical products**

There can be no assurance that others have not developed or will not develop similar products, duplicate any of the Company's products or design around any patents held by the Company. Others may hold or receive patents which contain claims having a scope that covers products developed by the Company (whether or not patents are held by or issued to the Company).

**Alternative technological solutions similar to the Company's products may become available**

The biopharma and pharmaceutical industries are subject to rapid technological change which could affect the commercial viability of the Company's products. Research and discoveries by others may result in medical insights or breakthroughs which render the Company's products less competitive or even obsolete.

**Should the Company be required to assert its intellectual property rights against third parties, a patent litigation can be both costly and time consuming**

Filing, prosecuting and defending patents on intellectual property in all countries throughout the world could be prohibitively expensive. Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favour the enforcement of patents, trade secrets and other intellectual property protection, particularly those relating to products, which could make it difficult for the Company to stop the infringement of its patents or marketing of competing products in violation of its proprietary rights generally. The Company may not prevail in any lawsuits that it initiates, and the damages or other remedies awarded, if any, may not be commercially meaningful or represent acceptable compensation. Accordingly, the Company's efforts to enforce its intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that it develops or licenses to strategic partners.

**Faron cannot be aware of all third party intellectual property even though the Company searches and reviews publicly available resources to keep abreast of developments in the field**.

The Company relies on patents to protect, among other rights, its products. These rights act only to prevent a competitor from copying but not from independently developing products that perform the same functions. No assurance can be given that others will not independently develop or otherwise acquire substantial

equivalent techniques or otherwise gain access to the Company's unpatented proprietary technology or disclose such technology or that the Company can ultimately protect meaningful rights to such unpatented proprietary technology.

OTHER RISKS RELATED TO THE OPERATIONS OF THE COMPANY

**There is no certainty that full data security concerning data containing trade secrets or of confidential nature can be obtained**

If the Company is unable to establish, obtain and/or maintain adequate protections for its intellectual property or enforce such protections, it may be unable to develop and commercialise products in the anticipated manner and, as a result, may be unable to pursue its business plan, which could have a materially adverse effect on its financial performance. In particular, the Company's ability to obtain value for its products from customers could be materially adversely affected and competitors could find less barriers to development of products directly competitive to the Company's products.

**The Company is subject to various securities laws in multiple jurisdictions. There can be no guarantee that the Company and its partners are able to comply with all applicable securities laws and requirements**

FINANCIAL RISKS

**The Company has incurred, and it expects to incur, losses for the foreseeable future and does not have any approved or revenue-generating products**

The Company has a history of operating losses. These losses have arisen mainly from the costs incurred in R&D of its products and general administrative costs. In order to support the R&D of the Company's product candidates, the Company is likely to continue to incur operating losses until such time as it generates sufficient revenue. The Company may not be successful in developing products which generate revenues.

**The Company is highly dependent on equity financing and public grant financing and it may not be able to raise additional funds**

The lack of a current revenue stream and the significant resources needed for ongoing investment in its product pipeline requires the Company to gain access to additional funding from licensing, capital markets or elsewhere. There can be no assurances that such funding will be available on favourable terms, if at all. If the Company is unable to raise funding in the future short term, there will be insufficient finance for product development including future clinical development or operations and consequent delay, reduction or elimination of development or commercialisation of the Company's programmes could result, as well as the consideration of other strategic alternatives.

GENERAL RISKS RELATING TO THE GROUP AND ITS BUSINESS

**Trading risks**

There is a risk that if all or a significant part of the Company's business underperforms, the proposed investment programme may need to be reduced or curtailed accordingly. Current trading remains volatile and there are risks as well as opportunities across all the sectors in which the Company operates.

**Economic, political, judicial, administrative, taxation or other regulatory factors**

The Company may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, in the areas in which the Company operates and conducts its principal activities, which are currently in Finland.

**Maintenance of qualifying EIS/VCT status**
Neither the Company, the Directors nor the Company's advisers give any warranty, representation or undertaking that any investment in the Company will remain a qualifying investment for EIS purposes. If the Company carries on activities beyond those disclosed to Her Majesty's Revenue and Customs, the non-ministerial department of the UK government responsible for the collection of taxes, then EIS investors may cease to qualify for the tax benefits.

**Taxation risk**
Any change in the Company's tax status, or in taxation legislation or its interpretation, could affect the Company's ability to provide returns to Shareholders and/or alter the post-tax returns to Shareholders. Statements in this document concerning the taxation of the Company and its investors are based upon current tax law and practice which is subject to change.

RISK FACTORS ASSOCIATED WITH CAPITAL MARKETS AND THE ORDINARY SHARES

**It may be difficult to realise an investment on First North or on AIM. The market price of the Ordinary Shares may fluctuate widely in response to different factors**
The Ordinary Shares will be traded on First North and AIM rather than listed on the main market of the Exchange ("Main List") or the list maintained by the Financial Conduct Authority, acting in its capacity as the UK Listing Authority, in accordance with section 74(1) of the Financial Services and Markets Act 2000 ("FSMA") for the purposes of Part VI of FSMA ("Official List"). The Rules and the AIM Rules are less demanding than those of the Main List or the Official List and an investment in a share that is traded on First North or AIM may carry a higher risk than an investment in shares listed on the Main List or the Official List. The share price of publicly traded companies can be highly volatile.

It may be more difficult for an investor to realise their investment in the Company than to realise an investment in a company whose shares or other securities are listed on the Main List, the Official List or other similar stock exchange. Shares traded on First North or AIM are perceived to involve higher risks. First North has been in existence since 2007 and AIM since 1995, and they are markets designed for small and growing companies but the future success and liquidity as a market of either of them for the Ordinary Shares cannot be guaranteed.

The price at which the Ordinary Shares are traded and the price at which investors may realise their investment are influenced by a large number of factors, some specific to the Company and its operations and some which may affect quoted companies generally. The Admission or admission to AIM does not imply that there will be a liquid market for the Ordinary Shares. Consequently, the price of Ordinary Shares may be subject to fluctuation on small volumes of shares, and the Ordinary Shares may be difficult to sell at a particular price.

**Shareholders requisition for a dividend distribution**
Under the Companies Act and irrespective of any proposal which may be made by the Board, Shareholders who hold at least 10% of the of the Ordinary Shares in the Company may request at the AGM before the resolution on the use of profits is made that a dividend distribution is made to the Shareholders of the Company. The distribution of dividends on the demand of the Shareholders in this manner shall not exceed the amount equivalent to 8% of the Company's total Shareholders' equity.

Should the Shareholders requisition a dividend on this basis it may not be with regard to the Company's financial position and it may result in the Company being unable to carrying out their previously stated development plans.

**Future payment of dividends**

There can be no assurance as to the level of future dividends (if any). The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Directors and will depend upon, inter alia, the Company's earnings, financial position, cash requirements and availability of profits as well as the provisions of relevant laws and/or generally accepted accounting principles from time to time. At the date of this document the Company does not have any distributable equity from which dividends could be paid.

**Foreign currency exchange rate risk**

The Company expects to present its financial information in euros although a small part of its business may be conducted in other currencies. On AIM, the Company's Ordinary Shares are traded in pound sterling. As a result, the investors in the Company's Ordinary Shares on AIM will be indirectly subject to foreign currency exchange risk due to exchange rate movements, which could affect the Company's transaction costs and the translation of the Company's results. In addition, it may be more difficult to compare the Company's financial performance against the performance of its peers.

# GOALS OF ADMISSION

Faron's aim for commencement of trading on Nasdaq First North Growth Market is to simplify the trading with Faron's shares especially among Finnish and Nordic investors and to improve the liquidity of the shares. Listing on First North is also estimated to improve the Company's access to new capital markets. Improved public visibility in Finland and in the Nordic region is also likely to support the Company's operations in terms of recruitment, local supply relations and collaboration with researchers.

# OVERVIEW OF COMPANY'S INDUSTRY AND MARKETS

PHARMACEUTICAL INDUSTRY

The pharmaceutical industry discovers, develops, produces, and markets drugs for use as medications to be administered (or self-administered) to patients, with the aim to cure them, vaccinate them, or alleviate the symptoms. Companies in the pharmaceutical industry are subject to a variety of laws and regulations that govern the patenting, testing, safety, efficacy and marketing of drugs.

Biopharma referred originally to pharmaceutical companies whose research and development was based on living organisms and utilisation of biological processes, organisms or systems to produce products. Today the term biopharma often includes also any early stage pharmaceutical companies regardless of their production system.

**Phases of drug development**
The drug development process consists of several steps
Step 1: Discovery and development
Step 2: Preclinical research
Step 3: Clinical research
Step 4: Drug approval
Step 5: Post-Market Drug Safety Monitoring

Drug discovery and development
This is the step during which potential drugs are discovered or designed. In the past most drugs were discovered either by isolating an active ingredient from traditional remedies or through chemical experiments. Modern biotechnology focuses on understanding the metabolic pathways related to a disease state or pathogen and finding ways to influence these pathways with substances developed using molecular biology or biochemistry. Early-stage drug discovery is often carried out by scientists in universities and research institutions.

Preclinical research
This step comprises of activities undertaken after a compound is identified as a potential drug in order to establish its suitability as a medication. Preclinical research includes a combination of in vitro and in vivo animal studies.

Clinical research
Objectives of clinical research/trials is to establish safety of the compound in question and to determine appropriate formulation and dosing. This is done through a series of trials often referred as phases, during which the drug is given to gradually larger groups of patients or – in some cases – healthy volunteers so that both the safety and the efficacy of the drug can been established. This process generally involves submission of an investigational new drug filing ("IND") with sufficient pre-clinical data to support proceeding with human trials. Following IND approval, three phases of progressively larger human clinical trials may be conducted. Phase I generally studies toxicity usually using healthy volunteers. Phase II can include pharmacokinetics and dosing in patients, and Phase III is a very large study of efficacy in the intended patient population. The borders of these phases are less clear when studies for real unmet medical needs are conducted and often, based on advice by regulators, a streamlined and adaptive development can take place.

Product approval
A new pharmaceutical product must be approved as being both safe and effective by a relevant authority. The most important of these are the Food and Drug Administration (FDA) in the US and European Medicines Agency (EMA) in EU. Following the successful completion of Phase III testing, a new drug application is

submitted to an authority. It reviews the data and if the product is seen as having a positive benefit-risk assessment, approval to market the product is granted.

Post-market drug safety monitoring

A fourth phase of post-approval surveillance is also often required due to the fact that even the largest clinical trials cannot effectively predict the prevalence of rare side-effects. Post marketing surveillance ensures that after marketing the safety of a drug is monitored closely. In certain instances, its indication may need to be limited to particular patient groups, and in others, though very rarely, the substance is withdrawn from the market completely.

**The cost of developing a drug**

The global pharmaceutical industry invested over USD156.7 billion in R&D in 2016 and annual investment is forecasted to grow to USD181 billion by 2022. Investment is growing at an average of 2.4% per annum[1]. Additionally, of all compounds investigated for use in humans only a small fraction is eventually approved. The FDA's Center for Drug Evaluation and Research (CDER) approved 59 novel drugs and biologics. The number of new molecular entities (NMEs) and biologics approved by CDER surpassed the agency's previous record of 53 approvals in 1996 and is a significant jump over the 46 new drugs approved in 2017. Those figures do not include products approved by FDA's Center for Biologics Evaluation and Research (CBER) which are tracked separately. The number of new products approved by CDER in 2018 was also nearly double the center's 10-year average of 33 approvals per year[2]. This approval comes only after heavy investment in preclinical development and clinical trials, as well as a commitment to ongoing safety monitoring.

ESTIMATED FULL COST OF BRINGING A NEW CHEMICAL OR BIOLOGICAL ENTITY TO MARKET[3]

| *USD MILLION (YEAR 2013 USD)* | |
|---|---|
| 1970 – early 1980s | 179 |
| 1980 – early 1990s | 413 |
| 1990 – mid 2000s | 1,044 |
| 2000s – mid 2010s | 2,558 |

These estimates also take into account the opportunity cost of investing capital many years before revenues are realised. Because of the very long time needed for discovery, development and approval of pharmaceuticals, these costs can accumulate to nearly half the total expense of drug production. A direct consequence of this development is that major pharmaceutical companies increasingly tend to outsource risks related to fundamental research. Biopharma companies are playing an increasingly important role in the pharmaceutical industry ecosystem.

[1] EvaluatePharma, World preview 2017: Outlook to 2022.

[2] Regulatory Affairs Professionals Society (RAPS); Regulatory Focus™ > News Articles > 2019 > 1 > FDA's Record Year: A Look at 2018 New Drug Approvals.

[3] Source: Joseph. A. DiMasi, Henry G. Grabowski, Ronald W.Hansen, Innovation in the pharmaceutical industry: New estimates of R&D costs, Journal of Health Economics, 47 (2016), 20–33.

**Market size**

The global pharmaceuticals market was worth USD 934.8 billion in 2017[4] and the ten largest therapeutic areas by estimated sales in 2018 represent more than 50%[5] of the total markets.

| Therapeutic area | USDbn |
|---|---|
| Oncologics | 99,5 |
| Anitidiabetics | 78,7 |
| of the Respiratory | 60,5 |
| Autoimmune diseases | 53,5 |
| Antibiotics and vaccines | 40,6 |
| Anticoagulants | 39,8 |
| Pain | 39,7 |
| Mental health | 35,5 |
| Immunology | 34,2 |
| Hypertension | 29,9 |

CANCER THERAPY AND IMMUNO-ONCOLOGY

**Immuno-oncology**

Immuno-oncology (also called cancer immunotherapy) is the stimulation of the immune system to attack and destroy cancer cells. It is an application of the fundamental research of cancer immunology and a growing subspecialty of oncology. It exploits the fact that cancer cells often have tumour antigens, molecules on their surface that can be detected by the antibody proteins of the immune system, binding to them. The tumour antigens are often proteins or other macromolecules (e.g. carbohydrates). Normal antibodies bind to external pathogens, but the modified immunotherapy antibodies bind to the tumour antigens marking and identifying the cancer cells for the immune system to inhibit or kill. In 2018 James Allison and Tasuku Honjo received the Nobel Prize in Physiology or Medicine for their discovery of cancer therapy by inhibition of negative immune regulation.

**Cancer therapeutics market potential**

The global cancer therapeutics market including treatment and medication was estimated to be USD 128.1 billion in 2018 and is expected to witness a growth rate of 7.3% to reach a value of USD 182 billion by the end of the year 2023[6]. Growth of the market is primarily driven by the increasing burden of the cancer in terms of prevalence and incidence rate. Further, patients are empowered and proactive in finding about and demanding new treatment option, which increases treatment rates. Further development of new classes of drugs such as checkpoint inhibitors, immuno-oncology drugs, targeted therapeutics and personalised medicines are impetuses to growth. The first wave of checkpoint inhibitors are currently selling approximately USD 19 billion annually with a growth rate of over 20%[7], and represent the target market for Faron's anti-Clever-1 drug. Constraints to the growth include clinical trial failures and patent expiry. Overall, the most common cancer types are lung cancer, breast cancer and colorectal cancer and consequently a drug which treats these cancers can make the most of the IO drug markets.

[4] The Growing Pharmaceuticals Market: Expert Forecasts and Analysis by The Business Research Company, on May 16, 2018.

[5] Top 10 therapeutic classes by estimated global pharmaceutical sales in 2018. Statista 2019.

[6] Global Cancer Therapeutics Market: 2019, A report by bcc research.

[7] Total WW Market Value: Top 10 Products in 2024 + Other Source: Evaluate Ltd

**Key market drivers and trends**

- *Global burden of cancer is growing:* Globally, the prevalence and incidence rates of cancer are witnessing an increase due to the increase in aging population. According to estimates from the United Nations "World Population Aging Report," in 2017, 962 million people were aged over 60 years globally, and this figure is expected to reach 1.4 billion by 2030 and 2.1 billion by 2050**.**
- *Innovations and Technological Advances in Cancer Therapy:* Technological developments are driving the cancer therapeutics market. The technological advances leading this market development include the introduction of combination chemotherapy, advances in hormone therapy, antiangiogenic agents and the emergence of personalised medicine.
- *Immune Checkpoint Inhibitors:* The first immune checkpoint inhibitor *ipilimumab* was approved in 2011[8], targeting metastatic melanoma. A series of immune checkpoint inhibitors were approved as second-line therapy for patients between the years 2016-2017. These emerging classes of therapies are expected to add new value to patients' lives, and thereby accelerate the growth of the market**.**
- *Personalised Medicine/Cell Based Gene Therapy:* The development of personalised drugs to treat cancer is becoming a reality and will have far-reaching effect on the treatment of cancer in the future. In 2017, the FDA approved breakthrough gene therapies for treating malignancies associated with blood.

INTENSIVE CARE

**Intensive care and ARDS**

Intensive care unit (ICU) patients are among those patients who contribute highly to the overall hospital care costs. Among these the patients requiring mechanical ventilation utilise an even larger portion of critical care medicine and hospital resources. Like with many illnesses, access to precise cost data is difficult, but there are some sources available, though the information is partial and fragmented. Nearly 3% of hospitalised patients require mechanical ventilation, with an incidence of 2.7 episodes per 1000 population. At an estimated national cost of USD 27 billion, this represents nearly one-third of ICU costs. Mechanically ventilated patients accrue higher total costs than their non-ventilated counterparts. In 2005, a study conducted to determine the attributable costs of mechanical ventilation revealed longer mean lengths of stay (6.9 days vs. 2.9 days), higher total ICU costs (USD 31,574 vs. USD 12,931) and hospital costs (USD 47,158 vs. USD 23,707) and an incremental cost of USD 1,522 per patient per day[9].

Outcomes and costs of ARDS have been well-studied in a large cohort of patients. A series of articles has reported on one-, two-, and 5-year outcomes of hospital survivors of ARDS. The cohort was composed of 109 patients identified with ARDS, between 1998 and 2002. Patients were followed prospectively for 1 year, then consented for further follow-up. The authors examined costs, including post-hospital costs, functional status, and work status. Average total hospital costs were CAD 128,860 (2002 Canadian $), with the majority of this cost born in the ICU (CAD 97,810)[10]. An efficient drug for ARDS is a high public priority as in addition to saving lives it could significantly reduce healthcare expenditure.

[8] Cameron F, Whiteside G, Perry C (May 2011). "Ipilimumab: first global approval". Drugs. 71 (8): 1093–104. doi:10.2165/11594010-000000000-00000. PMID 21668044.

[9] (Herridge et al. N Engl J Med. 2011;364(14):1293.)

[10] (Cost and Healthcare Utilization in ARDS – Different from Other Critical Illness? Semin Respir Crit Care Med. 2013 Aug; 34(4): 529–536.

# DESCRIPTION OF COMPANY AND ITS PROGRAMMES

## THE COMPANY

Faron is a clinical stage biopharmaceutical company developing novel treatments for medical conditions with significant unmet needs. Faron's drug development is based on extensive knowledge of receptors involved in regulation of immune responses and vascular dysfunctions. The Company currently has two technology platforms (Clevegen® and Traumakine®) and a pipeline based on the receptors involved in regulation of immune response, in oncology and organ damage.

The Company's drug candidate Clevegen® is an early stage clinical anti-Clever-1 antibody. The Directors believe that Clevegen® has the ability to switch immune suppression to immune activation in various conditions, with potential across oncology, infectious disease and vaccine development. The other candidate is Traumakine®, to prevent vascular leakage and organ failures.

Innovations for the business have primarily been sourced from academic institutions including, but not limited to Turku University, Finland. The inventions behind both Traumakine® and Clevegen® were sourced from scientists working at Turku University (Professor Sirpa Jalkanen, the wife of the Company's CEO Markku Jalkanen, Professor Marko Salmi and Assistant Professor Maija-Leena Hollmén).

The Company is developing its drug candidates through research and discovery, drug development and clinical trials. Discovery and development are guided by top-tier scientists in Faron's network and the clinical development utilises Company's in-depth pharmacological knowledge of the drug candidates. The Company aims to accelerate time to market via focusing on rare diseases and/or high unmet medical indications based on its proprietary molecules and IPR. In market access and commercialisation, the Company seeks to complementary partner to optimise the usage of resources and to create value. The aim is to gradually build up integrated global pharma functions.

In 2019, the Company's focus has been on the development of Clevegen® which is currently undergoing an open label phase I/II MATINS clinical trial. On 28 November 2019, Faron announced that the FDA had approved the Company's IND application for Clevegen®. Following IND approval, Faron plans to open new sites in the US and facilitate expansion of the colorectal cancer cohort as fast as possible. Similarly, Faron is planning to include top cancer centres in France and Spain as the next European countries to join the MATINS trial, besides the UK, Finland and the Netherlands already open today.

In Traumakine®, the Company is conducting a full review of all the data with key opinion leaders and will make final decisions on Traumakine®'s future development. The Company is currently in the process of designing a new global Phase III trial for Traumakine® treatment and envisages that any further Traumakine® trials are likely to be funded through a third party. This information has resulted in an advice meeting with FDA scheduled for early December 2019, following which further plans can be confirmed.

## CLEVEGEN®

**Clevegen® and Immuno-oncology Programme**
One of Faron's key areas of focus is to develop a cancer treatment which supports human immune defence mechanisms against tumours, as these are often (if not always) suppressed in cancer patients.

CLEVER-1, also known as Stabilin-1 or STAB-1, is a large glycoprotein, which originally was described to function as a scavenging receptor and an adhesion molecule. Its intracellular part regulates the recycling of the receptor between the cell surface and intracellular compartments. CLEVER-1 is present on lymphatic vessels and is induced on a subpopulation of type 2 (immunosuppressive) macrophages during their polarisation. It

is induced on cancer vasculature. Moreover, its expression on tumour-associated macrophages is a sign of poor prognosis in colorectal cancers of advanced stage. More recently, it has become very clear that CLEVER-1 maintains the immunosuppressive phenotype of tumour associated macrophages (TAMs). Blocking or silencing of CLEVER-1 on human macrophages induces MHC expression and promotes IFN-y leukocyte cultures. Genetic disruption or pharmaceutical inhibition of CLEVER-1 attenuates tumour progression in mice. The active pharmaceutical ingredient of Clevegen® is a humanised anti-Clever-1 antibody, which modulate Clever-1 function to switch the immunosuppressive M2 macrophages to immune stimulating M1 macrophages. [11]

The original proprietary Clever-1 antibodies were humanised in a collaboration with Antitope Limited, a service company based in Cambridge, United Kingdom. Antitope has the technology to minimise immune reaction against administrated antibody-drugs. During the period 2007 to 2009, the Company was granted European and US patents in relation to anti-Clever-1 antibodies. Further applications and filings have since been made to protect other Clever-1 related materials, e.g. Clever-1 positive tumour associated macrophages. More recent filings to protect the functional antibody binding site on Clever-1 were done in 2016, further combination use filing in 2018 and a mode-of-action based molecular mechanism patent in 2019. The generic name of Clevegen® most likely will be *bexmarilimab*, an INN name proposed by the WHO.

**Mechanism of Action**

All tumours are infiltrated by immune cells, for example macrophages, neutrophils, T cells, dendritic cells, mast cells, myeloid derived suppressor cells and natural killer cells. Depending on the immune cell content and the activation status of the immune cells, they can either protect the host through suppression of tumour growth and elimination of tumour or harm the host by promoting tumour growth, invasion, metastasis and angiogenesis. Tumour associated macrophages (TAMs) have emerged as an essential constituent of the tumour environment. TAMs can promote tumour progression directly by inducing cancer cell proliferation and survival as well as indirectly via the surrounding elements by stimulating angiogenesis or help in escaping from anti-tumour specific immunity. When TAMs populate a tumour, one of the very significant influences they exert over it is a strong increase in immunosuppression. Clever-1-positive TAMs represent a major macrophage population involved in the elimination of host immune activity against the tumour cells. Clevegen® is an anti-Clever-1 anti- body which targets Clever-1-positive TAMs in cancer patients and converts these highly immunosuppressive type 2 “healing” macrophages (M2) to type 1 “pro-inflammatory” macrophages (M1).[12]

Clevegen® also prevents TAM infiltration into a tumour and therefore blocks their accumulation at tumour sites and can, therefore, also control the tumour content of regulatory T-cells, which are dependent on M2 macrophage support. Inhibition of CLEVER-1 alters IFN-gamma production in immune cells and reduces the number of regulatory T-cells within the tumour. Expansion of Clevegen®’s use, to include removal of local immune suppression in chronic infections and vaccination sites, are also being explored alongside tumours.

**Blocking TAM Infiltration into a Tumour**

Tumour endothelial cells are Clever-1 positive and when anti-Clever-1 antibodies bind to the Clever-1 receptor, the infiltration of TAMs is prevented. Through blocking the infiltration of TAMs into the tumour, the ability of the tumour to suppress the hosts’ immune system is reduced.

**Change in Tumour Immunity**

Anti-Clever-1 antibodies change the tumour immunity by lowering the presence of tumour supportive TAMs in the tumour. This will allow other immune cells to attack tumour cells and drive them to programmed cell death (apoptosis). In some tumours up to 50% of the tumour mass may contain immuno- suppressive TAMs and the only way to eliminate this dominance is remove them from tumours and/or convert them to

[11] Faron presentation in New York Oncology Investor Conference Nov 12-13 2019; Company website.
[12] See above.

stimulate other cells of the immune system. It is these highly immunosuppressive CLEVER-1 positive TAM cells that are the main target of the Clevegen® programme.

**Clevegen® Mode of Action**

1. Clevegen® blocks CLEVER-1 on circulating monocytes
2. Programming of monocytes to M1 (pro-inflammatory) polarisation in circulation
3. TAM polarisation from immunosuppressive M2 to immunostimulatory M1 in tumour
4. Altered antigen handling
5. Induced TNF-alpha and IFN-gamma production
6. Cancelling local immunosuppression
7. Antigen presentation to direct adaptive immune system against tumour cells
8. Lymphocytes kill tumour cells with cytotoxic proteins

Successful preclinical toxicity studies, designed to fulfil regulatory requirements for 3-week interval intravenous administration of Clevegen®, showed no toxicologically relevant changes in any subject and no major changes after treatment with FP-1305 in T lymphocytes subsets. The binding of Clevegen® to its receptor on circulating CD14+ monocytes was confirmed by investigating the receptor occupancy, the recovery of which occurred between 3 to 20 days after dosing in a dose-dependent manner. No relevant changes were present in cytokines and no anti-drug antibodies (ADA) were detected in any subject. Therefore, the highest dose of 100 mg/kg was considered the no-observed-adverse-effect level (NOAEL).

**MATINS Study**

The MATINS study is Faron's first-in-human open label Phase I/II adaptive clinical study in selected metastatic or inoperable solid tumours to investigate the safety and efficacy of Clevegen® (FP-1305). The selected tumours are cutaneous melanoma, hepatobiliary, pancreatic, ovarian or colorectal cancer, which are all known to contain high amounts of Clever-1 positive TAMs. The trial is being run in three parts. Part I, to determine the safe and tolerable dose of Clevegen®, which will then be used in Part II to expand the cohorts of individual tumour types. Part III of the trial aims to confirm the efficacy of Clevegen® with the cohorts selected based on Part II.

The Company filed a Clinical Trial Application (CTA) in September 2018 which was subsequently approved by the Finnish Medicines Agency (FIMEA). The first patient was dosed in December 2018 at Helsinki and Oulu University Hospitals in Finland and further sites have been opened in London and Birmingham, UK.

Early data from MATINS have been encouraging with all dosed patients, thus far, showing a switch in their immune profile towards more immune activation, observed as an increase in CD8+ cells, an increased CD8/CD4 ratio, decreased regulatory T-cells (T-regs) and a high appearance of mobile NK cells in the blood.

Late-stage colorectal cancer has been selected as the first cohort expansion phase (Part 2), which will commence once the optimal dosing has been determined.

Faron has also received a tumour imaging report on a patient with colorectal cancer, which indicates significant shrinkage of lung metastasis (classified as a partial response). Positively, the patient has also shown a decrease in the tumour load marker CEA (carcinoembryonic antigen) and an increase in circulating B-cells, which could indicate an antibody-mediated response against the tumour. This patient, whose tumour has been classified as MSI-low (microsatellite instability) had previously been treated with six different anti-cancer drugs, which had all failed.

The Company believes these findings are encouraging and is confident it has identified a group of patients who are thought to be most likely to respond to treatment.

Furthermore, the Company has expanded the trial to two sites in the UK (London, Birmingham) following CTA approval by the UK regulator, the Medicines & Healthcare products Regulatory Agency (MHRA). On 28 November 2019, the Company announced that it had received IND approval from the US Food and Drug Administration (FDA) to open sites in the USA prior to entering the cohort expansion part of the trial.

The Company announced recently that the optimal dose may not be the maximum dose and therefore the Company has expanded the dose escalation to include new lower dosing level and also expands each dosing group subjects from two to five. Post analysis of these treatments the Company believes that the optimal dosing can be chosen for part II expansions with nine different solid tumour types.

Due to high interest in potential new therapies in the immuno-oncology field, either as monotherapy or in combination, the Company is currently engaged in partnering discussions with several parties and is working hard to optimise the structure to capture the most value from any potential deal with the best possible partner.

TRAUMAKINE®

**Traumakine® and ARDS**

Faron's first candidate, Traumakine®, addresses the treatment of Acute Respiratory Distress Syndrome (ARDS), a severe, life-threathening orphan lung disease. Currently there is no pharmaceutical treatment for this condition with a reported mortality rate of 30 to 45% depending on the severity of the condition. ARDS is characterised by widespread inflammation in the lungs and sudden failure of the respiratory system. ARDS causes in inflammation of the alveoli in the lungs which become unable to perform the normal oxygenation of blood. It is characterised by rapid breathing, difficulty getting enough air into the lungs and low blood oxygen levels. Common causes of ARDS include sepsis, pneumonia, aspiration of fumes, food or stomach contents going into the lung or significant trauma. The condition was first described in 1967 and gained wide attention during the Vietnam War when it was nicknamed "white lung" as X-rays presented the lungs of the patients as white.

ARDS is the leading cause of respiratory failure in intensive care unit patients requiring mechanical ventilation. Although ARDS mortality has decreased in the last decade due to improvements in supportive care and in the treatment of the underlying conditions, it still remains high. Currently, patients suffering from ARDS are generally treated with lung-protective mechanical ventilation. This treatment is accompanied by ancillary support such as positioning, fluid management and food restrictions. Extra corporeal support may also be provided depending on the severity of the condition. Complications which can also arise whilst a patient is being treated for ARDS include the development of infections, pneumothorax, lung scarring and blood clots which can develop into a pulmonary embolism. Patients who recover from ARDS often suffer other consequences of the condition after being discharged from the intensive care unit. A recovering patient's quality of life may be adversely affected by permanent damage to the lungs, respiratory problems, scar tissue, muscle weakness, depression and post-traumatic distress syndrome, all of which can have an adverse effect on the patient's quality of life.

**Treating ARDS**

Supply of oxygen and nutrients to individual cells of various organs are maintained by vasculature and especially by the long and thin blood vessels called capillaries. Their integrity is sustained by endothelial cells covering the inner surfaces of these vessels forming a barrier between circulation and tissues. The breakdown of this barrier results in leakage of blood content to tissues. If this happens in lungs, the lung air space is filled with protein rich fluid and blood cells preventing normal gas exchange.

The key molecule involved in maintaining endothelial barrier and lung function is CD73, an endothelial ectoenzyme, which can produce local adenosine. Traumakine®'s active pharmaceutical ingredient, interferon-

beta, increases CD73 expression resulting in increased local adenosine. Subsequently, high local adenosine levels reduce capillary leakage and increase lung function by allowing normal gas exchange to return.

**Mechanism of Action**
The scientific rationale for Traumakine® treatment is based on the use of interferon beta for the restoration of the endothelial barrier function in ARDS patients. Traumakine® (FP-1201-lyo) is based on a patent-protected use of interferon-beta to prevent leakage of vascular beds in acute lung injuries. The active pharmaceutical ingredient in Traumakine® is recombinant human IFN beta-1a.

The mechanism behind Traumakine®'s action was invented by scientists at Turku University during the period 1995 to 2003. Through extensive research and *ex vivo* studies, it was identified that a molecule called CD73 is essential in maintaining the endothelial barrier function. CD73 is an ectoenzyme capable of breaking down extracellular AMP to produce locally active adenosine. Adenosine maintains the endothelial barrier and downregulates inflammation escalation, preventing both early vascular leakage and escalation of inflammation, which are the two early patho-physiological events leading to ARDS. One of the key findings that led to the development of Traumakine®, was a discovery that interferon-beta could enhance CD73 expression and could therefore be used to treat a range of vascular leakage conditions including ARDS. Traumakine® works by enhancing CD73 expression in the lungs and increasing production of anti-inflammatory adenosine such that vascular leaking and escalation of inflammation are reduced.

**Traumakine® Clinical Programme**
The first indication that Traumakine® addresses is the treatment of ARDS.

The first clinical trial in the Traumakine® programme was a Phase I/II open-label study to assess the safety, tolerability and preliminary efficacy of interferon beta in the treatment of patients with ARDS. Interferon beta was found to be safe and well tolerated in ARDS patients and the optimal tolerated dose was established. The selected pharmacodynamic marker for interferon beta bioactivity showed clear dose response and the treatment target molecule (CD73) levels were induced during the dosing period. Most importantly, interferon beta treatment significantly reduced the all-cause mortality at day 28, the primary end point of the study, compared to the control cohort1. Traumakine® was associated with an 81% reduction in odds of 28-day mortality. In February 2014, a peer reviewed article in respect of Traumakine® was published in The Lancet. This article discussed the findings of the Phase I/II studies. In December 2014, Maruishi confirmed that their clinical application to the Japanese Regulatory Agency had been accepted and a Phase II study had been initiated in Japan accordingly, with the first patient recruited in February 2015. Positive top-line results from the Japanese Phase II study of Traumakine® for the treatment of ARDS were announced in January 2016.

**INTEREST Study**
The INTEREST Study (protocol FPCLI002) was a double-blinded and randomised Phase III clinical study to investigate efficacy and safety of FP-1201-lyo (lyopholised form of interferon beta) compared to placebo in patients with moderate or severe ARDS. The study, which recruited 300 patients, was conducted in 64 hospital intensive care units (ICU) in Belgium, the Czech Republic, Finland, France, Germany, Italy, Spain and the UK. Patients were treated daily with either 10 µg FP-1201-lyo or placebo for 6 days and underwent daily assessments while in the ICU for a maximum of 28 days. The patients were followed up at 3, 6 and 12 months after enrolment. Information on the need for ventilator support, as well as the need for hospital and ICU care was collected during this follow-up period. Other collected data included e.g. respiratory and neurological functions and quality of life.

Top line data showed that the study did not meet the Day 28 primary efficacy composite endpoint of ventilator free days and survival with Traumakine® treatment.

Biomarker analysis confirmed that Traumakine® treatment did not produce consistent interferon-beta bioactivity across the treatment group. A retrospective stratification of Traumakine® treated patients was conducted, based on subjects in the INTEREST trial who demonstrated a defined biomarker response. These were defined as patients with a 2-fold increase in CD73 serum levels during the first seven days of treatment and 3-fold MxA activation (during the first four days of treatment) in peripheral blood cells.

This sub-group of patients (n=48) demonstrated a reduced D28 all-cause mortality, with a mortality rate of 14.6% compared to 32.3% in the remaining patients (n=96) in the Traumakine® treatment arm (p=0.02). In addition, this sub-group of patients demonstrated a trend toward an increase in ventilator free days at D28, with 16 ventilator free days (VFDs) compared to 6.5 days (p=0.06).

Top-line data from the Phase III ARDS trial with Japanese partner Maruishi were consistent with the INTEREST study results, showing that treatment with Traumakine® did not result in reduced mortality or an increased number of ventilator-free survival days when compared to placebo. In the study very high concomitant glucocorticoid use (77%) was observed.

**Further Analysis**
To better understand the INTEREST data, Faron has conducted further analysis, particularly with regard to the administration of corticosteroids used in parallel to Traumakine® treatment and their effect on Traumakine® efficacy. In the INTEREST study high concomitant glucocorticoid use (ca. 60%) was observed.

Of note, the Company also observed that the use of corticosteroids in the placebo group was associated with an increased mortality of 27.6% compared to no use of corticosteroids of 14.8% (p<0.0001). In the group receiving corticosteroids there was a significantly higher APACHE II (acute physiology and chronic health evaluation) score (23.47 versus 20.4, p=0.0007) and SOFA (sequential organ failure assessment) score (10.4 vs 9.5, p=0.0428) but this difference did not explain the scale of mortality difference associated with corticosteroid use versus non-use. The Company believed that the inconsistent FP-1201-lyo bioactivity observed in the INTEREST trial may well, in part, have been due to corticosteroid interference of IFN-beta action. Therefore, further *in vitro* and *ex vivo* experiments with human endothelial HUVEC cells and human lung tissue samples were conducted. Based on these results, no issues were detected in the formulation of FP-1201-lyo used in the INTEREST trial and the formulation was as active as the formulation used in the Phase I/II study. In lung tissue samples, the concomitant corticosteroids prevented the CD73 induction by Traumakine®, which indicated similar interference of corticosteroids on IFN-beta bioactivity as observed in the INTEREST study. To understand the reduced biomarker response to Traumakine® administration, even where corticosteroids were not administered in the INTEREST study, a new FP-1201-lyo pharmacokinetic/dynamic study, YODA, was conducted to determine the optimum mechanism of administration to achieve a full biomarker response.

The final results confirmed observations previously seen in the INTEREST study. Traumakine® produced the expected levels of bioactivity, suggesting that drug formulation was not a factor in the outcome of the INTEREST trial, and that concomitant corticosteroid use interferes in the desired interferon-beta effect on CD73. Additionally, by genetic testing, Faron has identified an optimal subgroup of ARDS patients for Traumakine® treatment who showed a substantial reduction in mortality during the INTEREST trial. Multivariate regression analyses that adjust for disease severity indicated that patients receiving interferon beta-1a treatment (Traumakine®) and carrying the single nucleotide polymorphism rs9984273 (C/T) in subunit 2 of the interferon alpha and beta receptor (INFAR2) (n=46) had 5.7 times greater likelihood of survival at Day 28 (p=0.0057) than patients without this mutation (n=58). No similar survival effect was seen for the C/T polymorphism in the placebo group.

## COMPETITION

**Competition in general**
Despite the fact that Company has no marketable products it faces competition from various market participants. These include pharmaceutical companies, biopharma companies and universities in the future. The Company may face significant competition, including from those competitors with greater capital resources and who may be able to provide alternative products before the Company reaches commercialisation. There is no assurance that the Company will be able to compete successfully in such a marketplace.

**Competition in immune-oncology**
It is difficult if not impossible to capture the most relevant aspects of the rapidly evolving competitive landscape in immune-oncology. As a relatively new segment of pharmaceutical markets, where new treatment alternatives are frequently introduced, IO is in rapid change. Thus, it is quite difficult to give a comprehensive view of the relevant competition.

**Competition in Traumakine®**
The Company's current analysis suggests there are currently no competing drugs (which are in an advanced stage of development) for the Company's candidate Traumakine® in the treatment of ARDS. In the treatment of ARDS the presently used non-drug-based treatment options will continue to be a competing alternative to drug based treatments. The development of new technologies and drugs could give rise to significant new competitors that may have a material effect on the Company's business.

## COMPANY HISTORY

Faron is based in Turku, Finland. Its business activities, being drug discovery and drug development, commenced in 2003 within a company called Faron Pharmaceuticals Oy. Faron Pharmaceuticals Oy was founded by a group of eight individuals including Markku Jalkanen, Sirpa Jalkanen, Matti Manner, Juha Peltola, Marko Salmi, Katriina Peltola, Juho Jalkanen and Maija-Leena Hollmén. This entity changed its name to Faron Ventures in October 2006. Markku Jalkanen was appointed as President and CEO of the Company in 2007.

The Company was incorporated in 2006 as a wholly owned subsidiary of Faron Ventures. The name "Faron Pharmaceuticals Oy" was transferred to the newly formed subsidiary. The purpose of creating a wholly owned subsidiary was to spin out the most advanced pharma projects from Faron Ventures, being those focused on cancer metastasis, inflammation and trauma, into the newly formed subsidiary in order to attract new capital investment for these projects. A reorganisation, including a demerger in 2012 and a merger in 2013, resulted in the Company becoming a standalone entity with the shareholders of Faron Ventures becoming direct Shareholders in Faron Pharmaceuticals Ltd.

To date, innovations for the business have primarily been sourced from academia through the Company's strong links with academic institutions including, but not limited to Turku University, Finland. The inventions behind both Traumakine® and Clevegen® were sourced from scientists working at Turku University (Professor Sirpa Jalkanen, wife of Markku Jalkanen, the Company's CEO and currently the head of the research laboratory of the Medical Faculty of University of Turku and Professor Marko Salmi). Faron Ventures carried out the initial in-vivo proof-of-concept and drug development work on Traumakine® and Clevegen® before they were transferred as pharmaceutical projects to the Company together with the IPR.

## FUNDING

**Equity funding**
During 2007–14, the Company raised a total of €9.4 million through six issuance of common shares or convertible notes. In 2015 the Company raised first €4.4 million in a pre-IPO placement and later €14.2 million

in an IPO on the AIM market of the London Stock Exchange. After the IPO during years 2016–19 the Company has raised a total of €59.5 million equity funding through a series of private placements in the UK, Scandinavia and Finland. In total Faron has raised €87.5 million equity funding. See details of the equity raises as a listed company in section: "Shares, Share Capital and Shareholders/Equity capital development as listed company".

**Public R&D funding**

In 2010 Faron was awarded Young Innovative Status and a €1.0 million R&D grant by Tekes. In aggregate, the Company was granted a total of €2.2 million of R&D grants from Tekes during 2008 to 2017. These grants were applied towards the costs associated with carrying out the initial Phase I/II clinical study of Traumakine® as well as for the costs related to Clevegen® development. In November 2012, a Consortium, consisting of three European research universities and Faron as the coordinating member was awarded a grant of €6.0 million in aggregate from the European Commission to support the pan-European Phase III studies with respect to Traumakine®. The Consortium has received the full amount available under this grant, which covered approximately 75% of the costs of certain areas of the trials. Faron received €3.7 million of these grants during 2013 to 2018.

**Licensing and milestone income**

The Company received during 2010 to 2016 a total of €3.59 million of licence and milestone payments based on the licensing agreements it has in Japan, China and in Korea. These agreements are described in detail in section ‘‘Significant contracts and intellectual property rights"

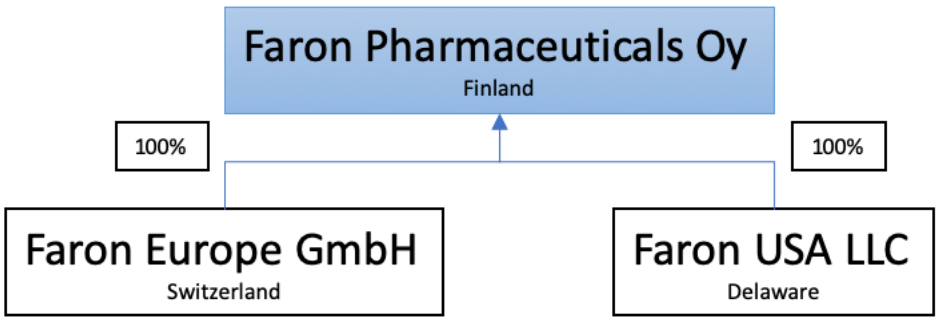
**Other sources of financing**

In addition to the above, Faron has over the years generated a total of €1.3 million of revenue by selling its excess drug substances and drug products for various research partners.

## COMPANY AND GROUP STRUCTURE

In 2015 Faron established a permanent office in United Kingdom. The Company has one employee at this location who coordinates its operations in the UK. Through the permanent office and personnel Faron has the status of permanent establishment in the United Kingdom.

In 2018 Faron adopted a group structure as it registered subsidiaries in the United States of America and in Switzerland. Both of these companies are dormant or have limited operations.



# STRATEGY

Faron's strategy is to maximise the potential of its pipeline of drug candidates and to progress the development of its two major programmes – Traumakine® and Clevegen®. They both target human conditions with significant unmet medical needs with no proper drug treatment available today. The Company believes that receptors in the control of these conditions provide a unique way to treat many life-threatening conditions with no efficient treatment options. As these receptors are on the surface of endothelial cells (thin capillaries) or in circulating myeloid cells they are excellent targets for intravenous targeting for therapy purposes.

Faron collaborates with its strategic partners in research, manufacturing and drug development with a view to bringing or having brought new pharmaceutical products to market in a timely and cost-effective manner and has formed a core team of leading scientists in capillary biology and diseases arising from these receptors. The Company has established links with leading laboratories and clinics around Europe and the US, although major collaboration is excercised with the University of Turku.

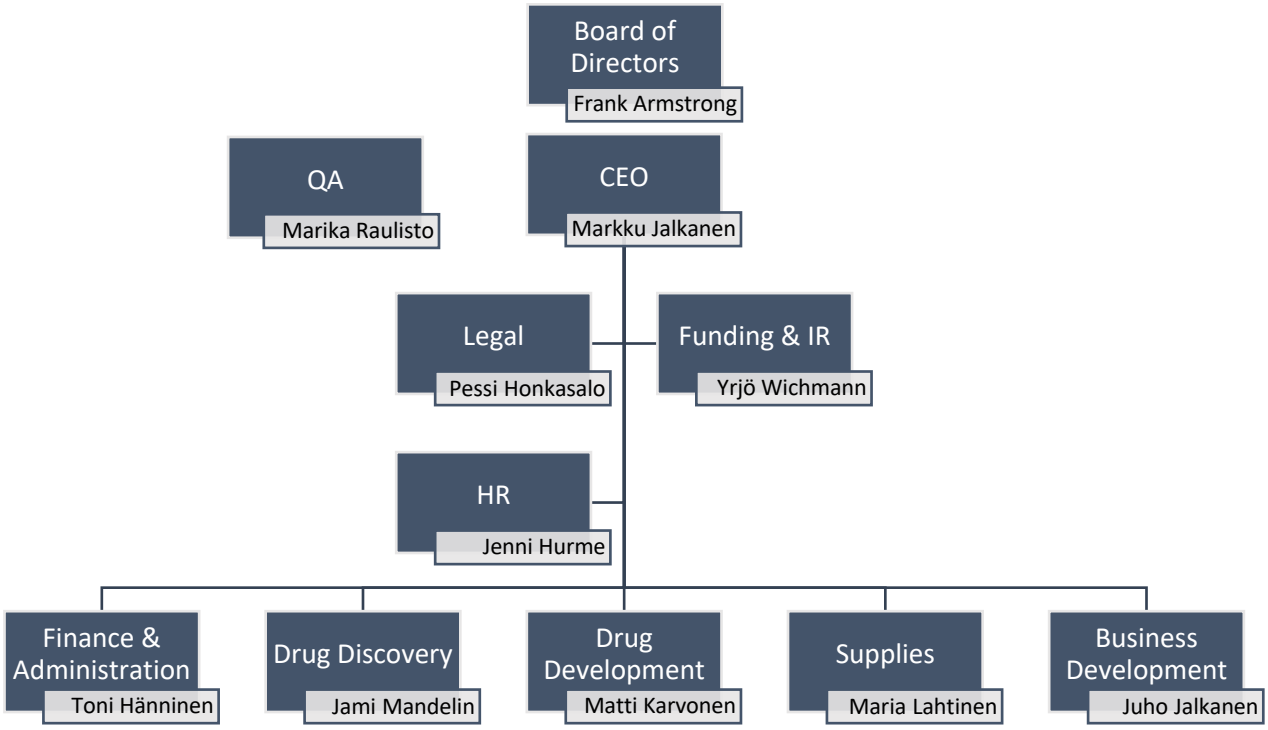
To date, Faron has operated on a relatively low cost basis by employing only key members of staff and outsourcing where possible. Typically, all development work up to the proof-of-concept stage of drug development is carried out in the innovators' laboratories. The Company outsources all of its manufacturing activities in relation to its products to third parties and collaborates with Contract Research Organisations (CROs) to carry out the clinical development programmes. Faron monitors and evaluates potential commercial opportunities for its established drug candidates, such as Traumakine® and Clevegen® and its technologies as and when they arise, and will consider how best to crystallise as much value as possible for Shareholders, which may include holding rights in main territories for as long as it is feasible or, in certain circum- stances, up to the marketing stage. The Company plans to discuss the next steps for Traumakine® with the FDA and the EMA, including feedback on design of a Phase III study, and is also advancing partnering discussions in respect of both Traumakine® and Clevegen®.

**Key performance indicators, KPIs**
As a clinical stage drug development company without no operational revenue, Faron's primary interconnected KPIs are cash burn and cash position. As significant financial resources are required to advance the drug development programmes into commercialised pharmaceutical products, the Company relies on its ability to fund the operations of the Company through three major sources of financing – equity financing, R&D grants and loans and licensing agreements.

There can be no assurance that sufficient financing can be secured in to permit the Company to carry out its planned activities. To protect the continuity of the Company's operations, sufficient liquidity and capital has to be maintained. The Company aims to have funds to finance its operations for the foreseeable future. The Company can influence the amount of cash by adapting its cost basis considering available financing. Management monitors liquidity on the basis of the amount of funds. These are reported to the Board of Directors on a monthly basis.

The Board will consider the appropriateness of monitoring additional KPIs as the Company's operations advance.

# ORGANISATION




**Headcount 2018–2019**

Average headcount of the Company on 30 September 2019 was 26 (2018: 26). Of the employees one is located in Switzerland, one in the UK and the rest in Finland. The staff consists of experienced specialists in biomedical research and discovery, pharmaceutical development, and finance and administration. Most of the staff have an academic degree (BSc, MSc, PhD) in a field closely related to the Company's core operations and/or business management. The seven management team members are highly competent in biopharma, a majority of them holding PhDs in medical biochemistry, pharmacology and organic chemistry or chemical biology, respectively. The management team also include two specialist medical doctors. The Company's organisation structure is lean, and the roles of each department and staff are clearly defined.

# LITIGATION

The Company has no pending governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Company is aware), nor is the Company aware of any such proceedings being threatened as of today.

# SIGNIFICANT CONTRACTS

**Clevegen® manufacturing**
On 2 November 2015, Faron entered into a services agreement with Swiss-based Selexis SA ("Selexis") to facilitate the continued preclinical development of Clevegen® as it was moving towards clinical development. Under the agreement, Faron has access to the Selexis SUREtechnology Platform™ and SURE CHO-M Cell Line™ for the production of high-expressing and stable clonal cell lines for use in the development and production of Clevegen®. Under a commercial licence agreement entered into on 2 March 2017, the Company has a contingent contractual liability to Selexis to pay additional milestone payments. The first milestone payment of €427 thousand payable when the production system reached a certain material yield threshold was charged in 2018. The remaining ones become payable upon the Company achieving subsequent regulatory filings and approvals for Clevegen®.

On 21 July 2016, Faron and Antitope Limited (now Abzena (Cambridge) Limited, "Abzena"), part of the life sciences group providing services and technologies to enable development and manufacture of biopharmaceutical products, entered into a master development and clinical supply agreement whereby Abzena has produced the master cell bank and manufactures the Clevegen® antibody for clinical development under cGMP conditions. The sterile liquid manufacture of Clevegen® vials is performed under a contract executed on 16 October 2017 with Patheon UK Limited.

**Traumakine® manufacturing**
In January 2011, Faron entered into a licence, development and supply agreement with Rentschler Biotechnologie GmbH, a pharmaceutical contract manufacturer based in Laupheim, Germany whose business operations have subsequently been taken over by Rentschler Biopharma SE ("Rentschler"). The agreement governs the development, manufacture and supply of interferon beta, the API of Traumakine®, and originally, it also regulated the supply of the final drug product. The Company announced on 2 October 2019 that Rentschler has sent Faron a letter in which Rentschler states that it terminates the agreement.

It is the Company's understanding that significant upgrading of the API manufacturing process would be required prior to MAA/BLA approval for Traumakine®. The Company is exploring various options for future API manufacturing.

On 1 February 2018, Faron signed a contract manufacturing agreement with the contract manufacturing organisation LYOCONTRACT GmbH, based in Ilsenburg, Germany, for commercial scale manufacturing of the Traumakine® drug product.

**Japan**
Under a licence agreement dated 9 February 2011 between the Company and Maruishi Pharmaceutical Co., Ltd ("Maruishi"), the Company has granted to Maruishi an exclusive licence with the right to sublicense, use, offer for sale, sell and/or import, manufacture or have manufactured Traumakine® in Japan. In particular, the agreement gives to Maruishi the exclusive rights to certain of the Company's IP rights under the patent law of Japan, including the right to register these IP rights with the Japan Patent Office.

Under the terms of the agreement, the Company is entitled to receive 1/3 of Maruishi's net profit from sales of Traumakine® in Japan through the milestone, royalty and other payments. Pursuant to the agreement, the royalty rate shall be agreed between the parties in writing. The milestone payments consist of up to €5 million in aggregate, subject to foreign exchange adjustments. The "Royalty Period" is defined in the agreement as the period starting from the date on which Maruishi first launches Traumakine® in Japan until the later of: (1) the expiry of the last patent within the Company's IP rights specified under the agreement covering Traumakine® in Japan; or (2) the expiry of the Japanese ODD status. After the lapse of the Royalty Period, and

unless Maruishi terminates the agreement, the Company shall be entitled to royalties for a period of three years at a rate to be agreed between the parties.

The agreement shall continue for as long as Maruishi continues sales of Traumakine® in Japan. However, Maruishi may terminate the agreement at any time for any or no reason, at which point Maruishi shall, at the Company's request, transfer its ODD status (if obtained) and registration to the Company or a third party whom the Company appoints, provided that the Company is not in material breach of the agreement.

The Company and Maruishi also entered into a supply agreement on 24 March 2014, under which the Company supplies and delivers certain FP-1201-lyo related products and substances and standardised reference substances to Maruishi, for the purpose of the clinical development of Traumakine®. Under the agreement, Maruishi has agreed to compensate the Company for costs and expenses incurred by the Company or on its account in relation to the development of the products supplied by the Company pursuant to the agreement. Maruishi's obligation to pay compensation is retroactive and the costs incurred by the Company between the years 2011 and 2013 are payable pursuant to the agreement, whereas no development cost for the year 2014 or for any year thereafter shall be payable. In 2018, the Company recognised €19 thousand revenue from deliveries based on this agreement.

**Greater China Area**
The Company entered into a subscription, asset transfer and supply agreement with A&B (HK) Company Ltd ("A&B") on 8 May 2015. Subject to the share subscription by A&B specified in the agreement the Company agreed to transfer and license to A&B certain assets related to FP-1201-lyo and A&B shall take responsibility for development and commercialisation of FP-1201-lyo (in any dosage form or line extension) in the territories of mainland China, Hong Kong, Macao and Taiwan ("CMS Territory"), such commercialisation activities to be conducted by any company, partnership or other business entity which controls, is controlled by or is under common control with CMS Medical Systems Holdings Limited ("CMS"), which is related to A&B by virtue of each of A&B and CMS having a common controlling shareholder.

Under the agreement, A&B has acquired from the Company the exclusive and irrevocable ownership of the assigned assets specified under the agreement, and the licence to certain licensed IP, as well as certain rights to exchange information in relation to FP-1201-lyo. A&B owns the right to import, register, market, distribute, promote and sell the assigned assets in the CMS Territory at A&B's sole discretion and the right to manufacture the assigned assets for the CMS Territory. The Company does not have rights to, nor cause or assist any third party to, sell or distribute the assigned assets within the CMS Territory, nor resell, transfer, license, authorise or dispose the assigned assets in any other ways. In the event that the supply price from any CMS affiliate through its distributors to governmental or hospital authorities buying the FP-1201-lyo exceeds a certain amount, such CMS affiliates shall pay royalties to the Company.

The agreement remains in force and effect until any obligation under the agreement is fully performed and discharged or as otherwise agreed in writing by the parties. However, A&B shall have the right to terminate the agreement at any time because it has decided, for whatever reason, that it no longer wishes to develop and/or commercialise the product in the CMS Territory. The Company has no right to terminate the agreement by reason of the breach by A&B or any CMS affiliate of any provisions of the agreement.

The Company entered into a share subscription agreement with A&B on 8 May 2015. Pursuant to the agreement, the Company issued two tranches of Ordinary Shares to A&B, for an aggregate subscription price of approx. €5 million. Subject to the share subscription by A&B and concurrently with it, the Company agreed to transfer and license certain assets to A&B, as described above. Under the terms of the agreement, A&B has a right to nominate one of the members of the Company's Board as long as it owns not less than 12% of the total amount of Ordinary Shares in the Company.

The Company, A&B and CMS Pharma Co. Ltd ("CMS Malaysia") entered into a supplemental agreement to the agreements described above on 19 May 2015. According to the agreement, A&B shall transfer and sell, and CMS Malaysia shall purchase and acquire the assigned assets as specified in the subscription, asset transfer and supply agreement, and accordingly CMS Malaysia owns the right to import, register, market, distribute, promote and sell FP-1201-lyo in the CMS Territory at its sole discretion, and the right to manufacture FP-1201-lyo for the CMS Territory. On the execution of a novation deed effective as of 31 December 2018, the rights and obligations of CMS Malaysia under the supplemental agreement were assigned to CMS Bridging Limited with respect to the CMS Territory excluding Hong Kong and to CMS Medical Hong Kong Limited with respect to Hong Kong.

**South Korea**

On 10 June 2016, Faron entered into a licence agreement with Pharmbio Korea Inc. ("Pharmbio"), for the development and commercialisation of Traumakine® in the Republic of Korea. Pharmbio is based in Seoul and specialises in hospital sales of novel pharmaceutical products.

Under the terms of the agreement Pharmbio obtains the exclusive right to use, offer for sale, sell and import, without the right to sublicense, Traumakine® in South Korea. Faron has received an initial signing fee of €750 thousand and is entitled to receive additional development based milestones. In addition, Pharmbio will pay Faron 1/3 of Traumakine® profits, representing a double digit royalty on net sales, depending on end user pricing, and has agreed to cover development costs for Traumakine® in South Korea. Additionally, Faron will provide European approval material for Pharmbio to obtain market authorisation in South Korea and will also supply Traumakine® drug product to Pharmbio at an agreed transfer price.

# INTELLECTUAL PROPERTY RIGHTS

The Company's intellectual property portfolio consists of a portfolio of a combination of patents, trademarks and trade secrets in relation to its target molecules. The Company's core IPRs comprise of 12 active patent families. These patents cover certain methods associated with the Company's technology as well as composition of matter patents which protect the Company's new chemical candidates for its current drug development programmes. In addition, trade secrets form an important part of the Company's strategy to enhance and protect its technological advantage within the pharmaceutical industry. The Company intends to maintain the critical features of its technology as trade secrets meaning the Company's patent portfolio alone is insufficient for the purpose of a competitor using the portfolio as a basis for reconstructing Faron's products and development pipeline.

The trademark Traumakine® has been registered by the Company in the European Union, USA, Switzerland, India, Japan, China and South Korea and the trademark Clevegen® in the European Union, USA, Switzerland, Japan and China. The Company also has applications pending for the registration of other trademarks in several jurisdictions.

The Company has also sought other ways to achieve market exclusivity in respect of its products. In this respect, the Company filed an application for ODD designation intended for the treatment of rare diseases with the EMA for the use of interferon beta to treat acute lung injuries in April 2007. The designation was granted in December 2007, which allows Traumakine® a period of 10 years of market exclusivity in the EU following the date of marketing approval by the EMA, with additional two years of market exclusivity in the event that the Company successfully makes a paediatric application for the ODD status.

The Company uses the services of a patent agent, Berggren, to make patent and trademark applications on its behalf and ensure that the Company's current patents and trademarks are adequately maintained by making payment in respect to any fees on the Company's behalf.

# INSURANCE

The Company has in place insurance policies with reputable insurance companies against risks normally insured against in operations and locations similar to those of the Company and as may be required by applicable law, including:

- cargo policy;
- commercial combined policy including public and product liability, professional indemnity, property damage and business interruption;
- directors' and officers' liability insurance;
- health insurance; and
- workers' compensation insurance.

In addition, clinical trials insurance is carried by the Company for all its clinical trials according to the usual market practice. It should be noted, however, that whilst the Company has certain insurance policies in place, there can be no assurance that in the event of any claim, the level of insurance will be adequate or that a product liability or other claim would not materially and adversely affect the business of the Company.

# FINANCIAL INFORMATION

## DEVELOPMENT DURING FULL YEAR 2018 COMPARED TO FULL YEAR 2017

**Revenue and other operating income**
The Company's revenue was €0.0 million for the year ended 31 December 2018 (2017: €nil). The Company recorded €0.2 million (2017: €1.5 million) of other operational income. This comprised income recognised from the European Commission FP7 grant in support of the Traumakine® programme.

**Research and development costs**
The R&D costs decreased by €2.6 million from €19.1 million in 2017 to €16.5 million in 2018. The costs of outsourced clinical trial services were reduced by €4.1 million from €9.4 to €5.3 million as a result of rapid cost reduction after the disappointing Traumakine® trial results. The Company continued Clevegen® development which in turn increased costs of R&D materials and services with €2.6 million from €4.7 million to €7.3 million costs. The part-time lay-offs of the whole R&D personnel reduced the R&D employee costs by €0.9 million from €2.7 million to €1.8 million despite the increase in R&D personnel employed.

**General and administration costs**
Administrative expenses increased by €0.7 million from €3.1 million in 2017 to €3.7 million in 2018. The increase was mainly due to the €1.2 million increase in external costs related to the development of internal financial and reporting processes during 1H2018. This was partly counterweighted by a €0.3 million decrease in G&A employee costs and €0.2 million reduction in communication costs.

**Taxation**
The Company's tax credit for the fiscal year 2018 can be recorded only after the Finnish tax authorities have approved the tax report and confirmed the amount of tax-deductible losses for 2018. The total amount of cumulative tax losses carried forward approved by tax authorities on 31 December 2018 was €11.2 million (2017: €25.9 million). The Company estimates that it can utilise most of these during the years 2020 to 2028 by offsetting them against future profits. In addition, Faron has €49.1 million of R&D costs incurred in the financial years 2010 to 2018 that have not yet been deducted in its taxation. This amount can be deducted over an indefinite period at the Company's discretion.

**Losses**
Loss before income tax was €20.1 million (2017: €21.1 million). Net loss for the year was €20.1 million (2017: €21.1 million), representing a loss of €0.65 per share (2017: €0.76 per share) (adjusted for the changes in number of issued shares).

**Cash flows**
Net cash out ow was €5.3 million negative for the year ended 31 December 2018 (2017: €1.9 million negative). Cash used for operating activities increased by €2.1 million to €20.5 million for the year, compared to €18.4 million for the year ended 31 December 2017. This increase was mostly driven by an increase in R&D investments. Net cash inflow from financing activities was €15.5 million (2017: €16.6 million) due to the successful equity placing completed in February 2018.

**Financial position**
As at 31 December 2018, total cash and cash equivalents held were €4.1 million (2017: €9.3 million). This excludes the funds raised in the financing rounds announced on 26 March 2019 and 8 November 2019. The cash at end of March 2019 was €4.9 million. The Company continues to implement tight cost control to keep the cash burn as low as possible for preservation of existing resources.

DEVELOPMENT DURING FIRST HALF YEAR 2019 COMPARED TO FIRST HALF YEAR 2018

**Financial review**

During the Period, in March and August 2019, the Company successfully raised approximately EUR 4.5 million from new and existing shareholders, employees and Company Directors. The majority of these proceeds are being used to advance Clevegen® through the MATINS trial, further Traumakine® development through the design and preparation of the global phase III CALIBER clinical trial and advance partnering discussions in respect of both Traumakine® and Clevegen®.

**Statement of comprehensive income**

The loss from operations for the six months ended 30 June 2019 was EUR 6.3 million (six months ended 30 June 2018: loss of EUR 14.0 million). No revenue was generated during the period or prior revenue. Research and development expenditure decreased by EUR 6.7 million to EUR 5.0 million (2018: EUR 11.7 million). Administrative expenses decreased by EUR 1.0 million to EUR 1.4 million (2018: EUR 2.4 million). Both the research and development and the administrative expenses include the IFRS charge resulting from the options allocated by the Board to the personnel. This had no impact on the cash flow or the Company's equity.

The loss after tax for the period was EUR 6.4 million (2018: loss of EUR 14.2 million) and the basic loss per share was 0.17 (2018: loss per share of 0.45).

**Statement of financial position and cash flows**

At 30 June 2019 (prior to the fundraising announced on 8 November 2019), net assets amounted to EUR −1.8 million (30 June 2018: EUR 6.7 million). The net cash flow for the first six months in 2019 was EUR −1.1 million (2018: EUR 1.8 million positive). As at 30 June 2019, total cash and cash equivalents held were EUR 2.9 million (2018: EUR 11.2 million).

THE FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED ON 30 JUNE 2019

The following pages contain the unaudited interim results for the six months ended 30 June 2019.

**Statement of comprehensive income**

| | Group | | | Parent | | |
|---|---|---|---|---|---|---|
| *EUR '000* | **Unaudited six months ended 30 Jun 2019** | **Unaudited six months ended 30 Jun 2018** | **For the year ended 31 December 2018** | **Unaudited six months ended 30 Jun 2019** | **Unaudited six months ended 30 Jun 2018** | **For the year ended 31 December 2018** |
| **Revenue** | - | 20 | 19 | - | 20 | 19 |
| Other operating income | - | 14 | 205 | - | 14 | 205 |
| Research and development expenses | (4,982) | (11,701) | (16,463) | (4,982) | (11,701) | (16,463) |
| General and administrative expenses | (1,361) | (2,372) | (3,750) | (1,334) | (2,368) | (3,740) |
| **Operating loss** | **(6,343)** | **(14,038)** | **(19,989)** | **(6,316)** | **(14,034)** | **(19,979)** |
| Financial expense | (73) | (327) | (397) | (73) | (327) | (397) |
| Financial income | 5 | 305 | 302 | 5 | 305 | 302 |
| **Loss before tax** | **(6,411)** | **(14,060)** | **(20,084)** | **(6,384)** | **(14,055)** | **(20,074)** |
| Tax expense | (0) | - | (2) | (0) | - | (2) |
| **Loss for the period** | **(6,412)** | **(14,060)** | **(20,086)** | **(6,384)** | **(14,055)** | **(20,076)** |
| **Comprehensive loss for the period attributable to the equity holders of the Company** | (6,412) | (14,060) | (20,086) | (6,384) | (14,055) | (20,076) |
| **Loss per ordinary share** | | | | | | |
| Basic and diluted loss per share, EUR | (0,17) | (0,45) | (0,65) | (0,17) | (0,45) | (0,65) |

Balance sheet

| *EUR '000* | Group Unaudited six months ended 30 Jun 2019 | Unaudited six months ended 30 Jun 2018 | For the year ended 31 December 2018 | Parent Unaudited six months ended 30 Jun 2019 | Unaudited six months ended 30 Jun 2018 | For the year ended 31 December 2018 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| ***Non-current assets*** | | | | | | |
| Machinery and equipment | 14 | 20 | 17 | 14 | 20 | 17 |
| Subsidiary shares | 0 | 0 | 0 | 18 | 18 | 18 |
| Intangible assets | 522 | 419 | 525 | 522 | 419 | 525 |
| Prepayments and other receivables | 595 | 1,305 | 636 | 668 | 1,305 | 636 |
| **Total non-current assets** | **1,131** | **1,744** | **1,177** | **1,222** | **1,761** | **1,195** |
| ***Current assets*** | | | | | | |
| Prepayments and other receivables | 1,080 | 3,805 | 2,759 | 1,080 | 3,805 | 2,759 |
| Cash and cash equivalents | 2,892 | 11,168 | 4,067 | 2,829 | 11,155 | 4,058 |
| **Total current assets** | **3,972** | **14,973** | **6,825** | **3,909** | **14,960** | **6,817** |
| **Total assets** | **5,103** | **16,716** | **8,002** | **5,131** | **16,721** | **8,012** |
| **Equity and liabilities** | | | | | | |
| ***Capital and reserves attributable to the equity holders of the Company*** | | | | | | |
| Share capital | 2,691 | 2,691 | 2,691 | 2,691 | 2,691 | 2,691 |
| Reserve for invested unrestricted equity | 68,695 | 64,464 | 64,464 | 68,694 | 64,464 | 64,464 |
| Accumulated deficit | (73,146) | (60,433) | (66,786) | (73,108) | (60,429) | (66,775) |
| Translation difference | (0) | | - | - | - | - |
| **Total equity** | **(1,761)** | **6,722** | **369** | **(1,723)** | **6,727** | **380** |
| ***Non-current liabilities*** | | | | | | |
| Borrowings | 2,363 | 2,105 | 1,887 | 2,363 | 2,105 | 1,887 |
| **Total non-current liabilities** | **2,363** | **2,105** | **1,887** | **2,363** | **2,105** | **1,887** |
| ***Current liabilities*** | | | | | | |
| Borrowings | 0 | 0 | 245 | 0 | 0 | 245 |
| Trade payables | 2,868 | 4,869 | 3,534 | 2,868 | 4,869 | 3,533 |
| Other current liabilities | 1,633 | 3,020 | 1,967 | 1,623 | 3,020 | 1,967 |
| **Total current liabilities** | **4,501** | **7,889** | **5,745** | **4,491** | **7,889** | **5,744** |
| **Total liabilities** | **6,864** | **9,994** | **7,633** | **6,854** | **9,994** | **7,631** |
| **Total equity and liabilities** | **5,103** | **16,716** | **8,002** | **5,131** | **16,721** | **8,012** |

**Parent Company Statement of changes in equity**

| *EUR '000* | Share capital | Reserve for invested unrestricted equity | Accumulated deficit | Total equity |
|---|---|---|---|---|
| **Balance as at 1 January 2018** | **2,691** | **48,579** | **(46,524)** | **4,743** |
| Comprehensive loss for the first six months 2018 | - | - | (14,055) | (14,055) |
| **Transactions with equity holders of the Company** | | | | |
| Issue of ordinary shares, net of transaction costs EUR 1,135 thousand | - | 15,888 | - | 15,888 |
| Share-based compensation | - | 0 | 150 | 150 |
| | **-** | **15,888** | **150** | **16,038** |
| **Balance as at 30 June 2018** | **2,691** | **64,464** | **(60,429)** | **6,727** |
| Comprehensive loss for the last six months 2018 | - | - | (6,021) | (6,021) |
| **Transactions with equity holders of the Company** | | | | |
| Issue of ordinary shares, net of transaction costs EUR 0 thousand | - | - | - | - |
| Share-based compensation | - | - | (326) | (326) |
| | **-** | **-** | **(326)** | **(326)** |
| **Balance as at 31 December 2018** | **2,691** | **64,464** | **(66,775)** | **380** |
| Comprehensive loss for the first six months 2019 | - | - | (6,384) | (14,055) |
| **Transactions with equity holders of the Company** | | | | - |
| Issue of ordinary shares, net of transaction costs EUR 230 thousand | - | 4,230 | - | 4,230 |
| Share-based compensation | - | - | 51 | 51 |
| | **-** | **4,230** | **51** | **4,281** |
| **Balance as at 30 June 2019** | **2,691** | **68,694** | **(73,108)** | **(1,723)** |

**Group Statement of changes in equity**

| *EUR '000* | Share capital | Reserve for invested unrestricted equity | Translation difference | Accumulated deficit | Total equity |
|---|---|---|---|---|---|
| **Balance as at 1 January 2018** | **2,691** | **48,576** | | **(46,524)** | **4,743** |
| Comprehensive loss for the first six months 2018 | - | - | | (14,060) | (14,060) |
| **Transactions with equity holders of the Company** | | | | | |
| Issue of ordinary shares, net of transaction costs EUR 1,135 thousand | - | 15,888 | | - | 15,888 |
| Share-based compensation | - | 0 | | 150 | 150 |
| | **-** | **15,888** | | **150** | **16,038** |
| **Balance as at 30 June 2018** | **2,691** | **64,464** | | **(60,434)** | **6,722** |
| Comprehensive loss for the last six months 2018 | - | - | | (6,026) | (6,026) |
| **Transactions with equity holders of the Company** | | | | | |
| Issue of ordinary shares, net of transaction costs EUR 0 thousand | - | - | | - | - |
| Share-based compensation | - | - | | (326) | (326) |
| | **-** | **-** | | **(326)** | **(326)** |
| **Balance as at 31 December 2018** | **2,691** | **64,464** | | **(66,786)** | **369** |
| Comprehensive loss for the first six months 2019 | - | - | | (6,412) | (6,412) |
| **Transactions with equity holders of the Company** | | | | | - |
| Issue of ordinary shares, net of transaction costs EUR 230 thousand | - | 4,230 | | - | 4,230 |
| Share-based compensation | - | - | | 51 | 51 |
| | **-** | **4,230** | | **51** | **4,281** |
| **Balance as at 30 June 2019** | **2,691** | **68,695** | | **(73,146)** | **(1,761)** |

**Statement of cash flows**

| *EUR '000* | Group | | | Parent | | |
|---|---|---|---|---|---|---|
| | **Unaudited six months ended 30 Jun 2019** | **Unaudited six months ended 30 Jun 2018** | **For the year ended 31 December 2018** | **Unaudited six months ended 30 Jun 2019** | **Unaudited six months ended 30 Jun 2018** | **For the year ended 31 Decem-ber 2018** |
| **Cash flow from operating activities** | | | | | | |
| Loss before tax | (6,411) | (14,060) | (20,084) | (6,384) | (14,056) | (20,074) |
| Adjustments for: | | | | | | |
| Depreciation and amortisation | 48 | 42 | 100 | 48 | 42 | 100 |
| Interest expense | 39 | 47 | 121 | 39 | 47 | 121 |
| Unrealised foreign exchange loss (gain), net | 29 | (35) | (36) | 29 | (35) | (36) |
| Share-based compensation | 51 | 150 | (176) | 51 | 150 | (176) |
| Adjusted loss from operations before changes in working capital | (6,245) | (13,855) | (20,075) | (6,217) | (13,852) | (20,065) |
| Change in net working capital: | | | | | | |
| Prepayments and other receivables | 1,679 | 120 | 1,836 | 1,647 | 120 | 1,836 |
| Trade payables | (641) | 1,668 | 338 | (680) | 1,668 | 337 |
| Other liabilities | (334) | (1,502) | (2,595) | (344) | (1,502) | (2,595) |
| Cash used in operations | (5,541) | (13,570) | (20,496) | (5,594) | (13,566) | (20,487) |
| Taxes paid | 0 | 0 | (2) | 0 | 0 | (2) |
| Interest paid | (26) | (13) | (27) | (26) | (13) | (27) |
| **Net cash used in operating activities** | **(5,567)** | **(13,583)** | **(20,525)** | **(5,620)** | **(13,579)** | **(20,516)** |
| | | | | | | |
| **Cash flow from investing activities** | | | | | | |
| Payments for acquisition of shares in subsidiaries | (0) | 0 | 0 | (0) | (18) | (18) |
| Payments for intangible assets | (41) | (132) | (293) | (41) | (132) | (293) |
| Payments for equipment | (0) | (2) | (2) | (0) | (2) | (2) |
| **Net cash used in investing activities** | **(41)** | **(134)** | **(295)** | **(152)** | **(152)** | **(313)** |
| | | | | | | |
| **Cash flow from financing activities** | | | | | | |
| Proceeds from issue of shares | 4,461 | 17,023 | 17,023 | 4,461 | 17,023 | 17,023 |
| Share issue transaction cost | (230) | (1,135) | (1,135) | (230) | (1,135) | (1,135) |
| Proceeds from borrowings | 231 | - | - | 231 | - | - |
| Repayment of borrowings | (0) | (347) | (347) | (0) | (347) | (347) |
| **Net cash from financing activities** | **4,461** | **15,541** | **15,541** | **4,461** | **15,541** | **15,541** |
| | | | | | | |
| **Net increase (+) / decrease (-) in cash and cash equivalents** | (1,147) | 1,824 | (5,279) | (1,200) | 1,810 | (5,288) |
| Effect of exchange rate changes on cash and cash equivalents | (29) | 35 | 36 | (29) | 35 | 36 |
| | | | | | | |
| Cash and cash equivalents at 1 January | 4,067 | 9,310 | 9,310 | 4,058 | 9,310 | 9,310 |
| **Cash and cash equivalents at the end of period** | 2,892 | 11,168 | 4,067 | 2,829 | 11,155 | 4,058 |

FINANCIAL INFORMATION FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2018

The tables below contain a summary of Company's financial development and status for the year ended 31.12.2017 and 31.12.2018. The information is based on the audited Financial Statements for the years ended 31.12.2017 and 31.12.2018 .

The Financial Statements have been prepared in accordance with the International Financial Reporting Standards of the International Accounting Standards Board (IASB) as adopted by the European Union (IFRS) and the interpretations of the International Finance Reporting Standards Interpretations Committee (IFRS IC). The half-year reports have been prepared according to AIM Rules and presented here as requested by the Rules.

This summary shall be read together with the Annual Reports for years 2017, which are presented as separate attachments to this Company Description.

**Statement of comprehensive income**

| *€'000* | **1.1.-31.12.2018 audited** | **1.1.-31.12.2017 audited** |
|---|---|---|
| **Revenue** | 19 | **-** |
| Other operating income | 205 | 1,495 |
| Research and development expenses | (16,463) | (19,100) |
| General and administrative expenses | (3,750) | (3,054) |
| **Operating loss** | **(19,989)** | **(20,659)** |
| Financial expense | (397) | (408) |
| Financial income | 302 | 7 |
| **Loss before tax** | **(20,084)** | **(21,060)** |
| Tax expense | (2) | (1) |
| **Loss for the period** | **(20,086)** | **(21,061)** |
| | | |
| Other comprehensive income | **-** | - |
| **Total comprehensive loss for the period** | **(20,086)** | **(21,061)** |
| | | |
| **Loss per ordinary share** | | |
| Basic and diluted loss per share, EUR | (0.65) | (0.76) |

**Balance sheet**

| *€'000* | **1.1.-31.12.2018 audited** | **1.1.-31.12.2017 audited** |
|---|---|---|
| **Assets** | | |
| ***Non-current assets*** | | |
| Machinery and equipment | 17 | 22 |
| Subsidiary shares | - | - |
| Intangible assets | 525 | 325 |
| Prepayments and other receivables | 636 | 1,310 |
| **Total non-current assets** | **1,177** | **1,657** |
| | | |
| ***Current assets*** | | |
| Prepayments and other receivables | 2,759 | 3,920 |
| Cash and cash equivalents | 4,067 | 9,310 |
| **Total current assets** | **6,825** | **13,230** |
| | | |
| **Total assets** | **8,002** | **14,887** |
| | | |
| **Equity and liabilities** | | |
| | | |
| ***Capital and reserves attributable to the equity holders of the Company*** | | |
| Share capital | 2,691 | 2,691 |
| Reserve for invested unrestricted equity | 64,464 | 48,576 |
| Accumulated deficit | (66,786) | (46,524) |
| Translation difference | - | - |
| **Total equity** | **369** | **4,743** |
| | | |
| ***Non-current liabilities*** | | |
| Borrowings | 1,887 | 2,088 |
| **Total non-current liabilities** | **1,887** | **2,088** |
| | | |
| ***Current liabilities*** | | |
| Borrowings | 245 | 338 |
| Trade payables | 3,534 | 3,196 |
| Other current liabilities | 1,967 | 4,522 |
| **Total current liabilities** | **5,745** | **8,056** |
| | | |
| **Total liabilities** | **7,633** | **10,144** |
| | | |
| **Total equity and liabilities** | **8,002** | **14,887** |

**Statement of cash flows**

| *€'000* | 1.1.-31.12.2018 audited | 1.1.-31.12.2017 audited |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss before tax | (20,084) | (21,060) |
| Adjustments for: | | |
| Depreciation and amortisation | 100 | 76 |
| Interest expense | 121 | 75 |
| Unrealised foreign exchange loss (gain), net | (36) | 290 |
| Share-based compensation | (176) | 1,189 |
| Adjusted loss from operations before changes in working capital | (20,075) | (19,430) |
| Change in net working capital: | | |
| Prepayments and other receivables | 1,836 | (1,286) |
| Trade payables | 338 | 1,175 |
| Other liabilities | (2,595) | 1,189 |
| Cash used in operations | (20,496) | (18,352) |
| Taxes paid | (2) | (1) |
| Interest paid | (27) | (10) |
| **Net cash used in operating activities** | **(20,525)** | **(18,363)** |
| | | |
| **Cash flow from investing activities** | | |
| Payments for intangible assets | (293) | (90) |
| Payments for equipment | (2) | (8) |
| **Net cash used in investing activities** | **(295)** | **(98)** |
| | | |
| **Cash flow from financing activities** | | |
| Proceeds from issue of shares | 17,023 | 17,362 |
| Share issue transaction cost | (1,135) | (1,148) |
| Proceeds from borrowings | - | 453 |
| Repayment of borrowings | (347) | (84) |
| **Net cash from financing activities** | **15,541** | **16,583** |
| | | |
| **Net increase (+) / decrease (-) in cash and cash equivalents** | (5,279) | (1,878) |
| Effect of exchange rate changes on cash and cash equivalents | 36 | (290) |
| | | |
| Cash and cash equivalents at 1 January | 9,310 | 11,478 |
| **Cash and cash equivalents at 31 December** | 4,067 | 9,310 |

NOTES TO THE FINANCIAL DEVELOPMENT

**Revenue and other operating income**
The Company has had no revenue during the financial years 2017 and 2018.

In 2017 the Company recorded €1.5 million of other operational income. This comprised of income recognised from the European Commission FP7 grant in support of the Traumakine® programme as well as a grant component from public loans according to IFRS. In 2018 the Company recorded €0.2 million of other operational income. This comprised income recognised from the European Commission FP7 grant in support of the Traumakine® programme.

**Research and development costs**
The R&D costs in 2017 were €19.1 million, which was more than double (+107%) from the previous year's €9.2 million. This increase was a result of very strong investment in the finalisation of the patient recruitment in INTEREST trial. The trial completed recruitment in early December 2017. The increased activity of Clevegen® development also contributed to the increase in R&D investment. In September 2017, the Company received a positive recommendation from the FDA regarding the possibility to proceed directly to BLA filing in the US upon successful completion of the European and Japanese Phase III studies without the need to conduct clinical trials for Traumakine® in the US. In view of this recommendation and in anticipation of a positive INTEREST trial the Company, the Company accelerated the preparatory work for eventual Traumakine® launch, including increasing production of active pharmaceutical ingredient (API), with the majority of this work to be completed 2018.

During 2018 the R&D costs decreased by €2.6 million from the previous year to €16.5 million. The costs of outsourced clinical trial services were reduced by €4.1 million from €9.4 to €5.3 million as a result of rapid cost reduction after the disappointing Traumakine® trial results. The Company continued Clevegen® development which in turn increased costs of R&D materials and services with €2.6 million from €4.7 million to €7.3 million costs. The part-time lay-offs of the whole R&D personnel reduced the R&D employee costs by €0.9 million from €2.7 million to €1.8 million despite the increase in R&D personnel employed.

Research and development expenses

| | Year ended 31 December | |
|---|---|---|
| *€'000* | **2018** | **2017** |
| Outsourced clinical trials services | (5,250) | (9,392) |
| Materials and services | (7,311) | (4,727) |
| Employee benefits | (1,820) | (2,704) |
| Other R&D costs | (1,652) | (1,315) |
| Inventory write-down | (338) | (893) |
| Depreciation and amortization | (92) | (69) |
| **Total research and development expenses** | **(16,463)** | **(19,100)** |

**General and administration costs 2017–2018**
In 2017 G&A expenses increased by €0.6 million from €2.5 million to €3.1 million.

In 2018 G&A expenses increased by €0.7 million from €3.1 million in 2017 to EUR 3.7 million in 2018. The increase was mainly due to the €1.2 million increase in external costs related to the development of internal financial and reporting processes during H1 2018. This was partly counterweighted by a €0.3 million decrease in G&A employee costs and €0.2 million reduction in communication costs.

General and administration expenses

| *€'000* | Year ended 31 December 2018 | 2017 |
|---|---|---|
| Internal financial and reporting process development | (1,358) | (165) |
| Employee benefits | (1,330) | (1,665) |
| Other G&A costs | (907) | (849) |
| Communication | (137) | (368) |
| Depreciation and amortization | (8) | (7) |
| **Total general and administrative expenses** | **(3,740)** | **(3,054)** |

**Share-based compensation**

During the year, options over 500,000 ordinary shares (2016: 400,000) were awarded to Directors and key personnel. This had no cash impact on the results for the year, however, accounting standards require this share based compensation to be recognised in the Consolidated Statement of Comprehensive Income, resulting in a charge of €1.2 million (2016: €0.9 million).

**Financial income and expenses**

Interest expenses consist of paid and accrued interest expenses. The accrued interest expense relates mainly to the government loans.

The foreign exchange losses relate to euro value changes of cash balances nominated in Pound Sterling.

Unrealised foreign exchange loss is EUR 36 thousand and gain is EUR 290 thousand for the years ended 31 December 2018 and 2017, respectively.

| *€'000* | Year ended 31 December 2018 | 2017 |
|---|---|---|
| **Financial income** | | |
| Interest income | - | - |
| Gains from foreign exchange | 302 | 7 |
| **Total financial income** | **302** | **7** |
| | | |
| **Financial expenses** | | |
| Interest expenses | (121) | (75) |
| Losses from foreign exchange | (274) | (332) |
| Other financial expenses | (2) | (1) |
| **Total financial expenses** | **(397)** | **(408)** |
| | | |
| **Total financial income and expenses, net** | **(95)** | **(401)** |

**Taxation 2017–2018**

The Company's tax credit for the fiscal year 2017 can be recorded only after the Finnish tax authorities have approved the tax report and confirmed the amount of tax-deductible losses for 2017. The total amount of cumulative tax losses carried forward approved by tax authorities on 31 December 2017 was €23.5 million (2016: €14.2 million). The Company estimates that it can utilise €23.3 million of these during the years 2019 to 2026 by offsetting them against future profits. In addition, Faron has €2.8 million of R&D costs incurred in the financial years 2010 and 2011 that have not yet been deducted in its taxation. This amount can be deducted over an indefinite period at the Company's discretion.

The Company's tax credit for the fiscal year 2018 can be recorded only after the Finnish tax authorities have approved the tax report and confirmed the amount of tax-deductible losses for 2018. The total amount of cumulative tax losses carried forward approved by tax authorities on 31 December 2018 was €11.2 million

(2017: €25.9 million). The Company estimates that it can utilise most of these during the years 2020 to 2028 by offsetting them against future profits. In addition, Faron has €49.1 million of R&D costs incurred in the financial years 2010–2018 that have not yet been deducted in its taxation. This amount can be deducted over an indefinite period at the Company's discretion.

**Losses 2017–2018**
Loss before income tax was €21.1 million (2016: €10.1 million). Net loss for the year was €21.1 million (2016: €10.1 million), representing a loss of €0.76 per share (2016: €0.42 per share) (adjusted for the changes in number of issued shares).

Loss before income tax was €20.1 million (2017: €21.1 million). Net loss for the year was €20.1 million (2017: €21.1 million), representing a loss of €0.65 per share (2017: €0.76 per share) (adjusted for the changes in number of issued shares).

**Cash flows 2017–2018**
Despite doubling its R&D expenses net cash outflow was only €2.2 million negative for the year ended 31 December 2017, compared to a positive net cash inflow of €0.4 million for the previous year. Cash used for operating activities increased by €9.0 million to €18.4 million for the year, compared to €9.4 million for the year ended 31 December 2016. This increase was mostly driven by a €9.9 million (107%) increase in R&D investment together with a €0.6 million (24%) increase in administrative costs.

Net cash inflow from financing activities was €16.6 million (2016: €9.3 million) due to the two successful equity placings completed during the year.

Net cash outflow was €5.3 million negative for the year ended 31 December 2018 (2017: €1.9 million negative). Cash used for operating activities increased by €2.1 million to €20.5 million for the year, compared to €18.4 million for the year ended 31 December 2017. This increase was mostly driven by an increase in R&D investments.

Net cash inflow from financing activities was €15.5 million (2017: €16.6 million) due to the successful equity placing completed in February 2018.

**Financial position 2017–2018**
As at 31 December 2017, total cash and cash equivalents held were €9.3 million (2016: €11.5 million). This excludes the funds raised in the financing round announced on 21 February 2018. The cash at end of March 2018 was €18.7 million. The Board will be focussing on reducing cash burn and preservation of existing resources until the full data analysis is complete and it is agreed how best to deliver value to Shareholders.

As at 31 December 2018, total cash and cash equivalents held were €4.1 million (2017: €9.3 million). This excludes the funds raised in the financing round announced on 26 March 2019. The cash at end of March 2019 was €4.9 million. The Company continues to exercise tight cost control to keep the cash burn as low as possible for preservation of existing resources.

**Shares and share capital 2017–2018**

Movements in number of shares, share capital and reserve for invested unrestricted equity were as follows

| *€'000* | **Total registered shares (pcs)** | **Share capital** | **Reserve for unrestricted equity** |
|---|---|---|---|
| **1 January 2017** | **26,311,704** | **2,691** | **32,362** |
| Issue of new shares, net of transaction costs | 2,672,340 | - | 15,863 |

| | | | |
|---|---|---|---|
| Exercise of warrants | 151,400 | - | 254 |
| Exercise of options | 29,100 | - | 97 |
| **31 December 2017** | **29,164,544** | **2,691** | **48,576** |
| | | | |
| **1 January 2018** | **29,164,544** | **2,691** | **48,576** |
| Issue of new shares, net of transaction costs | 1,863,350 | - | 15,888 |
| **31 December 2018** | **31,027,894** | **2,691** | **64,464** |

**Financial assets and liabilities**

| | As at 31 December | | | |
|---|---|---|---|---|
| | Group | | Parent | |
| *€'000* | **2018** | **2017** | **2018** | **2017** |
| **Financial assets measured at amortised cost** | | | | |
| Other receivables (*) | 385 | 1,497 | 385 | 1,497 |
| Cash and cash equivalents | 4,067 | 9,310 | 4,058 | 9,310 |
| Total financial assets measured at amortised cost | 4,452 | 10,807 | 4,443 | 10,807 |
| | | | | |
| **Financial liabilities measured at amortised cost** | | | | |
| Trade payables | 3,534 | 3,196 | 3,533 | 3,196 |
| Borrowings in form of Tekes R&D loans | 2,132 | 2,426 | 2,132 | 2,426 |
| Total financial liabilities measured at amortised cost | 5,666 | 5,622 | 5,665 | 5,622 |

* Prepayments are excluded as they are not considered to be financial instruments.

Due to the short-term nature of the other receivables, their carrying amount is considered to equal their fair values.

*Borrowings in the form of Tekes R&D loans*

Fair value for the Tekes R&D loans is calculated by discounting estimated future cash flows for the loans using appropriate interest rates at the reporting date. The discount rate considers the risk-free interest rate and estimated margin for the Company's own credit risk. Discounted future cash flows are derived from the terms containing the repayment amounts and repayment dates for the principal and the cash payments for interest. Given that some of the inputs to the valuation technique rely on unobservable market data, loan fair values are classified in Level 3.

The fair value of all the Tekes loans was EUR 1,792 thousand (2017 EUR 2,139 thousand).

Tekes R&D loans are granted to a defined product development project and cover a contractually defined portion of the underlying development projects' R&D expenses. The below-market interest rate for these loans is the base rate set by the Ministry of Finance minus three (3) percentage points, subject to a minimum rate of 1%. Repayment of these loans shall be initiated after 5 years, thereafter loan principals shall be paid back in equal instalments over a 5-year period, unless otherwise agreed with Tekes. For more information on contractual maturities of the Tekes R&D loans and interests is provided in the note 19. The accrued interest on Tekes R&D loans amounted to EUR 79 thousand (2017 EUR 65 thousand). Grant payments received in

advance of the incurrence of the costs the grant is intended to compensate are deferred at the reporting date and presented under advances received on the balance sheet.

This section sets out an analysis of net debt and the movements in net debt (calculated as cash and cash equivalents less borrowings) for each of the periods presented.

**Depreciation and amortisation**

| | Year ended 31 December | |
|---|---|---|
| *€'000* | **2018** | **2017** |
| **Depreciation and amortisation by type of asset** | | |
| Intangible assets - patents | (92) | (69) |
| Intangible assets | (1) | - |
| Machinery and equipment | (7) | (7) |
| **Total depreciation and amortisation** | **(100)** | **(76)** |
| | | |
| **Depreciation and amortisation by function** | | |
| Research and development expenses | (92) | (69) |
| General and administrative expenses | (8) | (7) |
| **Total depreciation and amortisation** | **(100)** | **(76)** |

**Financial income and expenses**

| | Year ended 31 December | |
|---|---|---|
| *€'000* | **2018** | **2017** |
| **Financial income** | | |
| Interest income | - | - |
| Gains from foreign exchange | 302 | 7 |
| **Total financial income** | **302** | **7** |
| | | |
| **Financial expenses** | | |
| Interest expenses | (121) | (75) |
| Losses from foreign exchange | (274) | (332) |
| Other financial expenses | (2) | (1) |
| **Total financial expenses** | **(397)** | **(408)** |
| | | |
| **Total financial income and expenses, net** | **(95)** | **(401)** |

Interest expenses consist of paid and accrued interest expenses. The accrued interest expense relates mainly to the government loans.

The foreign exchange losses relate to euro value changes of cash balances nominated in Pound Sterling.

Unrealised foreign exchange loss is EUR 36 thousand and gain is EUR 290 thousand for the years ended 31 December 2018 and 2017, respectively.

**Tax expense**

| | Year ended 31 December | |
|---|---|---|
| *€'000* | **2018** | **2017** |
| Tax expense | (2) | (1) |
| **Total tax expense** | **(2)** | **(1)** |

Income tax consists of foreign corporation tax.

The difference between income taxes at the statutory tax rate in Finland (20%) and income taxes recognised in the statement of comprehensive income is reconciled as follows:

| | Year ended 31 December | |
|---|---|---|
| *€'000* | **2018** | **2017** |
| Loss before tax | (20,074) | (21,060) |
| Income tax calculated at Finnish tax rate 20% | 4,015 | 4,212 |
| Tax losses and temporary differences for which no deferred tax asset is recognised | (4,266) | (3,974) |
| Non-deductible expenses and tax exempt income | 251 | (238) |
| Non-credited foreign withholding taxes | (2) | (1) |
| **Taxes in the statement of comprehensive income** | **(2)** | **(1)** |

Tax losses and deductible temporary differences for which no deferred assets have been recognised, are as follows:

| | Year ended 31 December | |
|---|---|---|
| *€'000* | **2018** | **2017** |
| R&D expenses not yet deducted in taxation [(1)] | 49,063 | 16,893 |
| Tax losses carried forward [(2)] | 11,151 | 25,862 |
| Deferred tax depreciation on fixed assets | - | 1,628 |
| **Total** | **60,214** | **44,383** |

1) The Company has incurred R&D costs that have not yet been deducted in its taxation. The amount deferred for tax purposes can be deducted over an indefinite period.
2) Tax losses carried forward expire over the period of 10 years. The tax losses will expire as follows:

| *€'000* | **2018** | **2017** |
|---|---|---|
| Expiry within five years | 1,164 | 3,164 |
| Expiry within 6-10 years | 9,987 | 22,698 |
| **Total** | **11,151** | **25,862** |

The related deferred tax assets have not been recognised in the balance sheet due to the uncertainty as to whether they can be utilised. The Company has a loss history, which is considered a significant factor in the consideration of not recognising deferred tax assets. The total tax value of unrecognised deferred tax assets is EUR 12,043 thousand (2017: EUR 8,877 thousand).

The Company does not have any other deductible or taxable temporary differences. Therefore, no deferred tax assets or liabilities have been recognised in the balance sheet and thus the itemisation of deferred taxes is not provided.

**Loss per share**
Loss per share is calculated by dividing the net loss by the weighted average number of ordinary shares in issue during the year.

| | Year ended 31 December | |
|---|---|---|
| | **2018** | **2017** |
| Loss for the period | (20,076) | (21,061) |
| Weighted average number of ordinary shares in issue | 30,749,648 | 27,887,901 |
| **Basic and dilutive loss per share (in €)** | **(0.65)** | **(0.76)** |

As of 31 December 2018, the Company had only share options outstanding as the warrants were exercised during 2017. Number of potentially dilutive instruments currently outstanding totalled 1,540,900 as of 31 December 2018 (31 December 2017: 1,540,900). Since the Company has reported a net loss, the share options and warrants would have an anti-dilutive effect and are therefore not taken into account in diluted loss per share calculation. As such, there is no difference between basic and diluted loss per share.

# CAPITAL STRUCTURE, INDEBTEDNESS AND SOURCES OF FUNDING

The table below presents Faron's capital structure and indebtedness as of 30 September 2019 based on the Company's unaudited management accounts. The unaudited pro forma figures for 30 September 2019 include the approximate net funds of EUR 8,033 thousand raised in the Placing of shares registered on the Finnish Trade Register on 12 November 2019. The net proceeds from the completed placing have been included in the pro forma calculation to give the reader a better picture of Company's capital structure and indebtedness going forward.

The table should be read together with the sections *"Financial information"* and *"Shares, share capital and shareholders"* as well as the audited annual accounts and unaudited half year periodic reports.

| **€'000**<br>**A STATEMENT OF CAPITALISATION AND INDEBTEDNESS** | **Actual 30 September 2019** | **Share issue impact*** | **Pro forma 30 September 2019** |
|---|---|---|---|
| **Current interest bearing liabilities** | | | |
| Unsecured | 0 | 0 | 0 |
| Secured | - | - | - |
| **Current interest bearing liabilities total** | **0** | **0** | **0** |
| | | | |
| **Non-current interest bearing liabilities** | | | |
| Unsecured | 2 363 | 0 | 2 363 |
| Secured | - | - | - |
| **Non-current interest bearing liabilities total** | **2 363** | **0** | **2 363** |
| | | | |
| **Equity** | | | |
| Share capital | 2 691 | 0 | 2 691 |
| Reserve for invested unrestricted equity | 70 959 | 8 033 | 78 992 |
| Translation difference | -2 | 0 | -2 |
| Accumulated deficit | -74 413 | 0 | -74 413 |
| **Total equity** | **-765** | **8 033** | **7 268** |
| | | | |
| **Total equity and interest bearing liabilities** | **1 598** | **8 033** | **9 631** |
| | | | |
| **Net indebtedness** | | | |
| Cash and cash equivalents | 2 383 | 8 033 | 10 416 |
| **Liquidity** | **2 383** | **8 033** | **10 416** |
| Current interest bearing liabilities | 0 | 0 | 0 |
| | | | |
| **Current net indebtedness** | **-2 383** | **-8 033** | **-10 416** |
| Non-current interest bearing liabilities total | 2 363 | 0 | 2 363 |
| **Net indebtedness** | **-20** | **-8 033** | **-8 053** |

* The net proceeds from the Placing (see "Shares, Share Capital and Shareholders").

As of the expected first date of trading, being 3 December 2019, the Company has sufficient working capital to cover all of its budgeted expenses for the period of 12 months ending 30 November 2020.

The Company is a development stage pharmaceutical company. Among the risks the Company faces include ability to generate revenues in due course from the development portfolio and pipeline products. Ultimately, the attainment of profitable operations is dependent on future uncertain events which include obtaining adequate financing to fulfil the Company's commercial and development activities and generating a level of revenue adequate to support its cost structure.

The Company's intention is to continue the development of the products to the point where they can be either licensed at attractive terms to pharmaceutical companies who have the means to further develop these products, or to develop the products in-house until receipt of marketing approval from the relevant regulatory agencies. After such approval, Faron would primarily seek to form partnerships with strong global, regional or local pharmaceutical companies that have the necessary marketing and distribution capabilities and resources. In such partnerships, Faron will typically grant geographically limited licenses to products in exchange for contractually agreed payments, license fees and royalties on future product sales. In some cases, one element of such agreements may include a collaboration in which Faron will also receive funding for R&D services provided at a cost plus basis. As has been the case since its inception, Faron primarily relies upon financing its activities through equity financing, license agreements, and public R&D loans and grants.

# SHARES, SHARE CAPITAL AND SHAREHOLDERS

**Shares and share capital**

As att the date of this Company Description, the Company has one class of ordinary shares, whose ISIN code is FI4000153309. The shares in the Company are in a book-entry format and they have no nominal value. Each share entitles the holder to one vote at the Company's General Meeting and gives equal right to dividends. All shares are fully paid. As at the date of this Company Description, the share capital of the Company is EUR 2,691,292.50. The registered number of shares is 43,290,747. As at the date of this Company Description, the Company does not hold its own shares in treasury.

The subscription price for the shares is recorded to the share capital, unless the Board has made a resolution to record the subscription price in the reserve for invested unrestricted equity. If the shares of a Finnish limited liability company have no nominal value according to its articles of association, the Companies Act allows companies to record the proceeds from share issuance to the reserve for invested unrestricted equity. In such situations the company can decide how much, if anything, of the subscription price of the share issue is recorded in share capital and how much to the reserve for invested unrestricted equity that is distributable. Since 2015, the Board has recognised all relevant transactions in the invested unrestricted equity reserve.

**Holdings of the Company's Board of Directors and management team**

The table below sets out the holdings of Shares in the Company as well as rights entitling to Shares by the members of the Board of Directors and the management team of the Company as at 14 November 2019.

The option plans have been further described under "Share-based incentive programmes".

| | Amount of shares and votes | % |
|---|---|---|
| | | |
| **Members of the board of directors*** | | |
| | | |
| Frank Armstrong | 64,792 | 0.15 |
| Matti Manner | 551,035 | 1.27 |
| Markku Jalkanen | 3,194,290 | 7.38 |
| Leopoldo Zambeletti | 17,461 | 0.04 |
| Gregory B. Brown | 46,49O | 0.11 |
| John Poulos | 0 | 0.00 |
| | 3,874,068 | 8.95 |
| | | |
| **Members of the management team*** | | |
| | | |
| Jalkanen Markku | 3,194,290 | 7.38 |
| Jalkanen Juho | 1,094,570 | 2.53 |
| Wichmann Yrjö | 131,266 | 0.30 |
| Karvonen Matti | 191,814 | 0.44 |
| Mandelin Jami | 10,256 | 0.02 |
| Hänninen Toni | 46,797 | 0.11 |
| Lahtinen Maria | 16,511 | 0.04 |
| | 4,685,504 | 10.82 |
| | | |
| **included related parties* | | |

**Share-based incentive programmes**

A share option plan ("Option Plan 2015") was adopted by the Company at the EGM held on 15 September 2015 and amended at the AGM held on 16 May 2017.

The Option Plan 2015 allows the Company to offer options ("Options") for subscription free of charge to members of the Board, and to such officers and employees of the Company as the Board sees fit. Each Option entitles the holder of the Option ("Option Holder") to subscribe for one Ordinary Share.

Under the terms of the Option Plan 2015, as amended, an aggregate maximum number of 1,800,000 Options may be granted, such aggregate being made up of a maximum of 400,000 "A" Options, the subscription period for which ended on 9 June 2016 (exercisable between 2 November 2015 and 30 September 2021), a maximum of 400,000 "B" Options, the subscription period for which ended on 30 September 2019 (exercisable between 8 October 2016 and 30 September 2021), a maximum of 500,000 "C" Options, the subscription period for which ended on 30 September 2019 (exercisable between 8 October 2017 and 30 September 2021), and a maximum of 500,000 "D" Options, the subscription period for which ended on 30 September 2019 (exercisable between 8 October 2018 and 30 September 2021).

The exercise price for Ordinary Shares based on "A" Options is €3.67, the euro equivalent to the placing price of the Ordinary Shares in the Company's initial public offering on AIM. The exercise price for Ordinary Shares based on "B", "C" and "D" Options is €2.90, €8.39 and €1.09, respectively, determined by the euro equivalent to the average share price of the publicly traded Ordinary Shares of the Company on AIM between 1 July and 30 September of 2016, 2017 and 2018, respectively, based on the exchange reference rate published by the European Central Bank on the last day of the period for determination of the exercise price, and rounded to the nearest euro cent.

The Options in each "A", "B", "C" and "D" tranche have been offered for subscription on the basis of the allocation schedule below, to such persons as are in the positions listed at the commencement of the relevant subscription period:

| *Offeree* | *"A" and "B" tranche* | *"C" and "D" tranche* |
|---|---|---|
| Chair of the Board | 40,000 Options | 40,000 Options |
| Members of the Board (excluding the Chair of the Board, the CEO and the CFO) | 20,000 Options each (up to an aggregate maximum of 100,000 Options) | 20,000 Options each (up to an aggregate maximum of 120,000 Options) |
| CEO | 80,000 Options | 80,000 Options |
| CFO | 30,000 Options | 30,000 Options |
| Key management to be nominated by the Board | Up to an aggregate maximum of 80,000 Options | Up to an aggregate maximum of 230,000 Options |
| Officers and employees to be nominated by the Board | Up to an aggregate maximum of 70,000 Options | |

At the date of this Company Description, the Directors have been granted the following Options under the Option Plan 2015:

| *Director* | *"A" Options held* | *"B" Options held* | *"C" Options held* | *"D" Options held* |
|---|---|---|---|---|
| Dr Markku Jalkanen | 80,000 | 80,000 | 80,000 | 80,000 |
| Dr Frank Armstrong | 40,000 | 40,000 | 40,000 | 40,000 |
| Matti Manner | 20,000 | 20,000 | 20,000 | 20,000 |
| Leopoldo Zambeletti | 20,000 | 20,000 | 20,000 | 20,000 |
| John Poulos | | | 20,000 | 20,000 |

| | | | | |
|---|---|---|---|---|
| Dr Gregory Brown | | | 20,000 | 20,000 |

If the Company increases the number of shares in the Company with a free issue of Ordinary Shares when the Options remain exercisable, the subscription price per Ordinary Share and the number of Ordinary Shares subject to each Option shall be adjusted pursuant to a formula contained in the Option Plan 2015. No adjustment shall be made to Options in the event of any issue of Ordinary Shares for payment or other special rights entitling recipients to shares in the Company, or issues of other option rights.

Options, once issued, are personal to the recipient, and cannot be transferred or pledged without the prior written consent of the Board. Benefits derived from Options are not pensionable. If an Option Holder's employment or appointment with the Company ends (including any membership of the Board), the Option Holder must offer all Options for which the period for share subscription has not yet begun to the Company on the last day of their employment or appointment. The Board may allow the Option Holder to keep some or all of the Options.

On 28 May 2019, the AGM authorised the Board to resolve by one or several decisions on issuances of options or other special rights entitling to shares referred to in chapter 10, section 1 of the Companies Act. The authorisation consists of up to 2,000,000 shares in the aggregate, which corresponded to approximately 5.4% of the existing shares and votes in the Company on the date of the AGM.

The authorisation does not exclude the Board's right to decide on the issuance of options or other special rights entitling to shares in deviation from the Shareholders' pre-emptive rights. The authorisation can be used for implementing an option plan for the employees and Directors of, and persons providing services to, the group, substantially in the form of the option plan attached as Annex 1 to the notice of the AGM available on the Company's website. There is a weighty financial reason for issuing options, as options are an integral part of the incentivisation system for the management and personnel of the Company.

The maximum number of options that may be granted to the members of the Company's management and the Board is as follows:

- to the Chair of the Board, a maximum of 180,000 options;
- to each member of the Board (excluding the Chair of the Board and the CEO and the CFO if they would be considered as members of the Company's Board), a maximum of 90,000 options;
- to the CEO, a maximum of 360,000 options; and
- to the CFO, a maximum of 130,000 options.

The exercise of options will be subject to fulfilment of certain criteria to be resolved by the Board ("Exercise Conditions"). Subject to fulfilment of the Exercise Conditions, the options may be exercised at an exercise price which may not be less than the market value of a share at the grant date, as determined by the Board ("Exercise Price"). In determining such market value, if shares are traded on AIM, the Board will have regard to the average price per share at which shares have been so traded over a period of 90 days immediately preceding the grant date. The Exercise Price will be determined so as to create a sufficient incentive for the recipients of options. The Exercise Price will be recorded in the Company's reserve for invested unrestricted equity.

The Board was authorised to resolve on all other terms and conditions of the issuance of options or other special rights entitling to shares referred to in chapter 10, section 1 of the Companies Act. The authorisation will be effective until 30 June 2023 and will not replace previous authorisations granted to the Board.

**Dividend policy**
As the Company's operations have been generating losses and are expected to do so in the near future, the Company has no confirmed and/or communicated dividend policy. In the case the Company would generate enough profits so that it would have distributable equity, the Board of Directors will evaluate Company's ability to pay dividend taken into account the future capital needs of the Company.

**Shareholders**
The holdings of 3% or more of the issued share capital of the Company:

| | **Number of shares and votes as at 14 November 2019** | % |
|---|---|---|
| Timo Syrjälä* | 6,086,855 | 14.06 |
| Tom-Erik Lind | 3,547,712 | 8.20 |
| A&B (HK) Company Limited | 3,408,409 | 7.87 |
| Markku Jalkanen** | 3,194,290 | 7.38 |
| Marko Salmi | 2,840,639 | 6.59 |
| Hargreaves Lansdown Asset Mgt | 2,291,153 | 5.29 |

* Mr Timo K Syrjälä and Acme Investments SPF Sàrl
** Held by Markku Jalkanen and related party

The information presented in the above table is consistent with the Company's best knowledge as at 14 November 2019.

The Company's Certified Adviser does not hold any shares in the Company.

**Table of ownership development**:

| **2019** | Depositary Interest **Computershare** | | Shares **Euroclear** | | | |
|---|---|---|---|---|---|---|
| | Holders | Units | Owners | Shareholders register, pc | Nominee registered, pc | total number of shares and votes |
| January | 156 | 16 523 813 | 126 | 14 426 251 | 16 601 643 | 31 027 894 |
| February | 154 | 16 457 728 | 126 | 14 360 051 | 16 667 843 | 31 027 894 |
| March | 155 | 17 468 677 | 148 | 16 512 635 | 18 963 884 | 35 476 519 |
| April | 151 | 17 441 777 | 149 | 16 539 535 | 18 936 984 | 35 476 519 |
| May | 150 | 17 689 377 | 152 | 17 301 210 | 19 932 684 | 37 233 894 |
| June | 147 | 17 185 677 | 156 | 17 804 910 | 19 428 894 | 37 233 894 |
| July | 143 | 16 945 677 | 156 | 18 044 910 | 19 188 984 | 37 233 894 |
| August | 146 | 20 350 583 | 163 | 16 215 697 | 23 139 550 | 39 355 247 |
| September | 145 | 20 209 498 | 170 | 16 352 782 | 23 002 465 | 39 355 247 |
| October | 145 | 19 833 619 | 198 | 16 728 661 | 22 626 586 | 39 355 247 |
| November | 145 | 19 922 285 | 225 | 18 576 265 | 24 714 482 | 43 290 747 |

**Equity capital development as listed company**

| Time of share issue | Issue price | | Capital raised, gross | | Number of shares issued | Total number of shares post issuance |
|---|---|---|---|---|---|---|
| | GBP | EUR | GBP | EUR | | |
| 2008 -June 2015 | | | | 13 732 484 | 19 265 550 | 19 265 550 |
| Nov-2015 (AIM IPO) | 2,60 | 3,69 | 10 000 000 | 14 210 967 | 3 846 154 | 23 111 704 |
| Sep-2016, share issue | 2,50 | 2,92 | 8 000 000 | 9 356 000 | 3 200 000 | 26 311 704 |
| Mar-2017, share issue | 3,50 | 4,11 | 4 978 190 | 5 847 382 | 1 422 340 | 27 734 044 |
| May-2017, exercise of warrants | 1,43 | 1,68 | 75 518 | 88 832 | 52 990 | 27 787 034 |
| May-2017, exercise of warrants | 1,45 | 1,68 | 143 082 | 164 974 | 98 410 | 27 885 444 |
| May-2017, exercise of options | 2,88 | 3,32 | 83 729 | 96 540 | 29 100 | 27 914 544 |
| Oct-2017, share issue | 8,00 | 9,00 | 10 000 000 | 11 250 000 | 1 250 000 | 29 164 544 |
| Feb-2018, share issue | 8,05 | 9,15 | 14 999 968 | 17 057 047 | 1 863 350 | 31 027 894 |
| Mar-May 2019, 1st share issue | 0,60 | 0,70 | 2 669 175 | 3 122 935 | 4 448 625 | 35 476 519 |
| Mar-May 2019, 2nd share issue | 0,65 | 0,76 | 1 142 294 | 1 335 254 | 1 757 375 | 37 233 894 |
| Jul-Aug 2019, 1st share issue | 1,06 | 1,19 | 998 350 | 1 120 790 | 941 840 | 38 175 734 |
| Jul-Aug 2019, 2nd share issue | 1,06 | 1,19 | 1 250 284 | 1 403 620 | 1 179 513 | 39 355 247 |
| Nov-2019 share issue | 1,90 | 2,20 | 7 477 450 | 8 650 229 | 3 935 500 | 43 290 747 |
| | | | | 87 437 054 | | |

**Equity raisings before IPO**

As a non-listed Company during 2007–14, the Company raised a total of €9.4 million through six issuance of common shares or convertible notes. In April-June 2015 the Company raised €4.4 million in a pre-IPO placement.

**Fundraisings 2015–2019**

In November 2015 the Company raised €14.2 million in an IPO on the AIM market of the London Stock Exchange. After the IPO in 2016 the Company has raised a total of €9.4 million equity funding through a private placements in the UK, Scandinavia and Finland.

Faron raised €5.8 million via a financing round in February/March 2017 by issuing 1,422,340 new ordinary shares at a price of 350 pence per share. Additionally the Company also raised €11.2 million via a financing round in October 2017 by issuing 1,250,000 new ordinary shares at a price of 800 pence per share. The proceeds were used to support the pre-launch activities for Traumakine® and to expedite Clevegen® clinical programme. In February 2018 Faron raised €17.1 million via a financing round by issuing 1,863,350 new ordinary shares at a price of 805 pence per share to support preparations for the commercialisation of Traumakine® and to advance the clinical development of Clevegen® in several indications. After this round, at the end of February 2018, the total number of outstanding shares was 31,027,894.

Faron also raised net € 3.1 million in March 2019 via a financing round by issuing 864,164 new ordinary shares at a price of 60.0 pence per share and 3,584,461 shares at a price of €70.2 cents per share to support preparations to expedite the Clevegen®'s clinical programme. After this round, at the end of March 2019, the total

number of outstanding shares was 35,476,519. In July – August 2019 Faron raised further € 2.5 million via a financing round by issuing 2,248,734 new ordinary shares at a price of €119 cents per share.

**November 2019 placing**
In the November 2019 placing the Company issued 3,935,500 ordinary shares with a subscription price of 190 pence/€219.8 cents per share, raising a total of € 8.6 million. The approximated euro net proceeds from the placing are EUR 8,033 thousand. Following the placing, the aggregate number of ordinary shares in the Company is 43,290,747. One ordinary share entitles to one vote in the General Meeting of the Company. The Company holds no treasury shares.

**Money raised to date**
To date, the Company has been funded with a total of approximately €87.5 million of equity funding (including fundraising before the IPO), which has been used to develop the Company's products and intellectual property.

**Board's authorisation to issue shares, options or other special rights entitling to shares**
An EGM held on 25 October 2019 authorised the Board to decide by one or several decisions upon issuance of up to 7,871,000 new shares, options or other special rights entitling to shares in deviation from shareholders' pre-emptive rights. The authorisation can be used for material Company arrangements, such as financing or implementing business arrangements, investments or for other such purposes determined by the Board where a weighty financial reason for issuing shares, options or other special rights entitling to shares, and possibly deviating from the shareholders' pre-emptive rights, exists.

On 7 November 2019, the Board utilised part of its authorisation and decided to issue 3,935,500 ordinary shares, after which the remaining authorisation is 3,935,500 shares. The authorisation will be effective until 30 June 2020.

**Liquidity provider**
The liquidity provider for the Company's shares is Lago Kapital Ltd.

**Share price development 17 Dec 2015 to 14 Nov 2019**
London Stock Exchange (AIM: FARN)

# BOARD OF DIRECTORS AND MANAGEMENT

## BOARD OF DIRECTORS

On 28 May 2019, Frank Armstrong, Markku Jalkanen, Matti Manner, Leopoldo Zambeletti, Gregory Brown and John Poulos were elected to the Board for a term that ends at the end of the next AGM. The elected Board comprises five non-executive Directors and one executive Director. At the meeting of the Board held following the AGM held on 28 May 2019, Frank Armstrong was re-elected Chairman of the Board and Matti Manner was re-elected Deputy Chairman of the Board. During 2018, the Board held 15 meetings.

The Board is responsible to the Shareholders for the proper management of the Company and meets regularly to set the overall direction and strategy of the Company, to review scientific, operational and financial performance, to review the strategy and activities of the business, and to advise on management appointments. The Board sees to the administration of the Company and the appropriate organisation of its operations, being responsible for the appropriate arrangement of the control of the Company accounts and finances. Faron's strategy is explained fully in the Strategy section on page 34.

All key operational and investment decisions are subject to full Board approval. The management of the Company prepares a monthly management and financial accounts pack, which is distributed to the Board every month and in advance of Board meetings. In individual cases the Board may decide in a matter falling within the general competence of the CEO.

The roles of CEO and Non-Executive Chairman are well defined and clearly separated. The Chairman oversees the Board's work, ensures that the Board's decision-making is balanced and that the non-executive Directors have all relevant information on matters to be decided. The Chairman sees to it that the Board meets when necessary.

The CEO is responsible for implementing the strategy of the Board and managing the day-to-day business activities of the Company. The CEO, reviewing the operating results regularly to make decisions about the allocation of resources and to assess overall performance, is the chief operating decision-maker.

According to an independence assessment performed by the Board, four Directors (Dr Armstrong, Dr Brown, Mr Poulos and Mr Zambeletti) out of the six Directors are considered to be independent in relation to the Company, its management and the Company's major shareholders. Based on an overall assessment, the Board has determined that Mr Manner is not independent of the Company. Mr Manner has served as a Director for more than 10 consecutive years. Dr Jalkanen serves in the Company's management and is a major shareholder, and is therefore not considered to be independent of the Company and the Company's major shareholders. The Board considers there to be sufficient independence of the Board and that all the non-executive Directors are of sufficient competence and calibre to add strength and objectivity to the Board, and to bring considerable experience in terms of their knowledge of the scientific, operational and financial development of biopharmaceutical products and companies. Where necessary, the Company facilitates that non-executive Directors obtain specialist external advice from appropriate advisers.

***Dr Frank Armstrong, Non-Executive Chairman***
Dr Armstrong has held Chief Executive roles with five biopharma companies (both public and private) including FulcrumPharma PLC (AIM). He led Medical Science and Innovation at Merck Serono and was previously Executive Vice President of Product Development at Bayer and Senior Vice President of Medical Research and Communications at Zeneca. Dr Armstrong is currently the Chairman of Summit Therapeutics (AIM and NASDAQ) and Caldan Therapeutics, and he is also a Non-Executive Director of Newcells Biotech. He is a member of the Senior Advisory Board at HealthCare Royalty Partners and an SAB Member at Epidarex Capital. Dr

Armstrong is a Member of the Court of the University of Edinburgh. Dr Armstrong is a physician and a Fellow of the Royal College of Physicians (Edinburgh).

He was appointed as a Non-Executive Director of the Company in September 2015.

***Matti Manner, Non-Executive Vice-Chairman***
Mr Matti Manner was appointed as a partner of Brander & Manner Attorneys Ltd in 1980 having previously sat as a judge at Turku Appeal Courts. He has significant experience in national and international business deals, corporate law and mergers and acquisitions having held a number of board memberships throughout his career. Mr Manner joined the Board of the Company as Chairman in 2007, Vice-Chairman since October 2015, having previously been the Chairman of Faron Ventures from 2002.

He is currently Chairman of Turun Osuuskauppa and Ruissalo Foundation and a member of the board of Marva Media Ltd, Satatuote Ltd, YH VS-Rakennuttajat Ltd, Kauppakeskus Mylly Ltd and Nurmi-Yhtiöt Oy. Mr Manner has experience of several trustee posts including the Presidency of the Finnish Bar (Lawyers) Association during the period of 1998 to 2004. Mr Manner obtained a Master of Laws from the University of Turku. He became an honorary Chief Justice in Finland in 2013.

***Dr Markku Jalkanen, Chief Executive Officer***
Dr Jalkanen has more than 25 years of experience within biomedical research, biopharma development and the biopharmaceutical industry. He was a founding member of the Company and is the Company's CEO. In addition to his role as CEO of the Company, Dr Jalkanen is an advisor for the only active Finnish life sciences fund – Inveni Capital. Between 1996 and 2002, Dr Jalkanen was the founding CEO and President of BioTie Therapies Corp which has since become the first publicly traded Finnish biopharma company to have listed on NASDAQ. Dr Jalkanen has published over 130 peer reviewed scientific publications in various highly ranked international journals and has held several board memberships for both public and private companies.

Dr Jalkanen obtained a Master's in Medical Biochemistry from the University of Kuopio and subsequently received a PhD in Medical Biochemistry from the University of Turku. He completed a side-laudatur examination in Molecular Biology from the University of Turku and completed his post-doctoral training at Stanford University, California between 1983 and 1986.

Dr Jalkanen obtained the position of docent in Biochemistry from University of Helsinki and the same qualification in Molecular and Cell Biology from the University of Turku. He became a Professor at the University of Turku in 1992 as well as Head of Turku Centre for Biotechnology.

***Dr Gregory B. Brown, Non-Executive Director***
Dr Gregory B. Brown has more than 35 years of experience in healthcare and investment. Most recently, Dr Brown founded HealthCare Royalty Partners, a healthcare-focused private asset management firm investing in biopharmaceutical and medical products, where he currently serves as Vice Chairman. In addition, Dr Brown is currently a director of Caladrius Biosciences Inc (NASDAQ), Cambrex Corporation (NYSE) and Aquestive Therapeutics (NASDAQ) and previously acted as a director of Invuity Inc (NASDAQ) between October 2014 and December 2015. Prior to this, he was a Managing Director at Paul Capital Partners in New York, Co-Head of Investment Banking at Adams, Harkness & Hill, and VP of Corporate Finance at Vector Securities International.

He was appointed as a Non-Executive Director of the Company in May 2017.

***John Poulos, Non-Executive Director***
Mr John Poulos has a wealth of expertise in global corporate life sciences, having spent 38 years working for AbbVie and Abbott. Mr Poulos served as Vice President, Head of Business Development and Acquisitions for

AbbVie from 2013 until 2016. John was also Group Vice President, Head of Pharmaceutical Licensing and Acquisitions for Abbott from 2005 until 2012. During his career with AbbVie and Abbott, John was instrumental in the negotiation of numerous acquisitions, including Knoll/BASF Pharma in 2001 for USD 6.9 billion, Kos Pharmaceuticals in 2006 for USD 3.7 billion, Solvay in 2010 for USD 6.2 billion and Pharmacyclics in 2015 for USD 21 billion.

Mr Poulos is currently an Operating Partner with Linden Capital Partners, a private equity firm focused exclusively on healthcare.

He was appointed as a Non-Executive Director of the Company in May 2017.

***Leopoldo Zambeletti, Non-Executive Director***
During a 19-year career as an investment banker, Mr Zambeletti led the European Healthcare Investment Banking team at JP Morgan for eight years before taking up the same position at Credit Suisse for a further five years. Since 2013 he has been an independent strategic advisor to life science companies on merger and acquisitions, out-licencing deals and financing strategy.

He is a Non-Executive Director of Philogen and Summit Therapeutics PLC (NASDAQ and AIM). Mr Zambeletti started his career at KPMG as an auditor.

Mr Zambeletti received a BA in Business from Bocconi University in Milan, Italy. Mr Zambeletti was appointed as a Non-Executive Director of the Company in September 2015.

## DIRECTORS REMUNERATION

| | Salaries and fees | Bonus 2018 | Taxable benefits | Total |
|---|---|---|---|---|
| **Executive** | | | | |
| Markku Jalkanen | 221 078,73 | 123 641,00 | 15 900,00 | 360 619,73 |
| Yrjö E K Wichmann* | 163 588,26 | 52 322,40 | 1 018,10 | 216 928,76 |
| **Non-Executive** | | | | |
| Frank Armstrong | 77 790,36 | | | 77 790,36 |
| Matti Manner | 44 421,57 | | | 44 421,57 |
| Jonathan Knowles** | 33 691,22 | | | 33 691,22 |
| Huaizheng Peng** | 36 198,04 | | | 36 198,38 |
| Leopoldo Zambeletti | 43 139,38 | | | 43 139,38 |
| Gregory Brown | 46 695,81 | | | 46 695,81 |
| John Poulos | 48 213,62 | | | 48 213,62 |

* Stepped down from the Board with effect from 28 May 2019.
** Resigned from the Board with effect from 12 September 2018.

## MANAGING DIRECTOR AND MANAGEMENT TEAM

Dr Markku Jalkanen
**Chief Executive Officer**

See description above in section “Board of Directors”.

Mr Toni Hänninen
**Chief Financial Officer**
Toni Hänninen has over 15 years of global experience in business controlling, finance, general management. He worked at the Hilti Group in Germany, Liechtenstein, India, USA and Vietnam in different finance and general management roles. He joined Faron from the Fortune 500 science and technology Group Danaher where he held the EMEA regional CFO position for their subsidiary X-Rite. Mr Hänninen studied at Vienna University of Economics, University of St. Gallen and Helsinki School of Economics (current Aalto University). He holds and international MBA degree from Helsinki School of Economics. Additionally, he did supplementary executive education at Harvard Business School. Mr Hänninen was appointed to the management team on 1 June 2019.

Dr Juho Jalkanen
**Chief Development Officer**
Dr Jalkanen, born in 1978, is one of the founding members of Faron and prior to joining the Company full time in 2017 he served on the Board of the Company from 2014 to 2017. During the past 15 years Dr Jalkanen has gained vast experienced in all aspects of the value chain of drug development from preclinical to translational and clinical studies. He is also well experienced in market research and valuation of research projects and clinical programmes for their commercial application and marketability. Dr Jalkanen holds degrees from Business and Medical School of Turku University. Dr Jalkanen is specialist in vascular surgery and has a PhD from molecular biology. Dr Jalkanen has published some 20 peer reviewed research articles and conference papers and has written a book on strategic groups in the biopharmaceutical industry. Dr Jalkanen was appointed to the management team on 1 April 2017.

Dr Matti Karvonen
**VP Drug Development, Chief Medical Officer**
Dr Karvonen, born in 1972, has more than 20 years of experience of academic and industrial medical research, clinical drug development and biopharmaceutical industry. In his past career he has worked in R&D positions at Orion Pharma and Hormos Medical, and in medical affairs positions including national and international Medical Director roles at Novartis, Biogen and Roche. He has thorough experience of medical affairs roles in several different therapeutic areas and has been responsible for medical pre- and post-launch activities of new drugs. He has experience from over 25 clinical trials as an investigator, and as a principal investigator in a number of different indications with small molecules and antibodies.

Dr Karvonen graduated as M.D. from the University of Turku in 2000 and subsequently received also a Ph.D. in Pharmacology from the University of Turku in 2000. He completed speciality in Neurology from Turku University Central Hospital in 2009. He also obtained Executive Master of Business Administration from Turku School of Economics in 2010.

Dr Karvonen received the degree of Associate Professor in Drug Development from University of Turku in 2004. He has published over 30 peer reviewed scientific publications in various highly ranked international journals. He was appointed as a Medical Director in the Company in May 2016 and subsequently as Chief Medical Officer and VP Drug Development in December 2016. Dr Karvonen was appointed to the management team on 1 May 2016.

Dr Maria Lahtinen

**Director, Supplier Management**

Dr Lahtinen, born in 1977, has more than 15 years of experience from analytical laboratories in different positions. After dissertation she worked first as Expert Scientist and then as Laboratory Manager in Bioanalytical Laboratory of Clinical Research Services Turku CRST. During her career at Bayer AG she was globally responsible over packaging material safety studies (Extractables and Leachables studies).

At Faron Dr Lahtinen started as Operational Manager in 2017 and moved to the position as Director, Supplier Management in 2018. In this role her responsibilities include vendor management and supply chain activities (manufacturers, laboratories, packaging and distribution). Dr Lahtinen is PhD in Chemistry (organic chemistry and chemical biology) from University of Turku. Her analytical expertise is in mass spectrometry. In May 2019 she completed Industrial Engineering and Management studies in Turku University of Applied Sciences (Bachelor's degree). Her thesis was about the distribution of hospital medicines. Dr Lahtinen was appointed to the management team in January 2018.

Dr Jami Mandelin

**Research Director**

Dr Mandelin, born in 1972, has over 20 years of experience within research. He managed his own research group at the University of Helsinki studying inflammation and autoimmune diseases before moving to pharmaceutical industry. He spent five years with Roche and Novartis in Medical roles in oncology working with both targeted therapies and immuno-oncology products. Dr Mandelin has published 37 peer reviewed scientific publications in various highly ranked international journals.

Dr Mandelin obtained a Master's in Biochemistry and subsequently received a PhD in Medical Biochemistry from the University of Helsinki. He completed his post-doctoral training at Baylor college of Medicine and University of Texas MD Anderson Cancer Center, Texas between 2005 and 2008. Dr Mandelin obtained the position of docent in Cell Biology from University of Helsinki in 2010. Dr Mandelin was appointed to the management team on 1 January 2017.

Mr Yrjö Wichmann

**VP, Financing and Investor Relations**

Mr Wichmann, born in 1958, has a career spanning close to 25 years in financing and investment banking. He was appointed as a VP, Financing and Investor Relations of the Company in 2019. Previously Mr Wichmann acted as Chief Financial Officer since 2014 and member of the Board of Directors of the Company since 2015. Prior to this he held a number of senior positions within the life sciences and biopharma sector, most recently at IP Finland Oy, Biohit Oyj (NASDAQ OMX Helsinki), Capman Oyj, FibroGen Europe Oyj (NASDAQ) and D. Carnegie & Co AB. Whilst carrying out these roles Mr Wichmann has participated in healthcare IPOs on the London, Stockholm and Helsinki stock exchanges as both an investment banker and as a member of the board. Mr Wichmann is a member of the Investment Committee at Dasos Timberland Fund I and II. Mr Wichmann obtained a Master's in Economics from Helsinki University. Mr Wichmann was appointed to the management team on 1 June 2014.

## ADDITIONAL MANAGEMENT

Dr Pessi Honkasalo

**Corporate Legal Counsel**

Dr Honkasalo, born in 1985, joined the Company on 2 October 2017, having previously worked as a senior associate at Krogerus, a premier business law firm whose practice covers a broad spectrum of transactional, dispute resolution and regulatory matters, where he specialised in technology and data protection, intellectual property, and commercial contracts and outsourcing. He has also worked as a researcher at the Institute of Intellectual Property in Tokyo and the Max Planck Institute for Innovation and Competition in Munich. Dr

Honkasalo holds a PhD in law from the University of Surrey and an LLM from the University of Turku. He is a CIPP/E certified information privacy professional in Europe and an associate of the UK Higher Education Academy. An author of numerous publications, Dr Honkasalo reports to the European Intellectual Property Review as a country correspondent.

Dr Honkasalo acts as permanent secretary to the Board of Directors and the management group.

## ADDITIONAL INFORMATION ON DIRECTORS AND MANAGEMENT

**Information on bankruptcy and liquidation procedures and fraud-related convictions or on-going procedures**

Dr Gregory B. Brown was a director of Oscient Pharmaceuticals Inc ("Oscient") between 2006 and 2009 having been initially elected to the board of Oscient as a representative of Paul Capital Partners, a financier which, during 2006, arranged financing of approximately USD 70 million in aggregate for Oscient. In July 2009, as a result of being unable to refinance an existing convertible debt, the directors of Oscient (being 9 board members in total) filed a voluntary petition for chapter 11 bankruptcy protection. Its assets were subsequently divested to satisfy the majority of creditors and Oscient was dissolved in July 2012. Dr Brown was also on the board of Nuron Biotech GmbH, a portfolio investment of HealthCare Royalty Partners, which went into bankruptcy in Switzerland in 2014/2015. The bankruptcy was the result of having to recall all product that had been manufactured, due to manufacturing errors made by the company's contract manufacturer.

Dr Juho Jalkanen was the chair of board of PharMart Oy ("PharMart") between 2016 and 2019. In October 2018, PharMart petitioned for an order of bankruptcy, which was granted by the District Court of Helsinki. The bankruptcy lapsed in March 2019 as the funds of the bankruptcy estate were insufficient for the costs of the bankruptcy proceedings.

The other Directors or members of the Company's management have not, to the Company's knowledge, discharged managerial responsibilities, either as a member of an administrative, management or supervisory body or otherwise taking managerial decisions, within an entity subject to bankruptcy, liquidation or similar procedure within five years immediately prior to the date of this Company Description.

No Director or other member of the Company's management has, to the Company's knowledge, within five years immediately prior to the date of this Company Description:

- been convicted of fraud or other financial crime or subject to any procedures concerning the same;
- has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or
- has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

**Transactions with related parties**

Faron's related parties comprise the following:

- Faron Europe GmbH incorporated and registered in Switzerland with enterprise identification number CHE-426.959.656 ("Faron Europe") and Faron USA LLC incorporated and registered in Delaware with file number 6713226, entities wholly owned by the Company;
- Timo Syrjälä, a private individual, and Acme Investments SPF Sàrl ("Acme"), an entity wholly owned by Mr Syrjälä, having significant influence in the Company, following from the combined shareholding of 14.06%, as at 8 November 2019;
- the Board of Directors, their close family members and entities controlled by them; and

– the Company's key management personnel (see above), their close family members and entities controlled by them.

The Company as lender and Faron Europe as borrower have entered into a facility agreement dated 8 April 2019 for general corporate purposes covering the total facility amount of EUR 250 thousand during the availability period ending on 31 December 2019. Under the facility agreement, interest accrues on the outstanding balance of each loan at the rate of 5% per annum, and each loan is repayable by the borrower in full on demand by the lender.

The participation of Dr Markku Jalkanen, Yrjö Wichmann, Dr Frank Armstrong, Dr Gregory Brown and Matti Manner in the fundraising through placing and subscription announced on 28 March 2019 constituted a related party transaction, as did the subscription for subscription shares, further subscription shares and open offer shares by Mr Syrjälä and Acme pursuant to the capital raising announced on 5 and 27 August 2019, respectively. The fundraising through placing announced on 8 November was participated by Dr Frank Armstrong, Dr Maria Lahtinen, Toni Hänninen and Yrjö Wichmann as well as Timo Syrjälä through Acme.

The independent Directors for the purposes of such transactions considered that the terms of the related party transactions to be fair and reasonable.

**Management of the Company**

Under the Companies Act, the General Meeting shall make decisions on matters that fall within its competence by virtue of the Companies Act. In addition, the activities of the Company are regulated by the Articles.

The Articles provide that the Board shall comprise a minimum of three and maximum of 12 ordinary members. The term of office of each Director expires on the closing of the AGM immediately following their appointment to the Board. Under the Companies Act and the Articles, the Directors are elected by the Shareholders at General Meetings annually. Under the Act, Directors may be removed from office at any time, with or without cause, by a majority of votes cast at a General Meeting. Vacancies on the Board may only be filled by a majority of Shareholder votes cast at a General Meeting.

The Board has an audit committee, a remuneration committee and a nomination committee. The members of the committees are appointed by the Board among its members. All committees have written terms of reference.

The audit committee has the task of supervising and developing the internal audit of the Company and advising and making recommendations to the Board on issues related to it.

The remuneration committee has the task of advising on and making recommendations to the Board in relation to the remuneration paid to the members of the Board and supervising the development of any other remuneration or reward systems of the Company.

The nomination committee has the task, in co-operation with the Board, of advising on and making recommendations to the Board on issues relating to the composition and nomination of the Board.

# TAXATION

The following summary is based on the tax laws of Finland as in effect as at the date of this Company Description and is subject to changes in the tax laws of Finland, including changes that could have a retroactive effect. The following summary is not exhaustive and does not take into account or discuss the tax laws of any country other than Finland. Prospective investors are advised to consult professional tax advisors as to the tax consequences of the purchase, ownership and disposition of shares in Company.

The following is a description of the material Finnish income tax and transfer tax consequences that maybe relevant with respect to the Offering. The description below is applicable to both Finnish resident and non-resident natural persons and limited companies for the purposes of Finnish domestic tax legislation relating to dividend distributions on shares and capital gains arising from the sale of shares.

The following description does not address tax considerations applicable to such holders of Company's Shares that may be subject to special tax rules relating to, among others, different restructurings of corporations, controlled foreign corporations, non-business carrying entities, income tax-exempt entities or general or limited partnerships. Furthermore, this description does not address Finnish inheritance or gift tax consequences.

This description is primarily based on:

- Finnish Income Tax Act (1535/1992, as amended, the "Finnish Income Tax Act");
- Finnish Business Income Tax Act (360/1968, as amended, the "Finnish Business Income Tax Act");
- Finnish Act on the Taxation of Income of a Person Subject to Limited Tax Liability (627/1978, as amended);
- The Finnish Transfer Tax Act (31/1996, as amended).

In addition, relevant case law as well as decisions and statements made by the tax authorities in effect and available as at the date of this Company Description have been taken into account.

The following description is subject to change, which change could apply retroactively and could, therefore, affect the tax consequences described below.

**General**

Residents and non-residents of Finland are treated differently for tax purposes. The worldwide income of persons resident in Finland is subject to taxation in Finland. Non-residents are taxed on income from Finnish sources only. Additionally, Finland imposes taxes on non-residents for income connected with their permanent establishments situated in Finland. However, tax treaties may limit the applicability of Finnish tax legislation and also the right of Finland to tax Finnish- source income received by a non-resident.

Generally, a natural person is deemed to be a resident in Finland if such person remains in Finland for a continuous period of more than six months or if the permanent home and abode of such person is in Finland. However, a Finnish national who has moved abroad is considered to be resident in Finland until three years have passed from the end of the year of departure unless it is proven that no substantial ties to Finland existed during the relevant tax year. Earned income, including salary, is taxed at progressive rates.

Currently, the capital income tax rate is 30%. In addition, should the amount of capital income received by a resident natural person exceed EUR 30,000 in a calendar year, the capital income tax rate is 34% on the amount that exceeds EUR 30,000.

Corporate entities established under the laws of Finland are regarded as residents in Finland and are, therefore, subject to corporate income tax on their worldwide income. In addition, non-residents are subject to

Finnish corporate income tax on their income connected with their permanent establishments situated in Finland. Currently, the corporate income tax rate is 20%.

The following is a summary of certain Finnish tax consequences relating to the purchase, ownership and disposition of Shares in Company by Finnish resident and non-resident Shareholders.

## TAXATION OF DIVIDENDS

**General**
The tax treatment of dividend income is dictated by whether the company distributing the dividend is publicly listed or not. A publicly listed company ("Listed Company") means a company whose shares are admitted to trading:

- in a regulated market as set forth in the Finnish Act on Trading in Financial Instruments (748/2012, as amended);
- in another regulated market supervised by authorities outside the EEA; or
- in a multilateral trading facility as set forth in the Finnish Act on Trading in Financial Instruments, provided that the share has been admitted to trading by application of the company or with its consent.

First North is a multilateral trading facility as referred to above; hence the provisions regarding distribution of dividend of a publicly traded company are applied to the taxation of the dividend income from the Company.

Funds distributed from the so-called reserve for invested unrestricted equity (SVOP reserve) of a Finnish publicly listed company are considered as dividend income for taxation purposes.

**Finnish tax resident natural persons**
85% of dividends paid by a Listed Company to a Shareholder, who is a resident natural person, is considered capital income of the recipient, while the remaining 15% is tax exempt.

85% of dividends paid by a Listed Company to a natural person whose underlying shares belong to the business activity of such Shareholder is taxable partly as earned income, which is taxed at a progressive rate, and partly as capital income, and the remaining 15% is tax exempt.

Distribution of dividends by a Listed Company to resident natural persons is subject to advance tax withholding. Currently, the amount of the advance tax withholding is 25.5%. The advance tax withheld by the distributing company is credited against the final tax payable by the Shareholder for the dividend received.

Regulations concerning the taxation of a dividend distributed on nominee-registered shares have been amended with effect from 1 January 2020 regarding Finnish tax resident recipients. According to the new rules, a 50% advance tax will be withheld on the nominee account's dividends if the dividend-paying company or registered custodian cannot identify the Finnish tax resident recipient of the dividend. It should be noted, however, that pursuant to Finnish law, Finnish shareholders are not allowed to hold shares in a Finnish company through nominee registration.

**Finnish limited companies**
Taxation of dividends distributed by a Listed Company depends, among other things, on whether the Finnish company receiving the dividend is a Listed Company or not.

Dividends received by a Listed Company from another Listed Company are generally tax exempt. However, in cases where the underlying shares are included in the investment assets of the Shareholder, 75% of the

dividend is taxable income while the remaining 25% is tax exempt. Only banking, insurance and pension institutions may have investment assets.

Dividends received by a Finnish company that is not a Listed Company (i.e. a privately held company) from a Listed Company are fully taxable income. However, in cases where the privately held company directly owns 10% or more of the share capital of the Listed Company distributing the dividend, the dividend received on such shares is tax exempt, provided that the underlying shares are not included in the investment assets of the Shareholder. If a privately held company receives a dividend from shares of a Finnish company included in its investment assets, 75% of the dividend is taxable income and 25% is tax exempt regardless of the ownership threshold.

Regulations concerning the taxation of a dividend distributed on nominee-registered shares have been amended with effect from 1 January 2020 regarding Finnish tax resident recipients. According to the new rules, a 50% advance tax will be withheld on the nominee account's dividends if the dividend-paying company or registered custodian cannot identify the Finnish tax resident recipient of the dividend. It should be noted, however, that pursuant to Finnish law, Finnish shareholders are not allowed to hold shares in a Finnish company through nominee registration.

**Non-residents**

As a general rule, non-residents of Finland are subject to Finnish withholding tax on dividends paid by a Finnish company. The withholding tax is withheld by the company distributing the dividend at the time of dividend payment and no other taxes on the dividend are payable in Finland. The withholding tax rate is 20% for non-resident corporate entities and 30% for all other non-residents. The withholding tax rate may be reduced or removed in full on the basis of an applicable tax treaty.

The reduced withholding rate benefit in an applicable tax treaty will be available if the person beneficially entitled to the dividend has provided a valid tax card or necessary details of its nationality and identity to the company paying the dividend.

If shares are held through a nominee account and the person entitled to receive dividends on such shares is a resident in a tax treaty country, the withholding tax rate on the dividend is the tax rate set forth in the relevant tax treaty; however, the tax rate must be at least 15% (if the tax rate set forth in the tax treaty is less than 15%, an application including the necessary details of the nationality and identity of the beneficial owner may be submitted for the refund of the excess withholding tax). This means that with respect to dividends on shares held through a nominee account, tax is withheld at the rate set in the applicable tax treaty or 15% absent thorough clarification of the identity of the person beneficially entitled to the dividend (so-called "simplified procedure"). Such procedure, however, requires that the foreign custodian intermediary is registered in the Finnish tax authorities' register and that it is resident in a country with which Finland has a double taxation treaty. Also, the foreign custodian intermediary must have an agreement with the Finnish account operator regarding the custody of the shares. In such agreement, the foreign custodian intermediary must, among other things, commit to report the dividend receiver's residential country to the account operator and to provide additional information to the tax authorities, if needed. If these provisions are not fulfilled, a 20% withholding tax is withheld on the nominee account's dividends for non-resident corporate entities and 30% for all other non-residents unless otherwise set forth in an applicable tax treaty. Dividends payable on Shares registered in the book-entry system of Euroclear Sweden may be subject to withholding at the full rate depending on the availability of information required for using treaty rates. The regulations concerning the taxation of a dividend based on a nominee-registered share and the prerequisites on how the provisions of a tax treaty could be applied to the dividend have been amended, and the new regulations will come into force on 1 January 2021. According to the new rules, the simplified procedure for applying the 15% withholding tax is no longer applied, but a 35% withholding tax will be withheld on the nominee

account's dividends if the prerequisites under the new regulations for application of a lower withholding tax rate under a tax treaty are not fulfilled.

Recent rulings of the Court of Justice of the European Union (Joined Cases C-116/16 and C-117/16 and Joined Cases C-115/16, C-118/16, C-119/16 and C-299/16) regarding the concept of beneficial owner for European Union law purposes may have implications on Finnish tax legislation going forward, which may result in, among other things, additional criteria to obtain a preferred dividend withholding tax rate.

Alternatively, provisions of the Finnish Act on Assessment Procedure (1558/1995, as amended) may be applied to the taxation of non-residents located in a state in the EEA.

In accordance with Finnish tax law, withholding tax is not withheld from dividends, which are paid to foreign companies, as set forth in Article 2 of the Parent-Subsidiary Directive (2011/96/EU, as amended), resident in an EU member state and subject to income tax of their home state, which directly have a minimum holding of 10% of the capital of the dividend-distributing Finnish company.

Dividends paid to certain foreign companies located in the EEA are also either fully tax exempt or subject to a reduced withholding tax rate depending on how the dividend would be taxed, if it were paid to an equivalent Finnish company. The applicable double taxation treaty may however require that an even lower withholding tax rate shall be applied. Full withholding tax is withheld from other dividends paid to non-resident companies, unless the applicable double taxation treaty dictates otherwise.

## CAPITAL GAINS

**Resident natural persons**

A capital gain or loss arising from the sale of shares, which do not belong to the business activity of the Shareholder, is taxable in Finland as a capital gain or deductible as a capital loss for resident natural persons.

Capital gains are currently taxed as a capital income. A capital loss arising from the sale of shares that do not belong to the business activity of the Shareholder is deductible from the resident natural person's capital gains arising in the same year and during the following five tax years. As capital losses are not deductible from any other capital income apart from capital gains, they are not taken into account when calculating the capital income deficit for the tax year. Such capital losses do not increase the amount of the deficit-credit that is deductible from the taxes under the deficit-crediting system.

If the shares belong to the business activity (business income source) of the seller, any gain arising from the sale is deemed to be business income of the seller, which will be divided according to the Finnish Income Tax Act to be taxed as earned income at a progressive tax rate and capital income. The deductibility of losses related to shares included in the seller's business activity is determined as described under "Finnish Limited Companies" below.

Notwithstanding the above, capital gains arising from the sale of assets that do not belong to the business activity of the Shareholder are exempt from tax provided that the proceeds of all assets sold by the resident natural person during the tax year do not, in aggregate, exceed EUR 1,000 (exclusive of proceeds from the sale of any assets that are tax exempt pursuant to Finnish tax laws). Correspondingly, capital losses are not tax deductible if the acquisition cost of all assets sold during the tax year does not, in aggregate, exceed EUR 1,000 (exclusive of proceeds from the sale of any assets that are tax exempt pursuant to Finnish tax laws).

Any capital gain or loss is calculated by deducting the original acquisition cost and sales related expenses from the sales price. Alternatively, a natural person holding shares that are not included in the business

activity of the Shareholder may, instead of deducting the actual acquisition costs, choose to apply a so-called presumptive acquisition cost, which is equal to 20% of the sales price, or in the case of shares which have been held for at least ten years, 40% of the sales price. If the presumptive acquisition cost is used instead of the actual acquisition cost, any selling expenses are deemed to be included therein and cannot be deducted separately from the sales price.

**Finnish limited companies**
The following applies only to Finnish limited companies that are taxed on the basis of the Finnish Business Income Tax Act. As a general rule, a capital gain arising from the sale of shares is taxable income of a limited company, which is taxed with a rate of 20%.

Shares may be fixed assets, current assets, investment assets or financial assets of a limited company. The taxation of a disposal of shares and loss of value varies according to the asset type for which the shares qualify. Shares may also qualify as non-business income source assets of a limited company. The Finnish Income Tax Act's provisions are applied to capital gains that have arisen from the sale of assets from non-business income sources. With effect from tax year 2020, however, the application of the Income Tax Act will be restricted significantly, and generally, the Business Income Tax Act will be applied in calculating the entire taxable income of most corporations.

The sales price of any sale of shares is generally included in the business income of a Finnish company. Correspondingly, the acquisition cost of shares is deductible from business income upon disposal of the shares. However, an exemption for capital gains on share disposals is available for Finnish companies, provided that certain strictly defined requirements are met. The main criteria for the application of the so-called participation exemption is that the company selling the shares has directly and continuously for at least one year owned at least 10% of the share capital in the company whose shares are sold, and such ownership of the sold shares has ended at the most one year before the sale.

Tax deductible capital losses pertaining to the sale of shares (other shares than shares sold under the participation exemption) that are part of the fixed assets of the selling company can only be deducted from capital gains arising from the sale of fixed assets shares in the same fiscal year and the subsequent five years. Capital losses pertaining to the sale of shares that are not part of fixed assets are tax deductible from taxable income in the same fiscal year and the subsequent ten years in accordance with the general rules concerning losses carried forward.

**Non-residents**
Non-residents who are not generally liable for tax in Finland are usually not subject to Finnish taxes on capital gains realised on the sale of shares in a Listed Company, unless the non-resident taxpayer is deemed to have a permanent establishment in Finland for income tax purposes as referred to in the Income Tax Act and an applicable tax treaty and the shares are considered to be assets of that permanent establishment.

**Finnish transfer tax**
There is no transfer tax payable in Finland on transfers or sales of shares admitted to trading on First North Finland or First North Sweden if the transfer is made against a fixed pecuniary consideration. The transfer tax exemption requires that an investment firm, a foreign investment firm or other party offering investment services, as defined in the Finnish Investment Services Act (747/2012), is brokering or acting as a party to the transaction, or that the transferee has been approved as a trading party in the market in which the transfer is executed. Further, if the broker or the counterparty to the transaction is not a Finnish investment firm, Finnish credit institution, or a Finnish branch or office of a foreign investment firm or credit institution, the transfer tax exemption requires that the transferee submits a notification of the transfer to the Finnish Tax Administration within two months of the transfer, or that the broker submits an annual declaration regarding

the transfer to the Finnish Tax Administration as set forth in the Act on Assessment Procedure (1558/1995, as amended).

Certain separately defined transfers, such as those relating to equity investments or distribution of funds, are not covered by the transfer tax exemption. In addition, the exemption does not apply to transfers carried out in order to fulfil the obligation to redeem minority shares under the Companies Act. See “Shareholder rights – Squeeze-out rights.”

If the transfer or sale of shares does not fulfil the above criteria for a tax-exempt transfer, transfer tax at the rate of 1.6% of the sales price is payable by the purchaser. However, if the purchaser is neither a tax resident in Finland nor a Finnish branch or office of a foreign credit institution, investment firm or fund management company, the seller must collect the tax from the purchaser. If the broker is a Finnish stockbroker or credit institution, or a Finnish branch or office of a foreign stockbroker or credit institution, it is liable to collect the transfer tax from the purchaser and pay the tax to the state. If neither the purchaser nor the seller is tax resident in Finland or a Finnish branch or office of a foreign credit institution or foreign investment firm, the transfer of shares will be exempt from Finnish transfer tax. No transfer tax is collected if the amount of the tax is less than EUR 10. Transfer tax is not payable in connection with the issuance of new shares.

# CONTACT INFORMATION

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