FIT BIOTECH

2016

ANNUAL REPORT

Biotechnology Innovations

FIT Biotech is a biotechnology company focusing on drug development of DNA vaccines and gene therapies. Our technology expertise arises from 20 years of scientivic development of multiple drug candidates for different diseases. Our uniqueness is based on proprietary, patented gene transfer technology, the GTU® that enables development of several drug candidates for different therapeutic applications. Such drug candidates are gene vaccines and gene therapies.

Our mission is to develop novel therapies for global markets targeting the largest and fastest growing segment of pharmaceutical market.

Contents

Some statements concerning the markets and the future in this annual report are estimates and assumptions based on the management's best knowledge at the time they were made. Due to their nature, they contain a certain amount of uncertainty and are liable to change in the event of significant changes in the general economic conditions or industry development.

FIT Biotech Oy´s Certified Advisor is Aalto Capital Partners Oy.

FIT Biotech Oy's K-series shares are listed on the First North Finland market maintained by Nasdaq Helsinki Oy with the trading symbol FITBIO.

FIT Biotech in brief

FIT Biotech is a clinical-stage biotech company focusing on developing innovative antibody therapies for cancer immunotherapy as well as DNA vaccines for the prevention of infectious diseases such as HIV.
FIT Biotech's R&D targets product applications that will represent medical breakthrough, i.e. the products will be so called first-in-class such as a HIV functional cure. Alternatively, our products may replace current expensive biological drugs at an order of magnitude lower price so that a DNA-drug compared with a traditional protein drug represents a "best-in-class" therapeutic option.

The chosen development strategy is straight forward and faster than developing entirely new biological drugs that typically takes over ten years.

In accordance with our strategy we plan to license our patented GTU® technology to partners for product applications. The objective is to license GTU® technology especially for applications with substantial commercial potential targeting existing markets or markets with unmet medical need in terms of efficacy, safety and affordability.

The drug candidates are aimed to be licensed to partners capable of clinical product development, biological license applications and commercialization of the drugs. Our earnings model is based on advance payments of licensing agreements such as signing fees and milestone payments as well as royalty payments.

FIT Biotech's strengths are:

Unique technology
We use our patented GTU® technology that enables effective production of antibodies in the human body instead of using industrially manufactured expensive antibodies. The GTU is a technology platform with several application areas. Gene therapy and DNA vaccines are used in the next generation therapies to treat a.o. cancer and infectious diseases.

Experienced management team
FIT Biotech's management and scientists have FIT Biotech's managers and scientists extensive experience and expertise in drug development and international business development.

Market position
Biological small molecule drugs have largely replaced traditional small-molecule chemical drugs as the leading therapies as measured by peak sales. The next generation of drugs are likely to be based on DNA such as gene therapy approaches and DNA vaccines. We target the largest and fast growing segment of the global pharmaceutical market, namely monoclonal antibodies.

Scalable business model
We develop gene-based treatments to replaced marketed monoclonal antibodies. The development and approval of these types of drugs should be a shorter and less costly process. Our experience in drug development combined with our licensing business model should enable significant revenues within the next few years.

International approach
We command an extensive research network that reinforces our position as a leading and appreciated research company. We have several ongoing in-house development projects and collaboration projects with other international biotech companies, pharmaceutical companies as well as research institutions.

FIT Biotech in brief

"We have several in-house development projects and collaboration programs with other biotech companies, pharmaseutical companies and research institutions."

Full year 2016

Kalevi Reijonen, MD, FIT Biotech's long-term CEO moved to Chief Medical Officer position starting 1.1.2016. In May **James Kuo**, MD, MBA was appointed to CEO.

In September FIT Biotech Oy entered into a financing agreement transaction amounting to EUR 12,480,000 with Bracknor Investment and an intention to agree on a EUR 500,000 financing transaction with Sitra.

GTU® technology chosen for clinical studies to be conducted by the research consortium European HIV Vaccine Alliance (EHVA) in January.

In November Tekes approved Company's grant application for drawing up "Business Plan for Manufacturing Biological Drugs"

Safety and tolerability reported from two human clinical studies of novel DNA-based HIV vaccine in June.

FIT Biotech and InnaVirVax started collaboration in December in developing and commercializing HIV-immunotherapy.

Manufacturing license for pharmaceuticals was renewed in August.

KEY FIGURES

Currency EUR 1000	1.1.-31.12/2016	1.1.-31.12/2015	1.1.-31.12/2014
Revenue	10	20	30
Profit/loss	-3,030	3,843	-2,291
Adjusted profit/loss (*	-3,030	-2,642	-2,291
Profit for the period	-3,651	2,616	-2,304
Adjusted balance sheet (**	-3,651	-2,629	-2,304
Cash flow from the operations	- 2,487	-2,432	-1,204
Cash in hand and at banks	486	1,845	217
Equity	-12,404	-9,275	-21,349
Grants	191	6,539	205
Liabilities tot.	1,428	2,694	1,021
Return on equity % (ROE)	Negative	Negative	
Equity ratio %	Negative	Negative	
Return on investment % (ROI)	Negative	226,3	
Debt to equity ratio %	Negative	Negative	
Gearing %	Negative	Negative	

(* adjusted for the EUR 6 485 213,20 subordinated loan not collected by Tekes
(** excluding the financial adviser's fees

Review by the CEO

CEO Statement

FIT Biotech is a clinical-stage biotech company focused on developing innovative antibody therapies and gene vaccines for cancer immunotherapy as well as the treatment and prevention of infectious diseases.

FIT Biotech has been engaged in cutting-edge scientific research for over 20 years. Our competitive advantage is our patented GTU® technology, which potentially enables development of a multitude of safe, efficacious and cost-effective drug candidates. FIT Biotech mainly targets the early phases of drug development from discovery and technology development up to clinical phase II. The human monoclonal antibody therapies being developed are for most part already licensed for marketing. The genes that are the blueprints for these commercialized monoclonal antibody drugs are being delivered by FIT Biotech's GTU® technology, an alternative approach that will be substantially cheaper and more patient friendly. The patient's own body manufactures their monoclonal antibody drug.

FIT Biotech is an active participant in the paradigm shift taking place within the global biopharmaceutical industry from biological drugs into gene-based drugs. We have already completed several clinical studies with our most advanced drug candidate, FIT-06, demonstrating encouraging clinical results as a HIV-immunotherapy. No technology-related safety concerns have been identified to date.

Additionally, we have established separate collaborations with EHVA, a leading European HIV research consortium, and a French company, InnaVirVax. Both partnerships plan to initiate Phase II clinical studies with our vaccine candidate, FIT-06, during 2017. Additionally we have substantially improved the company's financial position by entering into an over EUR 12 million financing agreement with Bracknor Investment Company. The financing provides working capital and enables the Company to execute upon its growth plan.

One aspect of our competitive advantage stems from our in-house manufacturing of investigational gene medicine products for our clinical trials. We are reimbursed for that manufacturing and core competency by the European HIV Vaccine Alliance. We believe manufacturing capability that meets regulatory standards to be a key strategic advantage worthy of further investment. Manufacturing of test vaccines for the EHVA trials as well as for the collaborative study with InnaVirVax is currently underway.

On behalf of FIT's board of directors and the management team, I want to thank you for your interest and support of our Company.

James Kuo
CEO
FIT Biotech Oy

Business operations

Pharmaceutical market

The pharmaceutical industry typically invests up to 2,6 billion euros to develop one new drug to the market. Pharmaceutical companies continuously scout for promising drug candidates that smaller companies develop and test in preclinical and early clinical studies. Development companies have ongoing contacts and negotiations with big pharmaceutical companies to execute long term collaboration and licensing agreements with optimal partners.

Increased use of drugs is positively impacted by growth and ageing of population, launch of new drugs and therapies on developed markets and improved access of drugs and therapies on developing markets.

The pharma market has recently evidenced a multitude of licensing agreements at early development stage between biotech companies developing gene based therapies and the so called “large pharma”. A high demand on a rapidly growing market has resulted in rapidly escalating values of the total licensing agreements. Advance payments can total hundreds of millions of dollars with running royalties exceeding ten percent of net sales. This licensing market is targeted by us.

Biological drugs

Drugs can be divided into biological and chemical drugs. Chemical drugs most often have small molecules and they are manufactured using chemical reactions. Examples include painkillers and drugs for cardiovascular diseases. Biological drugs, on the other hand, contain mainly large molecules and they are manufactured by biotechnological methods. Examples include various antidotes and vaccines. The majority of new drugs and drugs under development are biological. Biological drugs are generally expected to provide better targeted, more efficient and safer treatments than chemical drugs.

Drug development process

Drug development is activity regulated by authorities, and it progresses in phases from preclinical and clinical studies to the application for marketing authorization. When the application for marketing authorization is submitted, the authorities assess the risk-benefit ratio of the drug. In order to be granted a marketing authorization, the drug must be both safe and efficient.

Drug development is divided into the preclinical phase and the clinical phase, which is further divided into subphases. In the preclinical phase, new drug candidates and indications of their clinical safety and efficacy are studied in laboratory and animal tests. When sufficient documentation exists on preclinical phase, it is possible to apply for permission to perform clinical tests. The harmful effects and safety of the drug are systematically monitored even after the marketing authorization.

Pharmaceutical research and development is inherently to a certain extent unpredictable and the development has a long span. Oftentimes plans must be adjusted during projects. Our R&D expertise and the chosen business model make it possible to enter into licensing agreements with international pharmaceutical companies within the next few years.

Drug development process

FIT Biotech

	Preclinical studies	Phase I	Phase II	Phase III	Approval by authorities	Total
Duration	1–6 years		6–12 years		0.5-2 years	9-20 years
Target	Preliminary efficacy and toxicity assessment	Safety, tolerance and various effect assessment	Clinical efficacy testing	Efficacy validation, side effect monitoring and comparison with common treatments	Marketing authorisation for safe and efficient drug	Successful performance in all tests and permit procedures
Test population	In vitro and animal testing	20–100 healthy persons	100–500 patients	1,000–5,000 patients	N/A	In vitro, animal tests, healthy persons and patients

Technology and applications

Technology and applications

GTU® technology

Based on the GTU®-technology the Company has developed a novel gene transfer technology to make the human body produce therapeutic proteins for treatment and prevention of diseases. The gtGTU gene transfer technology differs from the GTU-technology by not inducing an immune response that would inhibit production or eliminate the desired protein. The GTU-technology used in gene vaccines is designed to induce an immune response against viruses and bacteria.

FIT Biotech focuses on the development of biological drug candidates by using its proprietary, patented vector technology (GTU). Drug candidates developed on the basis our GTU® technology are finding in a variety of vaccines and gene therapies. GTU is our main technology that we exploit and license.

Our development projects focus on the prevention and treatment of diseases especially for indications for which no treatment exists today or medical treatment has shortcomings in efficacy or safety. FIT Biotech develops medical treatments that incur less product development and manufacturing costs than traditional treatments while offering pharmacoeconomic benefits that will be important as healthcare costs continue to increase. Our special expertise lies in the usage of the GTU® technology developed in-house for indications where medical needs and healthcare costs are high.

Our primary focus is on verifying the preclinical efficacy to its developed drug candidates (proof-of-concept). After this, we aim at financing the clinical product development by entering collaboration or licence agreements with major pharmaceutical companies.

The development projects

1. GTU® gene therapy

Gene therapy, that is, treating or preventing a disease through gene transfer, aims at transporting desired genes into a human's somatic cells and make those cells produce proteins that treat or prevent the disease. FIT Biotech's goal is to develop solutions enabling gene therapy. The company has ongoing preclinical research projects to validate the efficacy of its patented GTU® technology in gene therapy. The research has produced positive results that corroborate the company's understanding of the functioning of the technology.

2. GTU® gene vaccines

Through GTU® vaccines, the company focuses on the prevention and treatment of diseases, in particular in areas where no treatments exist at moment or medical treatment is deficient in efficacy or safety. These include a therapeutic tuberculosis vaccine, HIV immunotherapy and animal vaccines.

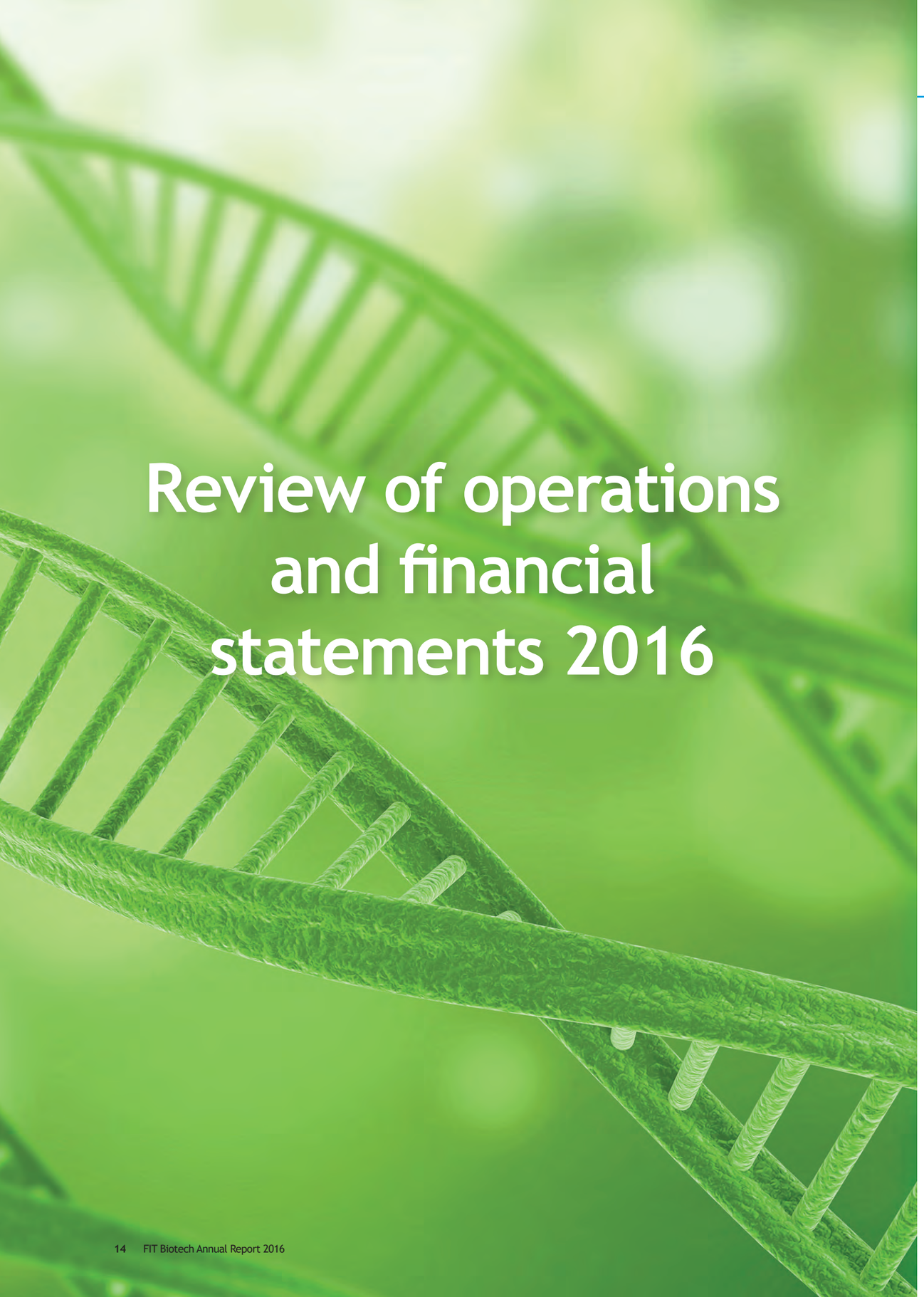
3. Research collaboration

Besides direct licensing agreements, the company aims at entering research agreements, through which it can move on to proper licence agreements. The company is a member of the EU´s Horizon 2020 research consortium that is developing a new kind of treatment for HIV.

4. Production

FIT Biotech manufactures test vaccines in its own production facility approved by the Finnish Medicines Agency.

Our production facility comply with regulatory requirements for DNA-base vaccines and allow flexible manufacturing of sterile and safe vaccines for clinical studies. The manufacturing equipment used is chosen to meet regulatory requirements needed for a manufacturing capacity high enough without jeopardizing sterility and safety of the vaccine.



Review of operations and financial statements 2016

Review of operations and financial statements 2016

REVIEW OF OPERATIONS JANUARY 1-DECEMBER 31, 2016

Business environment and strategic focus

The size of the global pharmaceutical market is estimated to grow significantly and in 2017 it is estimated to exceed EUR one trillion. The markets are showing that biological pharmaceuticals are strengthening their position in the treatment of various diseases. The pharmaceutical markets as a whole are expected to grow 4-7% per year, whereas the corresponding number for biological pharmaceuticals is 11% (BCC Research: Biologic Therapeutic Drugs: Technologies and Global Markets, January 2015). In addition to biological and chemical drugs, gene-based treatments are becoming more common within the pharmaceutical market. With gene-based treatments, the genes transported into cells by vectors induce the cell to produce a desired protein with a therapeutic effect on the target disease. Gene-based treatments are a rapidly growing market area, and many large pharmaceutical companies have recently entered into high value deals with biotechnology companies based on their early stage research results. These market developments further strengthen FIT Biotech's belief that its strategy of focusing on gene-based treatments is the right one, and that its future development projects should concentrate on this area.

In the reporting period, FIT Biotech continued focusing on licensing the patented GTU® technology to various partners for medical applications in line with the Company strategy. Primarily, the focus is on verifying the pre-clinical efficacy of its drug candidates (proof-of-concept) developed on the basis of the GTU® technology. Thereafter, the Company aims at licensing the drug candidate to pharmaceutical companies for further development and finally for sales. The Company's revenue model is based on signing and milestone fees of the targeted license agreements as well as royalty payments.

FIT Biotech started a research collaboration with an international research consortium (European HIV Vaccine Alliance, EHVA) where HIV vaccine candidate based on FIT Biotech's GTU® technology had been chosen for clinical studies. This project is funded by a European Commission grant of EUR 22 million. Out of this total amount, FIT Biotech has been allocated to receive approximately EUR 1 million for the purpose of covering its costs related to this particular project. This will have a cash-flow impact focusing on the beginning period of the project. The project is expected to run until 2021.

During the reporting period, FIT Biotech achieved positive preclinical results concerning the suitability of its GTU® technology to gene-based treatments and continued respective extended preclinical studies with the goal of demonstrating proof-of-concept.

FIT Biotech announced a collaboration with InnaVirVax in HIV-treatment combining the Companies respective proprietary immunotherapeutic HIV-vaccines having different modes of action with a potentially synergistic effect towards a functional HIV-cure. Functional HIV-cure is defined as a sustained remission of HIV-infection without the need for continuous treatment with chemical drugs, and no disease progression.

FIT Biotech and InnaVirVax plan to start a clinical trial in 2017 to evaluate the safety, tolerability, immunogenicity and clinical efficacy of FIT Biotech's DNA-based HIV-vaccine in combination with InnaVirVax's immunoprotective vaccine. InnaVirVax will conduct and fund the clinical study in return for co-ownership of the immunotherapy.

Production

FIT Biotech's preparedness to operate its own GMP (Good Manufacturing Practice) level production facility is one of its strategic assets. The facility allows the company to produce DNA-based vaccines used in clinical trials. The facility meets all regulatory requirements for vaccine production, as well as enables flexible production of pure and safe DNA-based vaccines for research purposes. The production machinery and equipment have been selected to meet regulatory requirements and to enable sufficient vaccine production without compromising the purity and safety of the vaccine.

The Company's production was interrupted for financial reasons, which is why the GMP license, which is granted for a specified duration, expired for the production facility in the summer of 2015. In May 2016, FIT Biotech filed the application for reinstating the GMP license in order to restart the production of FIT-06 HIV vaccine.

The renewed license will allow FIT Biotech to manufacture its therapeutic HIV-vaccine for the EU Horizon 2020 EHVA-project where its effect will be tested in a novel treatment concept. The Company will also manufacture FIT's test vaccine for the planned collaborative clinical trial with InnaVirVax.

FINANCIAL REVIEW JANUARY 1-DECEMBER 31, 2016

Revenue, profitability and financial performance

The Company's revenue for the review period amounted to 10,000 (20,000) euros. Due to the product development focus of the Company's business, revenue remained small. The revenue was generated through the sales of services related to the HIV vaccine.

The Company's result for the period amounted to -3,651,186 (2,615,663) euros. Earnings per share were -0,12 (0,09) euros. Currency exchange rate fluctuations had no significant effect on the profit.

Balance sheet, financing and capital expenditure

The balance sheet total on December 31, 2016, was 1,428,076 (2,693,711) euros. The Company's total equity was -12,404,482 (-9,274,745) euros.

At the end of the reporting period, the Company's share capital amounted to 8,282,473 euros and the total number of shares in the company was 43,022,718. Equity and subordinated loans totalled negative 630,413 euros in the aggregate. The Company has taken actions to improve the equity after the financial closing results were ready. See further information under the section Events after the review period.

The Company's patents are recognized in the balance sheet at their acquisition cost less depreciations. No product development investments were made during the review period.

Cash and cash equivalents at the end of the reporting period amounted to 486,916 (1,844,833) euros. At the end of the reporting period, the Company's short-term debt totalled 739,123 (194,387) euros, convertible bonds 1,270,000 euro and subordinated loans amounted to 11,774,070 (11,774,070) euros.

Short-term risks, going concern and sufficiency of funding

The financial closing is prepared under the going concern assumption. To ensure going concern in the business the Company has to inter alia retain adequate liquidity. The management of the Company has prepared a cashflow estimate for the next twelve months, where expenses are on the same level as in 2016 and cash inflow is mainly based to Bracknor financing agreement and to the grant from the program admitted by the European Commission to HIV Vacine Alliance (EHVA). The Board and the Management of the Company believe that the financing of the Company is secured for the next twelve months. The Board and the management of the company constantly search for future financing possibilities to ensure long term operations.

According to Bracknor agreement the Company may raise at least 2,0 million euro during the year 2017. According to EHVA decision the Company may receive about 0,6 million euro grant for the expenses paid related to the program in 2017. To the financing granted by the European Commission the main risk is the timing of the payment of the grant.

The Bracknor agreement enables the going concern principle and adequacy of net working capital at least for the year 2017. The programme does not limit FIT Biotech's possibilities to obtain other kind of equity or debt financing. The implementation of the transaction has several conditions which may affect the availability of financing if realized. Bracknor Investment has the right to terminate the programme if the Company breaches its covenants, its operations become subject to a material adverse effect, there has been a change of control in the Company or Sitra sells more than

40% of its K shares in the Company within three years from the signing. In case of an event of default by the Company, the notes may be declared immediately due and payable, and upon the occurrence of a major transaction or a liquidity event, the Company is obliged to redeem the outstanding notes issued under the programme for 115% of their principal amount. The shareholding of the Company's current shareholders will be diluted significantly. After the balance sheet date the company has agreed to amend the convertible note loans to converted to capital loans. The repayment of the loans is though restricted by the articles of Companies Act related to subordinated loans.

The Company may influence to the amount of capital needed by adjusting the expense structure according to the funding possibilities. The Management estimates and supervises equity and liquidity according to the amounts of equity and cash. These are reported to the Board on regular basis.

Strategic risks relate to technical success of research and development programs, new competing products availability in the market and the availability of funding. Any unfavourable change in R&D projects may endanger the property values and thus represent a remarkable risk for the company. This kind of unfavourable occasions may realize on short notice and are unpredictable.

Research and development

The Company outsources its current research and development services from Estonian Icosagen A/S and the respective expenses have been moderate.

Personnel

The number of personnel at the end of the review period was 15 (11). Part of the personnel was laid off during the review period.

Changes in company management during the reporting period

Dr. James Kuo, MD, MBA was appointed as the company's new CEO on May 16, 2016. The long time CEO, Dr. Kalevi Reijonen retired from the CEO position as of January 1, 2016 and continued as the Chief Medical Officer (CMO). During the recruitment process of the new CEO, Mr. Rabbe Slätis (Chairman of the Board) acted as CEO and Mr. Juha Vapaavuori acted as Chairman of the Board and continued in the position for the rest of the reporting period.

On January 21, 2016, the Company announced that Dr. Andres Männik, Ph.D., had been appointed as Chief Scientific Officer of the company, with Professor Mart Ustav continuing in the company as a member of the Scientific Advisory Board.

Members of the Management team on December 31, 2016 are:

James Kuo, Chief Executive Officer
Kalevi Reijonen, Senior Vice President, Chief Medical Officer
Liisa Laitinen, Senior Vice President and Chief Financial Officer
Matti Lähde, Vice President, Production
Jussi Seitsonen, Vice President, Quality Assurance and Quality Control
Andres Männik, Vice President, Chief Scientific Officer

The members of the board of Directors from 1.1.2016 were: Juha Vapaavuori, Chairman from 20.1.2016, Erkki Pekkarinen, Rabbe Slätis and Dirk Teuwen.

Starting from 8.4.2016 the members of the Board of Directors have been: Juha Vapaavuori, Chairman, Rabbe Slätis, Erkki Pekkarinen and Chitra Barucha.

Review by the Board of Directors

Resolutions of the Annual General Meeting 2016

The Annual General Meeting of FIT Biotech was held in Helsinki on April 8, 2016.

1. Annual Accounts, Board of Directors and Auditors

The Annual General Meeting approved the annual accounts of the Company and discharged the members and the vice members of the Board of Directors and the CEO from liability for the financial period of 2015.

The Annual General Meeting confirmed, according to the proposal of the Board of Directors, the number of the members of the Board of Directors as five (5) and that Juha Vapaavuori, Erkki Pekkarinen and Rabbe Slätis be re-elected to the Board and that Chitra Bharucha and Mart Ustav be elected as new members for the term expiring at the end of the next Annual General Meeting following the election.

The Annual General Meeting resolved that the members of the Board be paid the following remuneration for the term ending at the end of the 2017 Annual General Meeting:

- Chairperson of the Board EUR 2,000 per month.
- Other members of the Board (including deputy chairperson) will be paid a meeting compensation of EUR 800 for each physical meeting in which the Board member is personally in attendance throughout the duration of the Board meeting.
- The members of the Board who reside abroad will be paid a meeting compensation of EUR 500 also for meetings which they attend by telephone, provided that the member is in attendance via telephone throughout the duration of the Board meeting and that the Board meeting would otherwise be considered a physical meeting.
- In addition, the chairperson of the Board and other Board members will be paid for their reasonable travelling expenses to Board meetings.

The Annual General Meeting resolved that audit firm PricewaterhouseCoopers Oy is to be re-elected as the auditor, Janne Rajalahti, APA as the responsible auditor, for the term ending at the end of the next Annual General Meeting. The auditors shall be reimbursed in accordance with the auditors' reasonable invoice approved by the company.

2. Use of the profit shown on the balance sheet

The Annual General Meeting resolved that no dividends will be distributed for the 2015 financial period and that the profit of EUR 2,615,663.08 for the financial period will be transferred to the profit/loss account.

This book profit was mainly due to the Tekes decision, upon the Company's application (April 20, 2015), not to collect an amount of approximately EUR 6.5 million from the principal amount of the Company's capital loans.

3. Authorizing the Board of Directors to decide on the issuance of shares as well as the granting of options and other special rights entitling to shares

The Annual General Meeting authorized the Board of Directors to decide on the issuance of shares and on the granting of options and other special rights entitling to shares as referred to in Chapter 10, section 1 of the Limited Liability Companies Act. The authorization also allows the Board to decide upon a directed issue in deviation from the shareholders' pre-emptive subscription right and to grant special rights provided that the requirements set forth by law are met.

A maximum of 5,300,000 new K shares or K shares held by the Company may be issued under the authorization. The Board of Directors can use the authorization in one or more tranches, for example, to strengthen the Company's capital structure, for the purposes of management or personnel incentive schemes or for other purposes it decides. The Board of Directors was authorized to decide on the other terms of issuing shares and granting of option rights and special rights. The authorization is valid until June 30, 2017. This authorization will not revoke any earlier authorizations to decide on share issues or granting of option rights and other special rights entitling to shares.

4. Board's assembly meeting

In its assembly meeting right after the Annual General Meeting, the Board of Directors elected Juha Vapaavuori as the Chairperson.

Shares and share capital

The Company's shares are divided into three series, A, D and K, of which only the K series shares are traded on the First North list. The company has a total of 43,022,718 shares, which are divided in share series as follows: A: 5,229 shares, D: 65,235 shares and K: 42,952,254 shares. No shares in series B have been issued so far. The main differences between different share series relate to proportional distribution upon placing the Company in liquidation or upon dissolving the company and to the conversion of shares between the share series. The articles of association of the Company contain a more detailed description of the different rights pertaining to different share series and on the conversion of shares.

The Company directed to itself a share issue without payment of 10,000,000 new K shares in order to ensure that the Company has K shares to be transferred upon the conversion of the Convertible Notes and the exercise of the Warrants.

The Company has in it's possession shares of K-series totaling to 10,000,000 shares and 23,24% of the Company's shares and voting rights. By virtue of the authorization of General Meeting on April 8, 2016, FIT Biotech issued 213,763 new K-shares as a directed share issue. The Company carried out the directed share issue to Translink Corporate Finance Oy as a reward for Translink's provided services as per the advisor agreement that was in force between Company and Translink. The subscription price is paid fully with receivable of EUR 41,450 of Translink from the Company. There were weighty financial reasons for the share issue since the purpose of the issue is to strengthen the Company's capital structure and cash funds.

During the financial period Bracknor converted 360,000 euros and Sitra 120,000 euros of the convertible loans into equity capital. Along with the conversion of the convertible loans the company issued 3,258,466 K-shares to Bracknor and 1,610208 K-shares to Sitra. Bracknor has 2,745,151 and Sitra has 1,532,479 outstanding warrants related to the convertible loans.

Trading, market capitalization and shareholders

Shares on Nasdaq Helsinki

January-December 2016	No. of shares traded	Total value euros	Highest euros	Lowest euros	Average, euros	Last paid euros
FITBIO	7,493,022	1,783,870	1.11	0.07	0.24	0.086

	December 31, 2016	December 31, 2015
Market capitalization, euros	3,479,133	22,079,854
No. of shareholders	913	405

Option and incentive programs

The Annual General Meeting of April 8, 2016 authorized the Board of Directors to decide upon granting option and other special rights. Upon authorization, total maximum of 5,300,000 new shares or Company's own K-shares can be granted. The authorization is valid until June 30, 2017. During the review period, the Board of Directors did not execute the authorization.

The extraordinary general meeting of February 24, 2015 authorized the Board of Directors to decide upon granting option rights to key personnel of the company. The Board of Directors, in its meeting on May 18, 2015, approved the 2015 option rights. Option rights were issued for a total maximum number of 1,910,000, and they entitle their holders to subscribe for no more than 1,910,000 new series K shares in or possessed by the company. Of the share options, 1,004,330 are marked with the symbol 2015A; 301,890 with the symbol 2015B; 301,890 with the symbol 2015C, and 301,890 with the symbol 2015D. The option rights were to key personnel without consideration. Each option right entitles its holder to subscribe for one (1) new share in the Company or existing share held by the Company. The share subscription period for share options 2015A is July 1, 2016–December 31, 2021, for share options 2015B January 1, 2018–December 31, 2021, for share options 2015C January 1, 2019–December 31, 2021 and for share options 2015D January 1, 2020–December 31, 2021. The share subscription price with option right 2015A is 1.25 euros, i.e. twenty per cent (20%) less than the subscription price in the initial public offering, with option right 2015B 1.56 euros, i.e. the same as the subscription price in the initial public offering, with option right 2015C 1.56 euros, i.e. the same as the subscription price in the initial public offering, and with option right 2015D 1.56 euros, i.e. the same as the subscription price in the initial public offering. The subscription price of a share subscribed for with an option right may be set lower in special cases. Notwithstanding this, the subscription price of the share is always a minimum of 0.01 euros per share.

Main risks and uncertainties

The Company's business is at a development stage and is based on research and product development projects, and there is no guarantee that the business will develop favorably. The Company's future profitability and prospects and even the continuity of its operations will materially depend on the Company's ability to enter into potential license and collaboration agreements relating to the GTU® technology developed by the company and, in particular, on the Company's success of demonstrating the proof-of-concept of its gtGTU technology.

The Company's operating profit depends on the fees under new agreements, in particular those aimed to be made in the field of gene-based treatments, as well as the fees based on the heads of agreements already signed by the Company being fulfilled as planned. Typically to pharmaceutical industry, research results and the amount of fees possibly received based on the agreements potentially ensuing from the results is difficult to anticipate accurately due to various uncertainties. Of the advance fees of collaboration agreements targeted by the Company, particularly milestone fees and, subsequently, sales-linked royalties of potential license agreements depend on how risky product development advances and whether a sales permit for the pharmaceutical developed based on the Company's technology is obtained.

The Company's development projects may progress slower than planned. Collaboration projects and plans are not always realized in the expected manner, and they include substantial uncertainties. Development projects always involve a technology risk, which is typical for the field. However, the risk decreases as the studies proceed to the clinical phase.

The Company is financing it's research and development activities by grants and loans. These grants, which local, national and EU – level institutions offer to improve development in the area have been remarkable for the Company. The availability of the grants on mid or long term are not secured and thus may be a risk for the Company in the future. FIT Biotech may acquire additional financing by issuing shares, using own shares as methods of payment and by negotiating with new financers. If the Company is unable to acquire financing it's business is in endangered.

If the product development of the drug candidates based on the Company's GTU® technology proceeds faster than expected or if the product development costs do not stay within the limits of the company's budget, the Company may need to acquire equity or debt financing earlier or more than assessed. If product development progresses slower than estimated, the product development costs and the resulting need for funding may be postponed correspondingly. If the commercialization of the research results takes place earlier, the need for additional financing will be decreased correspondingly.

The value of ongoing or future development plans may be affected by competitors, who may find novel efficient treatments for diseases that are also targeted by FIT Biotech.

The Company's current or future business partners may not necessarily succeed in commercializing drug candidates based on the GTU® technology. The future development of the Company's business largely depends on the

Company's and its business partners' ability to succeed in bringing the development of its current and future drug candidates to a stage in which it is possible to conclude collaboration agreements with third parties under terms that are feasible for the Company.

The Company's success, growth and the profitability of its business depend materially on the expertise of the Company's management and other key persons and the Company's ability to retain the current management and other key persons and to recruit new, experienced personnel with industry expertise also in the future.
There is more information on financing risks under section Short-term risks, going concern and liquidity.

Events after the review period

The Extraordinary General Meeting of January 26, 2017 appointed Eero Rautalahti as the Member of the Board.

The Company informed on March 10, 2017 that the equity including additions according to Companies Act was negative December 31, 2016. The Board of the Company has taken actions to improve the equity and informed on March 10, 2017 to convert the convertible loans to convertible capital loans. After conversion of the convertable bonds on 10.3.2017, the equity was at the level required by the Companies Act.

Outlook for 2017

Pharmaceutical product development is characterized by a long-term approach with resulting large sales at high margins for a positive outcome. FIT Biotech seeks to license its drug candidates to business partners who are able to undertake their further clinical development, regulatory approval and commercialization. The company's revenue model is based on receiving signing fees and milestone payments of the targeted license agreements as well as royalty payments.

The company continues to implement its strategy, i.e. the aim to license the patented GTU® technology to partners for medical applications. The company primarily focuses on verifying the preclinical efficacy of its drug candidates (proof-of-concept) developed on the basis of the GTU® technology.

FIT Biotech's development projects as outlined in its announcement on May 20, 2016, continue with a few exceptions. The grant application related to Innovative Medicines Initiative 2 (IMI2) did not result in a positive decision as announced on June 10, 2016. Furthermore, the pre-clinical results concerning the suitability of the GTU technology to gene-based treatments were delayed and are now expected in Q1/2017 as was announced on September 5, 2016. A collaboration agreement between the Company and InnaVirVax to combine their respective immunotherapeutic vaccines was released on December 16, 2016. The different modes of action of the vaccines potentially have a favorable synergistic effect toward a functional HIV cure. A functional HIV-cure is defined as a sustained remission of HIV-infection without continuous antiviral treatment and no disease progression. FIT Biotech is also manufacturing its therapeutic HIV vaccine for the European HIV Vaccine Alliance for multinational clinical studies directed towards a functional HIV cure.

The Company does not anticipate generating any turnover in 2017.

Board of director's proposal to the general meeting for the distribution of profit

The Company's result for the financial period 2016 amounted to -3,651,186 thousand euros. As at December 31, 2016, the Company did not have any distributable funds.

The Company's board of directors proposes to the annual general meeting that no dividend be paid for the financial period of January 1–December 31, 2016.

Publishing of the Financial Statements Bulletin 2016

FIT Biotech's half-year financial report 2017 will be published on September 15, 2017.

KEY FIGURES

Currency EUR 1000	1.1.-31.12/2016	1.1.-31.12/2015	1.1.-31.12/2014
Revenue	10	20	30
Profit/loss	-3,030	3,843	-2,291
Adjusted profit/loss (*	-3,030	-2,642	-2,291
Profit for the period	-3,651	2,616	-2,304
Adjusted balance sheet (**	-3,651	-2,629	-2,304
Cash flow from the operations	- 2,487	-2,432	-1,204
Cash in hand and at banks	486	1,845	217
Equity	-12,404	-9,275	-21,349
Grants	191	6,539	205
Liabilities tot.	1,428	2,694	1,021
Return on equity % (ROE)	Negative	Negative	
Equity ratio %	Negative	Negative	
Return on investment % (ROI)	Negative	226,3	
Debt to equity ratio %	Negative	Negative	
Gearing %	Negative	Negative	

(* adjusted for the EUR 6 485 213,20 subordinated loan not collected by Tekes
(** excluding the financial adviser's fees

CALCULATION OF KEY FINANCIAL FIGURES

$$\text{Earnings per share} = \frac{\text{Profit (loss) for the period}}{\text{Average number of shares}}$$

$$\text{Return on equity (ROE)} = \frac{\text{Profit (loss) before non-recurring items - taxes x 100}}{\text{Total equity}}$$

$$\text{Equity ratio} = \frac{\text{Total equity x100}}{\text{Total assets – advances received}}$$

$$\text{Return on investment (ROI)} = \frac{\text{Profit (loss) + financial expenses x 100}}{\text{Total equity + interest bearing liabilities}}$$

INCOME STATEMENT (FAS)

EUR	Jan 1-Dec 31 2016	Jan 1-Dec 31 2015
REVENUE	**10,000**	**20,000**
Other operating income	191,127	6,543,853
Materials and services		
Materials and supplies		
Purchases during accounting period	-133,468	-10,030
Outsourced services	-243,008	-315,833
Materials and services total	-376,476	-325,862
Personnel expenses		
Wages and salaries	-871,548	-762,070
Indirect employee costs		
Pension expenses	-82,302	-85,128
Other indirect personnel expenses	-37,756	-28,876
Personnel expenses total	-911,605	-876,074
Depreciation and amortisation		
Depreciation according to plan	-159,397	-157,230
Other operating expenses	-1,704,025	-1,361,711
OPERATING PROFIT (LOSS)	**-3,030,377**	**3,842,976**
Financial income and expenses		
Other interest and financial income		
From others	25	308
Interest and other financial expenses		
To others	-620,835	-1,227,621
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	**-3,651,186**	**2,615,663**
PROFIT (LOSS) FOR THE PERIOD	**-3,651,186**	**2,615,663**

BALANCE SHEET (FAS)

EUR	Dec 31, 2016	Dec 31, 2015
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	619,937	715,985
	619,937	715,985
Tangible assets		
Property, plant and equipment	41,665	11,647
Other tangible assets	68,833	
NON-CURRENT ASSETS TOTAL	**730,436**	**727,632**
CURRENT ASSETS		
Receivables		
Long-term		
Other accounts receivable	87,519	
Long-term receivables total	87,519	
Short-term		
Other loan receivables	2	
Other accounts receivable	89,531	80,415
Accrued income	33,672	40,832
Short-term receivables total	123,205	121,247
Cash and bank receivables	486,916	1,844,833
CURRENT ASSETS TOTAL	**697,640**	**1,966,079**
ASSETS TOTAL	**1,428,076**	**2,693,711**
LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital		
Share capital	8,282,473	7,761,024
Share premium account	6,906,058	6,906,058
Other reserves		
Reserve for invested unrestricted equity	9,013,186	9,013,186
Profit (loss) from previous periods	-32,955,014	-35,570,677
Profit (loss) for the period	-3,651,186	2,615,663
SHAREHOLDERS' EQUITY TOTAL	**-12,404,482**	**-9,274,745**
DEBT		
Long-term		
Debentures *)	1,270,000	
Deferred income and accrued liabilities	49,366	
Capital loans	11,774,070	11,774,070
Long-term receivables total	13,093,436	11,774,070
Short-term		
Advance payment	47,782	
Trade creditors	403,885	82,487
Other payables	79,224	22,916
Deferred income and accrued liabilities	208,231	88,984
Short-term debt total	739,122	194,387
DEBT TOTAL	**13,832,558**	**11,968,457**
LIABILITIES TOTAL	**1,428,076**	**2,693,711**

*) Has been converted to capital loans as of 10.3.2017

STATEMENT OF CASH FLOW (FAS)

EUR	Jan 1-Dec 31, 2016	Jan 1-Dec 31, 2015
Cash flow from operations		
Profit (loss) before non-recurring items	-3,651,186	2,615,663
Adjustments: income and expenses that do not cause cash flow		-5,244,151
Depreciation according to plan	159,397	157,230
Financial income and expenses	620,810	-13,750
Cash flow before changes in working capital	**-2,870,980**	**-2,485,007**
Changes in working capital:		
Change in accounts receivable, addition (-)/decrease (+)	-89,478	-31,963
Change in accounts payable, addition (+)/decrease (-)	495,475	70,921
Cash flow from operating activities before financial items and income taxes paid	**-2,464,983**	**-2,446,049**
Interest and payment paid for financial expenses	-22,208	13,442
Financial income received	25	308
Cash flow before extraordinary items	**-2,487,165**	**-2,432,300**
Cash flow from operations (A)	**-2,487,165**	**-2,432,300**
Investment cash flow:		
Investments in intangible and tangible assets	-162,201	-170,530
Investment cash flow (B)	**-162,201**	**-170,530**
Funding cash flow:		
Increase of equity against payment	521,449	3,536,846
Non-current loans drawn	770,000	693,500
Funding cash flow (C)	**1,291,449**	**4,230,346**
Change in cash (A+B+C), addition (+)/decrease (-)	-1,357,917	1,627,516
Cash and cash equivalents in the beginning of the period	**1,844,833**	**217,317**
Cash and cash equivalents at the end of the period	**486,916**	**1,844,832**

SHAREHOLDERS' EQUITY

EUR	Dec 31 2016	Dec 31 2015
Equity at the beginning of the period	7,761,024	158,287
Share capital increase	521,449	7,602,737
Share capital registered in the Trade Register at the end of the period	8,282,473	7,761,024
Share capital total	**8,282,473**	**7,761,024**
Share premium account at the beginning of the period	6,906,058	6,906,058
Share premium account at the end of the period	**6,906,058**	**6,906,058**
Restricted equity total at the end of the period	**15,188,532**	**14,667,082**
Reserve for invested unrestricted equity at the beginning of the period	9,013,186	7,155,354
Changes during the period	0	1,857,833
Reserve for invested unrestricted equity at the end of the period	**9,013,186**	**9,013,186**
Profit/loss from previous periods at the beginning of the period	-35,570,677	-33,266,542
Loss from the previous period	2,615,663	-2,304,135
Profit/loss from previous periods at the end of the period	**-32,955,014**	**-35,570,677**
Profit (loss) for the period	**-3,651,186**	**2,615,663**
Unrestrickted equity total at the end of the period	**-27,593,014**	**-23,941,828**
Equity total	**-12,404,482**	**-9,274,745**

Calculation of capital adequacy	**Dec 31 2016**	**Dec 31 2015**
Equity	-12,404,482	-9,274,745
+ Capital loans	11,774,070	11,774,070
Equity plus increases under Finnish Limited Liability Companies Act	**-630,413**	**2,499,324**

Notes to the financial statement

1. Measurement and recognition principles and methods:

1.1. Accounting principles for the financial statements

Financial statements are prepared based on the going concern principle.
Going concern and liquidity assumptions include risks which are further described under note 14.

1.2 Research and development costs

Research and development costs are recognized as an expense as incurred.

1.3. Comparability of the financial information

When comparing 2016 financial information to previous year, it should be noted that income and expenses.
For the financial period 2015 include extraordinary items, which are related to the Company's listing.
Most significant extraordinary items are disclosed in the notes to the financial statements.

1.4 Tangible and intangible assets

Tangible and intangible assets are recognized in the balance sheet at cost less depreciation/amortization according to plan. The cost includes variable expenses relating to the acquisition and production of the asset.
Grants received are deducted from the cost.

The acquisition cost of property, plant and equipment and intangible assets is depreciated/amortized according to plan. Depreciation/amortization plan is determined based on experience. The difference between the acquisition cost and the residual value is recognized as depreciation/amortization charge during the useful life of the assets.

Group of assets	Expected useful life	Depreciation percentage	Depreciation method
Patents	10 years		straight-line depreciation
Machinery and equipment		25%	reducing tax balance depreciation
Other tangible assets	10 years		straight-line depreciation

1.5 Other income

Other income includes EHVA and Tekes grants amounting to 191,127 eur.
47,781.65 euros of the grants have been added to deferred income and accrued liabilities.

1.6 Leasing

Lease payments are treated as rent expenses. The company holds no significant finance lease contracts.

1.7 Pension expenses

The Company has arranged the pension security of its personnel through external pension insurance companies. Pension expenses are included in the personnel expenses.

2. Other operating income:

EUR	31.12.2016	31.12.2015
Grants	191,126.60	6,539,271.62
Other operating income	0.00	4,581.69
Total	**191,126.60**	**6,543,853.31**

Grants in 2015 included EUR 6,485,213.20 non-recurring income, which results from Tekes deciding not to collect certain of its capital loans from the Company. This income has no cash flow effect.

3. Notes concerning personnel and members of administrative bodies:

3.1 Number of personnel:

	Dec 31, 2016	Dec 31, 2015
Administration	3	2
Research and development	12	9
Total	**15**	**11**

3.2 Personnel expenses:

EUR	Dec 31, 2016	Dec 31, 2015
Wages and salaries	871,547.63	762,069.56
Pension expenses	82,301.52	85,128.07
Social security expenses	37,755.53	28,876.05
Personnel expenses total	991,604.68	876,073.67
Tax value of fringe benefits	1,882.00	3,527.77

3.3 Salaries and wages of the CEO and the Board of Directors:

EUR	Dec 31, 2016	Dec 31, 2015
CEO and Board of Directors total	**177,721.48**	**299,218.03**

3.4 Pension commitments:

The Company doesn't have any material pension commitments for the management.

4. Auditor's fees:

EUR	Dec 31, 2016	Dec 31, 2015
1) Audit fees	34,579.27	22,378.00
2) Other services	2,454.00	142,087.94
3) Tax advisory services	0.00	5,000.00
Total	**37,033.27**	**169,465.94**

5. Financial income and expenses

EUR	Dec 31, 2016	Dec 31, 2015
Other interest and financial income		
From others	25.35	307.60
Interest and other financial expenses		
To others	-620,834.85	-1,227,620.75
Total	**-620,809.50**	**-1,227,313.15**

Financial expenses 2016 include convertible bond arrangement fees amounting to 500 000 eur.

6. Other operating expenses

EUR	Dec 31, 2016	Dec 31, 2015
Voluntary social security expenses	96,374.20	24,804.57
Office and equipment expenses	234,124.58	147,719.87
Travel, sales and marketing expenses	119,152.05	197,598.93
Administrative expenses	1,254,374.62	991,587.75
Other operating expenses total	**1,704,025.45**	**1,361,711.12**

7. Depreciation of property, plant and equipment and other capitalized long-term expenditure:

EUR	Dec 31, 2016	Dec 31, 2015
Intangible assets	149,804.82	153,347.83
Machinery and equipment	8,425.28	3,882.26
Other tangible assets	1,166.67	0.00
Depreciation, amortization and impairments total	**159,396.77**	**157,230.09**

8. Changes in non-current assets:

Intangible assets:	**Patents**	**Total**
Acquisition cost at 1 Jan	2,342,817.45	2,342,817.45
Additions	53,757.23	53,757.23
Acquisition cost at 31 Dec	**2,396,574.68**	**2,396,574.68**
Accumulated amortization at 1 Jan	-1,626,832.37	-1,626,832.37
Amortization	-149,804.82	-149,804.82
Accumulated amortization at 31 Dec	**-1,776,637.19**	**-1,776,637.19**
value at 31, Dec 2016	**619,937.49**	**619,937.49**
Book value at 31, Dec 2015	**715,985.08**	**715,985.08**

Property, plant and equipment:	Office machinery and equipment	FIUO-machinery	R&D machinery and equipment	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1 Jan	282,775.40	20,182.55	1,606,152.10	0	0	1,909,110.05
Additions	0.00	10,912.57	23,471.85	4059.54	70000	108,443.96
Disposals	0.00	0.00	0.00	0	0	0.00
Acquisition cost at 31 Dec	**282,775.40**	**31,095.12**	**1,629,623.95**	**4059.54**	**70000**	**2,017,554.01**
Accumulated depreciation at 1 Jan	-276,723.95	-19,946.57	-1,600,792.82	0	0	-1,897,463.34
Depreciation	-1,512.86	-865.54	-5,740.79	-306.09	-1166.67	-9,591.95
Accumulated depreciation at 31 Dec	**-278,236.81**	**-20,812.11**	**-1,606,533.61**	**-306.09**	**-1166.67**	**-1,907,055.29**
Book value at 31, Dec 2016	**4 ,538.59**	**10,283.01**	**23,090.34**	**3753.45**	**68833.33**	**110,498.72**
Book value at 31, Dec 2015	**6,051.45**	**235.98**	**5 359.28**	**0**	**0**	**11,646.71**

9. Current assets

9.1 Non-current receivables

EUR	Dec 31,2016	Dec 31,2015
Other receivables	87,518.98	-

9.2. Current receivables

EUR	Dec 31,2016	Dec 31,2015
Loans reveivable	1.98	
Other receivables	89,531.34	80,415.02
Payment and accured income	33,671.91	40,831.50
Total	**123,205.23**	**121,246.52**

9.3 Cash in hand and at banks

	486,915.58	1,844,832.76
Current assets total	697,639.79	1,966,079.28

10. Shareholders' equity

EUR	Dec 31, 2016	Dec 31, 2015
Share capital at 1 Jan	7,761,023.98	158,286.97
Share issue	521,449.26	7,602,737.01
Share capital registered in Trade Register at 31 Dec	**8,282,473.24**	**7,761,023.98**
Share capital total	8,282,473.24	7,761,023.98
Share premium account at 1 Jan	6,906,058.33	6,906,058.33
Share premium account at 31 Dec	**6,906,058.33**	**6,906,058.33**
Restricted equity total at 31 Dec	15,188,531.57	14,667,082.31
Invested unrestricted equity reserve at 1 Jan	9,013,186.38	7,155,353.70
Changes during the period	0.00	1,857,832.68
Invested unrestricted equity reserve at 31 Dec	**9,013,186.38**	**9,013,186.38**
Retained earnings at 1 Jan	-32,955,014.12	-35,570,677.20
Distribution of dividend	0.00	0.00
Retained earnings at 31 Dec	**-32,955,014.12**	**-35,570,677.20**
Profit (loss) for the financial period	**-3,651,186.26**	**2,615,663.08**
Unrestricted equity total at 31 Dec	**-27,593,014.00**	**-23,941,827.74**
Shareholders' equity total	**-12 404 482,43**	**-9 274 745,43**

10.1 Calculation regarding distributable equity

	Dec 31, 2016	Dec 31, 2015
Negative total equity	-12,404,482.43	-9,274,745.43
Capital loans	11,774,069.63	11,774,069.63
Total equity including additions according to the Companies Act	**-630,412.80**	**2,499,324.20**

Share capital increased during 2016 due to convertible loans 479,999.26 eur and 15,138,674 shares and due the share issue 41,450.00 eur and 213,763 shares.

The Company informed on March 10, 2017 that the equity including additions according to Companies Act was negative December 31, 2016. The Board of the Company has taken actions to improve the equity and informed on March 10, 2017 to convert the convertible loans to convertible capital loans. The equity including additions according to Companies Act as of February 28, 2017 was -633,439 euros before conversions to the convertible capital loans. The total amount of such convertible loans was as of December 31, 2016 1,270,000 euros.

10.2. Own shares

The Company directed to itself a share issue without payment of 10,000,000 new K shares in order to ensure that the Company has K shares to be transferred upon the conversion of the Convertible Notes and the exercise of the Warrants.

The company have 31.12.2016 own K-series shares amounting to 10,000,000 shares which represents 23,24% of shares and voting rights.

11. Non-current liabilities

	Dec 31, 2016	Dec 31, 2016
Convertible bonds	1,270,000.00	0.00
Accurals and deferred income	49,366.30	0.00
Capital loans from Tekes	11,774,069.63	11,774,069.63
Total	**13,093,435.93**	**11,774,069.63**
Unrecognized interests on capital loans	3,705,603.43	3,355,340.19

The principal and interest of capital loan are subordinated compared to other debtors in the event of liquidation or bankruptcy of the company. The principal can be returned and interest can be paid only to the extent when the amount of unrestricted equity and the amount of all capital loans at the time of payment exceeds the loss amount to be confirmed for the latest financial period or the loss included in the balance sheet in a more recent financial statements. No security has been given for the payment of the loan principal or interests. If interest cannot be paid, it will be paid on the basis of the first financial statements when the payment is possible.

11.1. Convertible bonds

The noteholder	Convertible loans 31 Dec 2016 (EUR)	Convertible loans taken out (EUR)	Arrangement fees accordant with convertible loans (EUR)	Convertible loans total (EUR)	The amount of converted loans (EUR)	Convertible loans 31 Dec 2016 (EUR)	K shares given on the basis of conversion offering (number) (lkm)
Bracknor	0.00	750,000.00	480,000.00	1,230,000.00	-360,000.00	870,000.00	3,528,466
SITRA	0.00	500,000.00	20,000.00	520,000.00	-120,000.00	400,000.00	1,610,208
	0.00	1,250,000.00	500,000.00	1,750,000.00	-480,000.00	1,270,000.00	5,138,674,00

The noteholder	Convertible loans 31 Dec 2016	Shares to be received in exhancge fo for outstanding convertible loans based on the conversion price at 31 Dec 2016	Percentage of the Company's shares (%)	Percentage of the Company's votes (%)	Outstanding Warranties of convertible loans 31 Dec 2016	Shares to be exhancge received in for outstanding Warranties based on the conversion price 31 Dec 2016	Percentage of the Company's shares (%)	Percentage of the Company's votes (%)
Bracknor	870,000.00	8,632,091.00	16.7%	16.7%	2,745,151.00	2,745,151.00	6.0%	6.0%
SITRA	400,000.00	5,569,091.00	11.5%	11.5%	1,532,479.00	1,532,479.00	3.4%	3.4%
	1,270,000.00	14,201,182.00			4,277,630.00	4,277,630.00		

11.1.1 Main terms of the Bracknor financing agreement

The agreement applies to the financing program consisting of convertible notes and warrants up to EUR 12.480.000, which was approved by the company's Annual General Meeting on 15.09.2016.

Convertible notes may be drawn in 48 sequential tranches of EUR 250,000 (each, a "Tranche") during a period of 98 months beginning from 25.08.2016. FIT Biotech has a duty to take 20 instalments of convertible loans, for a total of EUR 5,000,000. FIT Biotech has an obligation to draw a total of 20 Tranches of the Convertible Notes, i.e. a total of EUR 5 million. The remainder of the Convertible Notes, a total of 28 Tranches, i.e. EUR 7 million, may be drawn by the Company at its discretion. FIT Biotech has paid to Bracknor a commitment fee of EUR 480,000, which Bracknor has used for the subscription of a corresponding amount of Convertible Notes. The commitment fee is included in the total size of the Programme, being EUR 12,480,000.

Bracknor has the right to convert each Tranche into the Company's K shares. A Tranche may be drawn provided that all previously issued Convertible Notes within the Programme have been converted into K shares of the Company or that a cool-down period of 40 trading days has elapsed. The conversion price of the K shares is 85% of the lowest closing volume-weighted average price on the First North Finland market place during the 15 trading days immediately preceding the date when all preconditions have been met (the "Conversion Price"). The number of K shares to be issued in connection with the conversion is obtained by dividing each Tranche by the Conversion Price. The Convertible Notes bear a zero coupon rate and have a maturity of 18 months from the issuance of each Tranche. Each Tranche must at the latest be converted into K shares upon maturity.

In addition, Bracknor will receive, free of charge, with the drawing of each Tranche Warrants that entitle the holder to subscribe for the Company's K shares at a subscription price that is equal to 110% of the lowest closing volume-weighted average price on the First North Finland market place during the 15 trading days immediately preceding the drawing of the Tranche (the "Subscription Price"). The share subscription period is 5 years from the issuance of each Warrant. Bracknor has the right, but no obligation to subscribe for the Company's K shares based on the Warrants. If Bracknor subscribes for the Company's K shares based on all Warrants, the Company's share capital would increase by EUR 13,200,000 based on such subscriptions. The number of Warrants attached to each Tranche is obtained by dividing the Tranche by the lowest closing volume-weighted average price on the First North Finland market place during the 15 trading days immediately preceding the date when all preconditions have been met. Each Warrant entitles to subscribe for one K share. The subscription period of shares is 5 years beginning from the issuance of each Warrant. Bracknor will not receive any Warrants based on its commitment fee of EUR 480,000 to be used for the subscription of a corresponding amount of Convertible Notes.

Bracknor may at no time hold more than 10% of the total voting rights represented by the shares of the Company. The drawing of each Tranche requires that certain representations and warranties given by FIT Biotech and other conditions are met. The terms and conditions of the Convertible Notes and the Warrants will be adjusted by certain reorganisations, restructurings and other situations. Bracknor has the right to terminate the Programme, if the Company's operations become subject to a material adverse effect, there has been a change of control in the Company or the Finnish Innovation Fund Sitra ("Sitra") sells more than 40% of its K shares before 25th of August 2019. The Company has the right to terminate the Programme before the third anniversary of the Programme, if the Company becomes subject to a major transaction resulting from a change of control, sale of more than 50% of the assets of the Company or if Bracknor does not fulfil its obligations under the Programme, and after the issue of the nineteenth Tranche, without cause. In case the Company terminates the Programme before the third anniversary of the Programme due to sale or transfer of more than 50% of the assets of the Company or a change of control in the Company, Bracknor has the right to receive free of charge a number of Warrants that it would have received assuming the Company would have issued all Warrants to Bracknor in connection with the first twenty (20) Tranches. The Company is in certain situations obliged to redeem the outstanding Convertible Notes for 115% of their principal amount.

11.1.2 Main terms of the SITRA financing agreement

Convertible notes consist of two drawdowns of EUR 250,000. In addition, Fit Biotech is obliged to pay Sitra the corresponding 4% commitment fee which is based on the total amount of the Sitra Programme. Sitra has used the received funds to subscribe the convertible bond loan equivalent to the Sitra Programme and this amount will be added to the total amount of the Sitra Programme. The convertible notes entitle their holder to subscribe up to 2,000,000 new or Company owned K-shares according to the terms of convertible notes. Apart from technical modifications the final terms of convertible notes correspond to the preliminary terms agreed with Bracknor that were published on the 25th of August 2016.

Sitra will be granted with up to 2,000,000 warrants free of charge according to the warrant terms. Warrants entitle their holder to subscribe up to 2,000,000 K-shares that are newly issued or held by the Company according to the warrant terms. Apart from technical modifications the final terms of convertible bond loans correspond to the preliminary terms agreed with Bracknor that were published on the 25th of August 2016.

11.2. Capital loans from Tekes

Loan number	Drawn	converted as grant in the previous periods	Portion of capital loan 31.12.2015	movements 1.1.-31.12.2016	Portion of capital loan 31.12.2016
3037-177	74 002,68	54,199.12	19,803.56	0.00	19,803.56
3037-1203	203,428.01	0.00	203,428.01	0.00	203,428.01
3037-1204	72,961.77	47,961.77	25,000.00	0.00	25,000.00
3037-1341	661,819.49	0.00	661,819.49	0.00	661,819.49
3037-1600	412,060.42	28,476.61	383,583.81	0.00	383,583.81
3037-1601	1,013,164.07	0.00	1,013,164.07	0.00	1,013,164.07
3037-1724	3,919,466.39	1,959,733.20	1,959,733.19	0.00	1,959,733.19
3037-1900	769,895.00	350,000.00	419,895.00	0.00	419,895.00
3037-2024	2,359,200.00	1,179,600.00	1,179,600.00	0.00	1,179,600.00
3037-2023	2,284,587.00	1,142,293.50	1,142,293.50	0.00	1,142,293.50
3039-13602	724,220.58	540,926.00	183,294.58	0.00	183,294.58
3039-13759	768,822.40	381,250.00	387,572.40	0.00	387,572.40
3039-13758	571,227.64	283,000.00	288,227.64	0.00	288,227.64
3039-14039	2,018,430.52	998,000.00	1,020,430.52	0.00	1,020,430.52
3035-15060	1,249,223.86	0.00	1,249,223.86	0.00	1,249,223.86
3035-14350	3,274,000.00	1,637,000.00	1,637,000.00	0.00	1,637,000.00
Total	**20,376,509.83**	**8,602,440.20**	**11,774,069.63**	**0.00**	**11,774,069.63**
Accured interest			3,355,340.19		3,705,603.43

The interest expenses for the subordinated loans are not included to prodit and loss account and balance sheet according to the conditions of the subordinated loans.

The interest rate is one (1) percentage point lower than the base rate in force from time to time, in any case at least 3%. Loan repayments are scheduled for 2015-2025.

11.3 Liabilities maturing after more than five years

	Dec 31, 2016	Dec 31, 2015
Capital loans from Tekes	3,038,501.80	3,624,591.80

12. Option and incentive programs

The Annual General Meeting of April 8, 2016 authorized the Board of Directors to decide upon granting option and other special rights. Upon authorization, total maximum of 5 300 000 new shares or Company's own K-shares can be granted. The authorization is valid until June 30, 2017. During the review period, the Board of Directors did not execute the authorization.

The extraordinary general meeting of February 24, 2015 authorized the board of directors to decide upon granting option rights to key personnel of the company. The board of directors, in its meeting on May 18, 2015, approved the 2015 option rights.

Option rights will be issued for a total number of 1,910,000 shares. Of the option rights, 1,004,330 will be marked with the symbol 2015A, 301,890 with the symbol 2015B, 301,890 with the symbol 2015C, and 301,890 with the symbol 2015D. The option rights will be granted to key personnel without consideration. Each option right entitles its holder to subscribe for one (1) new share in the company or existing share held by the company. The share subscription period for share options 2015A will be July 1.7.2016–December 31.12. 2021, for share options 2015B January 1.1.2018–December 31.12.2021, for share options 2015C January 1.1.2019– December 31.12.2021 and for share options 2015D January 1.1.2020–December 31.12.2021.

The share subscription price with option right 2015A is 1.25 euros, i.e. twenty per cent (20%) less than the subscription price , with option right 2015B 1.56 euros, i.e. the same as the subscription price, with option right 2015C 1.56 euros, i.e. the same as the subscription price, and with option right 2015D 1.56 euros, i.e. the same as the subscription price.

The subscription price of a share subscribed for with an option right may be set lower in special cases. Notwithstanding this, the subscription price of the share is always a minimum of 0.01 euros per share.

13. Contingent liabilities and other commitments as at December 31, 2016

13.1. Lease guarantees

Rahayksikkö EUR	Dec 31, 2016	Dec 31, 2015
Payments next year	2,875.36	0.00
Payments between one and five years	3,469.76	0.00
	6,345.12	0.00

13.2. Lease commitments

	Dec 31, 2016	Dec 31, 2015
Payments next year	215,760.00	0.00
Payments between one and five years	215,760.00	0.00
	431,520.00	0.00

13.3. Security deposits (**

	Dec 31, 2016	Dec 31, 2015
Security deposits**	87,518.98	40,610.85

**Security deposits are presented in other receivables in the balance sheet.

13.3 Corporate mortgages

Collateral notes applied for company´s property, plant and equipment, in the year 2000 numbers 1-5 á EUR 100,000, in 2002 numbers 1-3 á EUR 300,000 € ja and number 4 á EUR 200,000 €, to taling EUR 1,600,000 €, are held by the company.

14. Short-term risks, going concern and sufficiency of funding

The Company's business is at a development stage and is based on research and product development projects, and there is no guarantee that the business will develop favorably. The Company's future profitability and prospects and even the continuity of its operations will materially depend on the Company's ability to enter into potential license and collaboration agreements relating to the GTU® technology developed by the company and, in particular, on the Company's success of demonstrating the proof-of-concept of its gtGTU technology.

The Company's operating profit depends on the fees under new agreements, in particular those aimed to be made in the field of gene-based treatments, as well as the fees based on the heads of agreements already signed by the Company being fulfilled as planned. Typically to pharmaceutical industry, research results and the amount of fees possibly received based on the agreements potentially ensuing from the results is difficult to anticipate accurately due to various uncertainties. Of the advance fees of collaboration agreements targeted by the Company, particularly milestone fees and, subsequently, sales-linked royalties of potential license agreements depend on how risky product development advances and whether a sales permit for the pharmaceutical developed based on the Company's technology is obtained.

The Company's development projects may progress slower than planned. Collaboration projects and plans are not always realized in the expected manner, and they include substantial uncertainties. Development projects always involve a technology risk, which is typical for the field. However, the risk decreases as the studies proceed to the clinical phase.

The Company is financing it's research and development activities by grants and loans. These grants, which local, national and EU level institutions offer to improve development in the area have been remarkable for the Company. The availability of the grants on mid or long term are not secured and thus may be a risk for the Company in the future. FIT Biotech may acquire additional financing by issuing shares, using own shares as methods of payment and by negotiating with new financers. If the Company is unable to acquire financing it's business is in endangered.

If the product development of the drug candidates based on the Company's GTU® technology proceeds faster than expected or if the product development costs do not stay within the limits of the company's budget, the Company may need to acquire equity or debt financing earlier or more than assessed. If product development progresses slower than estimated, the product development costs and the resulting need for funding may be postponed correspondingly. If the commercialization of the research results takes place earlier, the need for additional financing will be decreased correspondingly.

The value of ongoing or future development plans may be affected by competitors, who may find novel efficient treatments for diseases that are also targeted by FIT Biotech.

The Company's current or future business partners may not necessarily succeed in commercializing drug candidates based on the GTU® technology. The future development of the Company's business largely depends on the Company's and its business partners' ability to succeed in bringing the development of its current and future drug candidates to a stage in which it is possible to conclude collaboration agreements with third parties under terms that are feasible for the Company.

The Company's success, growth and the profitability of its business depend materially on the expertise of the Company's management and other key persons and the Company's ability to retain the current management and other key persons and to recruit new, experienced personnel with industry expertise also in the future.

There is more information on financing risks under section Short-term risks, going concern and liquidity.

15. Related parties

Icosagen, which is a company controlled by the Company's scientific advisory board member Mart Ustav, is FIT Biotech Oy's related party company. FIT Biotech Oy has sonsulting contracts with Mart Ustav and Andres Männik who are working at Icosagen A/S. According to the consulting contracts the Company has paid consulting fees of 115 thousand during 2016.

Signatures for the board of director's report and financial statements

In Helsinki March 10, 2017

Juha Vapaavuori
Chairman of the Board of Directors

Chitra Bharucha
Member of the Board of Directors

Erkki Pekkarinen
Member of the Board of Directors

Eero Rautalahti
Member of the Board of Directors

Rabbe Slätis
Member of the Board of Directors

Mart Ustav
Member of the Board of Directors

James Kuo
CEO

The auditor's note

Our auditor's report has been issued today.

Tampere, March 16, 2017
PricewaterhouseCoopers Oy
Authorized Public Accountants

Janne Rajalahti
Authorized Public Accountant

Auditor's Report

To the Annual General Meeting of FIT Biotech Oy

Report on the Audit of the Financial Statements

Opinion

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

What we have audited

We have audited the financial statements of FIT Biotech Oy (business identity code 0984183-4) for the year ended 31 December 2016. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. Käsityksemme mukaan olemme hankkineet lausuntomme perustaksi tarpeellisen määrän tarkoitukseen soveltuvaa tilintarkastusevidenssiä.

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

Independence

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

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

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

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

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

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors.

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

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

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

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

Tampere 16 March 2017
PricewaterhouseCoopers Oy
Authorised Public Accountants

Janne Rajalahti
Authorised Public Accountant (KHT)

FIT BIOTECH