UNION THERAPEUTICS

Annual Report 2022

Passionately creating medicines that make a difference

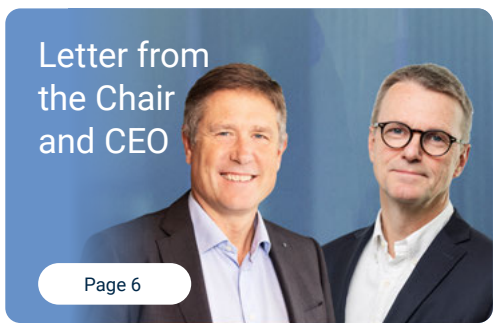
Emma, aged 19, diagnosed with atopic dermatitis, with her mother.

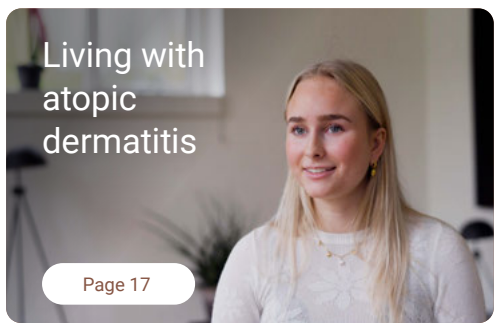
uniontherapeutics.com

Contents

Management review

Financial statements





Introduction

Anna, VP of Medical Affairs.

UNION at a glance

UNION is a development-focused pharmaceutical company advancing novel treatment options within immunology and infectious diseases, two large and fast-growing therapeutic areas.

Diversified mid- to late-stage pipeline

UNION is developing orismilast, a high-potency PDE4 inhibitor, as an efficacious but safe oral treatment across immunology, initially targeting best-in-class or first-in-class positions in psoriasis, atopic dermatitis and hidradenitis suppurativa.

UNION is also developing niclosamide, a host-targeting antiviral, as a potential first-in-class treatment for prevention of respiratory infections in immunocompromised patients.

Strong patent estate

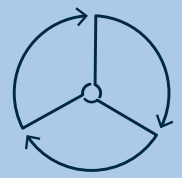
UNION has a strong patent estate consisting of 250 granted patents across multiple compound classes within immunology and infectious diseases.

The UNION Way

Passionately creating medicines that make a difference

Scalable business model

Scalable and capital-efficient business model built on identification and development of well-characterized molecules with broadly applicable mechanisms of action. Ambition to maintain a diversified clinical-stage pipeline with shorter time to market while yielding multiple growth opportunities through expansion of scope for existing molecules, through the introduction of new molecules from existing platforms, as well as through in-licensing of new molecules.



Experienced team

Approximately 40 employees led by an experienced management team of biotech entrepreneurs and seasoned pharma executives with a track record of developing and launching more than 15 drugs to the global markets.

2022 achievements

Significant advancement of the clinical pipeline

Positive topline results from Phase 2b study with oral orismilast in psoriasis*.

Conclusion of patient enrolment in Phase 2/3 study with niclosamide nasal spray in COVID-19.

Initiation of Phase 2b study with oral orismilast in atopic dermatitis.

Regulatory support for orismilast

Fast Track designation from the U.S. Food and Drug Administration (FDA) for oral orismilast in hidradenitis suppurativa*, following Fast Track in atopic dermatitis in 2021.

Treatment extension from the Danish Medicines Agency and Ethics Committee for Phase 2a study with oral orismilast in hidradenitis suppurativa.

Multiple presentations and publications

New data on orismilast published and presented in the Journal of the European Academy of Dermatology and Venereology (JEADV) and at leading scientific conferences.

Publication of large-scale analysis on COVID-19-associated mortality in dialysis and kidney transplant patients in the peer-reviewed journal Transplantation.

Corporate progress

Strong progress of ESG initiatives, including supplier engagement in estimation of CO_2 emissions, development of a purposeful company culture (The UNION Way) and partnering with patient organizations to raise disease awareness.

Continued investor support, including DKK 62.0m in private placement (DKK 275.0m across 2021/2022), conversion of DKK 45.0m convertible debt to equity, extension of DKK 79.5m of venture debt facility with the European Investment Bank, and USD 4.0m in milestone payments from licensing agreements.

* Announced January 2023.

Joint letter from the Chair and CEO

Important steps taken to create medicines that make a difference

Kim Domela Kjøller
Chief Executive Officer

Stig Løkke Pedersen
Chair of the Board of Directors

2022 has been a year of great progress for UNION with several important achievements paving the way for a very exciting 2023, including positive topline results from the Phase 2b study with orismilast in psoriasis, advancement of our mid- to late-stage clinical programs with both orismilast and niclosamide, as well as continued development of a purposeful company culture, The UNION Way, to support the future growth of the company.

Positive topline results for orismilast lay the foundation for potential best-in-class or first-in-class positions across immunology
Throughout the year, we have successfully advanced our two lead molecules, orismilast and niclosamide.

Orismilast, a high-potency PDE4 inhibitor, is initially being developed for the three immunological diseases psoriasis, atopic dermatitis (AD) and hidradenitis suppurativa (HS). During 2022, the Phase 2b study with oral orismilast in psoriasis progressed rapidly and patient enrollment was completed in August 2022. In January 2023, we announced positive topline results, supporting the target product profile of a best-in-class PDE4 inhibitor and confirming the well-established, favorable safety profile of PDE4 inhibition.

In 2022, we also announced the initiation of a Phase 2b study with oral orismilast in AD, the most prevalent immunological skin disease. FDA has previously granted Fast Track designation for oral orismilast in AD due to the significant unmet medical need for a safe and efficacious oral treatment.

At the beginning of 2023, FDA also granted Fast Track designation for oral orismilast in HS, a scarring skin disease with a significant unmet medical need and few alternatives to

surgery. Amongst other benefits, the Fast Track designations provide UNION with the opportunity for more frequent interactions with the FDA, supporting the continued development of orismilast.

The significant advancement of the clinical pipeline and the positive Phase 2b results are also a validation of UNION's scalable and capital-efficient business model focused on in-licensing of molecules with well-established mechanisms of action and execution of well-designed clinical development programs to rapidly demonstrate competitive drug product characteristics.

During 2022, UNION has laid the foundation for and continued to build a strong scientific narrative for orismilast with publications and presentations at leading scientific conferences.

We are very satisfied with the clinical development of orismilast in 2022 and with the recognition from regulatory authorities, supporting the continued development of orismilast in immunological diseases with very significant unmet medical needs.

Niclosamide - a broad-spectrum antiviral with large potential

The event-driven Phase 2/3 platform trial PROTECT-V, investigating niclosamide nasal spray for the prevention of COVID-19 in immunocompromised patients, was expanded at the beginning of 2022 to include India in addition to the UK. The targeted 230 events, being confirmed, symptomatic COVID-19 cases, were met in late 2022 and active recruitment thus completed. We are very pleased with the clinical development of niclosamide in 2022 and look forward to seeing the results from PROTECT-V in the first half of 2023.

Due to limited benefits of vaccines and continued emergence of new variants of the virus, immunocompromised patients remain at significant risk of succumbing to COVID-19, despite the availability of vaccines, monoclonal antibodies and antiviral tablets. With the risk of contracting other viruses alongside COVID-19, including influenza and RSV, the need for a broad-spectrum antiviral is even more pronounced.

The UNION Way

Following the significant growth of the organization over the last few years, all employees have come together in 2022 to define a shared language around our purpose and vision of "passionately creating medicines that make a difference". The desired values and virtues when engaging with colleagues as well as external collaborators have been defined in The UNION Way, our company culture.

"2023 has already started with positive topline results from our Phase 2b study with oral orismilast in psoriasis, supporting the target product profile of a best-in-class PDE4 inhibitor and confirming the well-established favorable safety profile of the PDE4 mechanism."

Looking ahead to a very exciting 2023

2023 has started with positive topline results from our Phase 2b study with oral orismilast in psoriasis. This news and the data expected to read out from several of our other clinical studies throughout the year lay the foundation for a very exciting 2023.

UNION remains committed to develop medicines that are impactful for patients.

We are very grateful for the support we continue to receive from our stakeholders, including patients, doctors, employees, investors, industry partners and a broad range of other external collaborators, all essential for reaching our goal of creating medicines that make a difference.

Kim Domela Kjøller
Chief Executive Officer

Stig Løkke Pedersen
Chair of the Board of Directors

Consolidated key figures

DKK'000	2022	2021	2020	2019	2018*
Statement of comprehensive income					
Revenue	34,393	118,912	0	11,649	0
Research and development costs	-186,434	-155,305	-65,107	-19,402	-48,459
Administrative costs	-31,564	-21,724	-8,270	-5,053	-5,491
Other operating income	0	6,178	9,049	344	3,683
Operating result	**-183,625**	**-51,939**	**-64,328**	**-12,462**	**-50,267**
Financial income/(expense)	-36,133	-9,562	-22,078	-4,543	-5,375
Result before tax	**-219,758**	**-61,501**	**-86,406**	**-17,005**	**-55,642**
Tax income/(expense)	5,454	5,475	5,510	4,143	5,497
Result for the year	**-214,304**	**-56,026**	**-80,896**	**-12,862**	**-50,145**
Statement of financial position					
Non-current assets	17,908	17,978	16,856	576	169
Current assets excl. Cash and cash equivalents	8,762	13,545	15,603	5,251	6,678
Cash and cash equivalents	159,005	253,402	36,425	46,466	21,775
Total assets	185,675	284,925	68,884	52,293	28,622
Equity	-27,688	49,380	-58,397	-38,308	-35,419
Non-current liabilities	136,793	170,675	94,963	81,220	52,362
Current liabilities	76,570	64,870	32,318	9,381	11,679

DKK'000	2022	2021	2020	2019	2018*
Cash flow statement					
Cash flow from operating activities	-158,074	-2,974	-51,546	-8,379	-43,973
Cash flow from investing activities	-178	-140	-1,668	0	-35
- Investment in property plant and equipment	-178	-140	0	0	-35
Cash flow from financing activities	61,448	216,496	43,524	32,783	52,023
Employees					
Average full-time equivalents	36	25	9	9	8
Headcounts by year-end	40	36	16	10	8

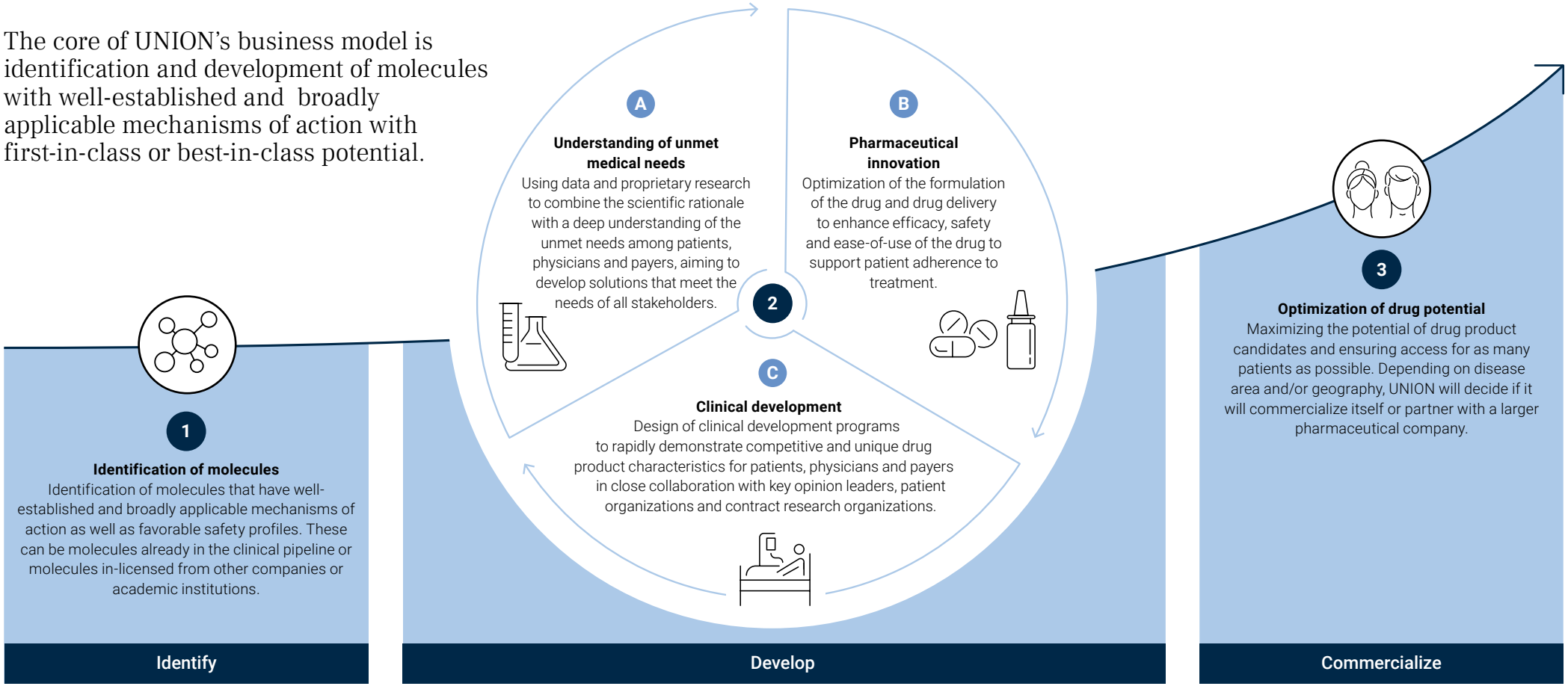
* The comparatives figures for 2018 have not been restated following the adoption of IFRS 16 Leases on January 1, 2019 by use of the modified retrospective approach.

Our business

Jakob, VP of Research.

Business model and strategy

The core of UNION's business model is identification and development of molecules with well-established and broadly applicable mechanisms of action with first-in-class or best-in-class potential.



Pipeline overview

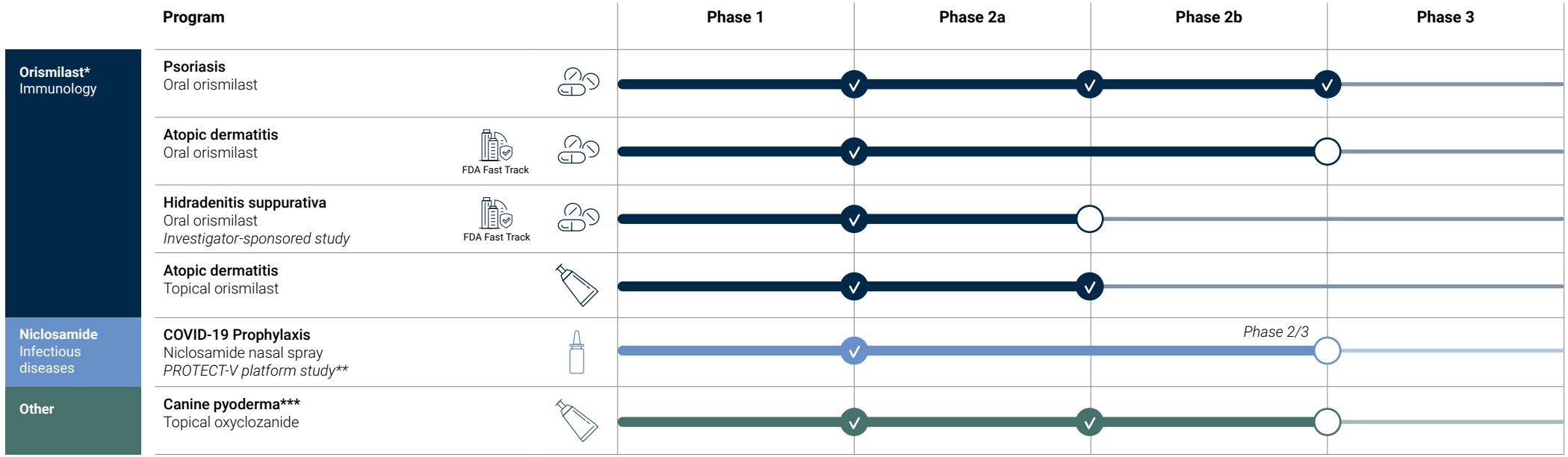
A diversified mid- to late-stage clinical pipeline with drug candidates in large therapeutic areas.

Immunology

The purpose of the immune system is to defend the body against outside invaders, such as bacteria, viruses, and toxins. However, the immune system sometimes malfunctions, which can lead to inflammation, eczema, allergies or other autoimmune reactions where the immune system attacks the body's own cells.

Infectious diseases

Infectious diseases are disorders caused by disease-causing agents, such as bacteria or viruses. An infection can occur anywhere in the body. COVID-19 and influenza are examples of respiratory infections, which are infections of parts of the body involved in breathing, such as the throat, airways or lungs.



* Innovent Biologics has exclusive rights to oral orismilast and an option on topical orismilast for Greater China (Mainland China, Hong Kong, Taiwan and Macau). UNION retains remaining worldwide rights.

** Platform study led by Cambridge University Hospitals NHS Foundation Trust and the University of Cambridge, and funded by Kidney Research UK, LifeArc, Addenbrookes Charitable Trust, Kidney Research UK and UNION.

*** Topical oxyclozanide is fully out-licensed to Ceva Santé Animale.

Orismilast

A high-potency PDE4 inhibitor currently in development as an oral treatment of psoriasis, atopic dermatitis (AD), and hidradenitis suppurativa (HS).

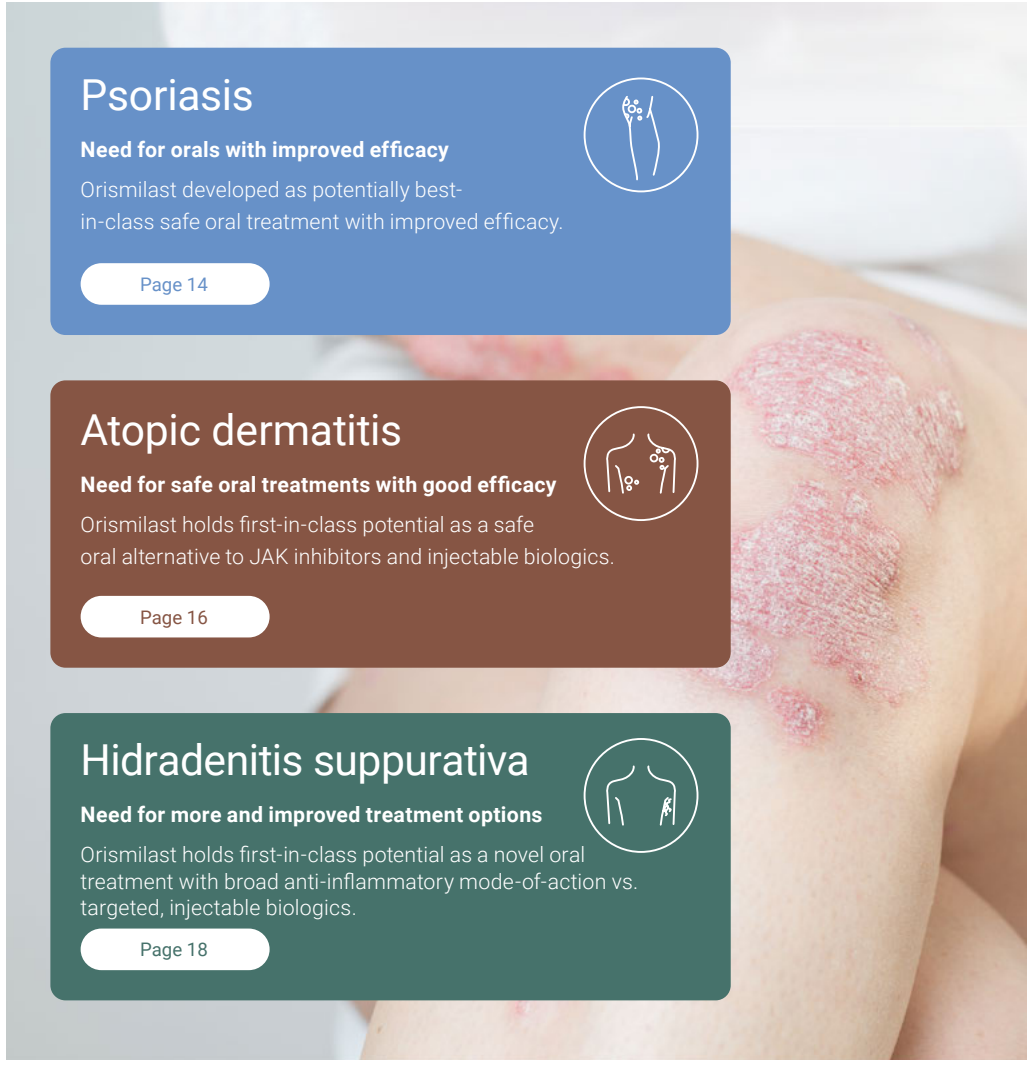
Addressing significant unmet medical needs
UNION is currently developing orismilast, a high-potency PDE4 inhibitor, as an efficacious and safe oral treatment of initially three diseases within immunology: psoriasis, AD and HS. Despite recent developments in the treatment landscape, there is an unmet medical need for efficacious, safe oral treatments with no monitoring in all three diseases. Oral orismilast holds potential as a best-in-class treatment for psoriasis and a first-in-class treatment for AD and HS.

Documented clinical efficacy and safety in Phase 2b study
Orismilast has been tested in clinical Phase 1 and 2a studies demonstrating superior efficacy to placebo for psoriasis and AD. The safety and efficacy data from the Phase 2a study in psoriasis as well as new preclinical data on the pharmacological properties of orismilast were recently published in Journal of the European Academy of Dermatology and Venerology (JEADV). The data support orismilast's potential in psoriasis, AD and HS.

The recent Phase 2b study with oral orismilast in psoriasis further supports the target product profile of orismilast as potential best-in-class treatment and confirms the well-established, favorable safety profile of PDE4 inhibition.

Regulatory Fast Track and strategic partnership
UNION has received Fast Track designation from FDA for oral orismilast for the treatment of moderate to severe AD as well as for the treatment of moderate to severe HS. Fast track designation is usually given to molecules that have demonstrated high potential for treatment of diseases with significant unmet need.

In 2021, UNION entered a strategic partnership with Innovent Biologics, granting exclusive rights to orismilast in Greater China. In 2022, Innovent dosed the first patient in a Phase 1 study with oral orismilast in healthy volunteers, which is required for further development in Chinese patients.



PDE4 inhibitors and their broad potential within immunology

Phosphodiesterase-4 (PDE4) is a group of enzymes that regulate inflammation in the body. PDE4 enzymes work inside the cells, regulating the production of several signaling molecules (cytokines) involved in inflammatory diseases.

Since identification of PDE4 nearly 60 years ago, its pharmacologic inhibition has been shown to offer a vast potential to provide treatment options for many different immune-mediated diseases within dermatology (e.g., psoriasis and AD), pulmonology (e.g., asthma and chronic obstructive pulmonary disease), gastroenterology (e.g., ulcerative colitis and Crohn's disease), and rheumatology (e.g., psoriatic arthritis).

Currently, two systemic PDE4 inhibitors are approved, one for the treatment of dermatological and rheumatological diseases, and one for pulmonary disease.

PDE4 inhibition is an established therapeutic target with a well-documented safety profile. The key challenge with systemic PDE4 inhibitors is the need for higher efficacy while controlling adverse events related to tolerability. Next-generation compounds like orismilast aim to improve this balance by strengthening and focusing on the potency of PDE4 subtypes related to inflammation.

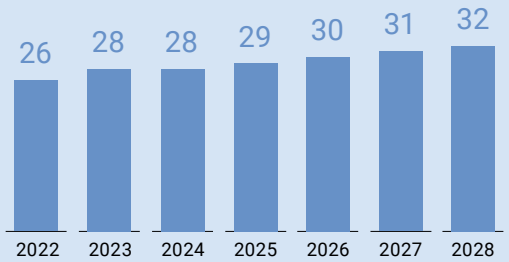
Anne, Industrial Researcher.

Psoriasis

Psoriasis is a chronic, systemic, inflammatory skin disease that causes thick, red, and scaly plaques, most commonly appearing on the scalp, knees, elbows, and limbs.

There are approximately 18 million patients diagnosed with psoriasis in the seven major markets (US, EU5* and Japan)[1]. The severity of psoriasis varies greatly from person to person and symptoms can range from mild disease with a single patch to severe disease with dark red, thick, cracking and bleeding plaques, covering a large part of the body and comorbidities extending the impact of the disease. Many patients with psoriasis experience significant impact on their quality of life due to their disease and additional comorbidities, such as psoriatic arthritis, cardiometabolic diseases, and mental health disorders.

Market forecast (USDbn)[1]
Worldwide



Need for oral treatments with improved efficacy

There is no cure for psoriasis and depending on the progression and severity of the disease, patients are either treated with topicals, orals and/or biological treatments (injectables).

Despite recent advancements in the treatment landscape, there are limited effective oral treatment options available today, where some require extensive screening and monitoring. Many physicians and patients express a need for better oral treatments.

UNION is developing orismilast as a potential best-in-class oral treatment with improved efficacy.

* EU5: UK, Germany, France, Italy, and Spain.

1 Evaluate Pharma (2023).

Development of orismilast as a potential best-in-class oral treatment for psoriasis

In January 2023, UNION announced positive topline data from the IASOS study with oral orismilast in adult patients with psoriasis. Data from the 202 patients randomized and dosed in the study showed that all active arms of oral orismilast achieved the primary endpoint of percentage change in Psoriasis Area Severity Index (PASI) from baseline to week 16 measured against placebo, with statistical significance reached at the first time point after 4 weeks of treatment. Moreover, the results support the best-in-class potential driven by higher potency indicated by secondary endpoints, including PASI-90 and PASI-100. The data overall support the target product profile of orismilast and confirm the well-established favorable safety profile of PDE4 inhibition.

Prof. Richard Warren
MD, Ph.D., Salford Royal (part of Northern Care Alliance NHS Foundation Trust) and University of Manchester,
Senior Investigator of the Phase 2b study

"Psoriasis is a chronic inflammatory skin disease for which there is no cure. The disease has a severe impact on patients, as many patients also suffer from substantial psychosocial consequences, such as social stigmas and depression, as well as negative physical impact on their quality of life due to the many comorbidities associated with the disease."

Patient story

Living with psoriasis

Meet Anne, aged 45, who has lived with psoriasis since she was eight years old.

Anne experienced the first rash on her arm when she was eight years old and, as it did not disappear by itself, she was taken to see a doctor who gave her the diagnosis “psoriasis”. To treat the psoriasis, the doctor gave her a prescription for a topical steroid cream.

Anne has tried many different types of treatment for her psoriasis, ranging from topicals, UVB-light therapy and tablets to alternative medicines as well as different types of baths, for example in the Dead Sea and red baths (potassium permanganate is added to the bath coloring the water red). Anne decided to seek alternative treatments after several years with steroid cream treatment due to the side effects, including the skin becoming thinner and feeling both tighter and excessively dry.

Many of the different treatment options that Anne has tried worked initially but the psoriasis symptoms rapidly returned.

From when Anne first experienced the psoriasis symptoms in the form of a rash on her arm until today, where the psoriasis covers 70-80% of her body, rashes have occurred more frequently. The psoriasis has a very negative effect on Anne’s life, especially during the winter when the itching and stinging are very painful.

After 36 years of trying out different treatment options and long periods with no effect, Anne was finally offered biological treatment. The doctors had for many years been hesitant to prescribe biological treatment, mainly due to the high associated cost associated with biological treatment. The treatment has removed the majority of Anne’s psoriasis, but large spots still remain on her legs. Anne finds it challenging to inject herself every second week and is worried about the side effects and that the treatment is not appropriate for long-term use.

It is Anne’s hope that more new treatment options, such as oral treatments, will become available and can help remove her psoriasis completely.

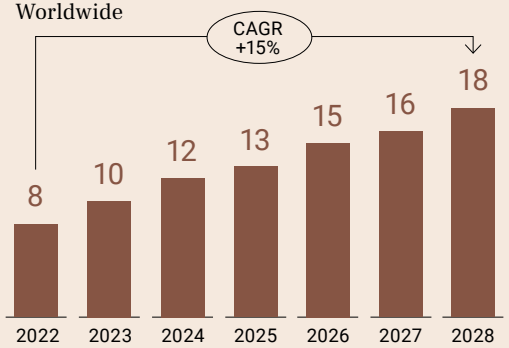
“I know that for the rest of my life I will have to treat my psoriasis to keep it under control. It is part of my life and I no longer remember a life without psoriasis. At times I do envy people who do not have psoriasis.”

Atopic dermatitis

Atopic dermatitis (AD) is the most common form of eczema, a chronic skin disease causing extremely itchy skin.

There are approximately 47 million patients diagnosed with AD across the US, EU5* and Japan[1]. AD usually begins in childhood with 90% of AD patients being diagnosed by the age of five[2]. Multiple factors contribute to the development of AD, including a decreased ability of the skin to function as a barrier, decreased diversity of the bacteria on the skin and an overactive immune system. Itch, depression, sleep disturbance and anxiety are the most common aspects that drive the disease burden of patients living with AD.

Market forecast (USDbn)[1]
Worldwide



In addition, patients with AD often report higher rates of other diseases such as asthma, rhinitis, psychiatric and cardiovascular diseases.

Need for effective and safe oral treatments
There is no cure for AD. Depending on the progression and severity of the disease, patients are either treated with topicals, orals and/or biological treatments (injectables). The vast majority of AD patients are treated with topicals, while more severe patients can get oral or biological treatments.

There are approximately twice as many diagnosed patients with AD compared to psoriasis in the US, EU5 and Japan. However, the treatment landscape in AD is significantly less established than psoriasis with fewer treatment options available. The first oral therapies, JAK inhibitors, were approved in 2022 and have been given a safety warning and treatment limitation in their box warning due to increased risk of heart-related events, cancer, blood clots and death. Thus, a substantial unmet medical need remains.

* EU5: UK, Germany, France, Italy, and Spain.
1 Evaluate Pharma (2023).
2 Silverberg (2017).

Development of orismilast as a first-in-class safe oral treatment of AD

In July 2022, UNION initiated ADESOS, a Phase 2b study with oral orismilast for the treatment of patients with moderate to severe AD.

FDA has granted Fast Track designation to oral orismilast for the treatment of AD due to the significant unmet medical need for a safe and efficacious oral treatment.

Jonathan Silverberg
MD, Ph.D., MPH, Associate Professor of Dermatology at The George Washington University School of Medicine and Health Sciences, and Signatory Investigator for ADESOS

"AD is one of the most common and burdensome chronic skin diseases worldwide causing reduced quality of life in both children and adults. Despite recent advances in the management of AD, there are still multiple unmet needs for safe and effective oral therapies. The well-established safety profile of the PDE4 inhibitor class is favorable and oral orismilast might become the first oral PDE4 inhibitor approved to treat AD."

Patient story

Living with atopic dermatitis

Meet Emma, aged 19, who has lived with atopic dermatitis (eczema) since she was five years old.

Emma is a young woman who has suffered from eczema since she was five years old. However, it was not until she was 13 years old that she was diagnosed with the disease.

Over the years, the location of eczema on Emma's body has changed. Initially, it was mainly around her eyes, cheeks, and neck, but when she became a teenager, it started to cover almost her whole body. Today, only her feet and stomach are eczema free.

There are days when Emma does not think about her eczema. However, there are also many days where the disease negatively impacts her life. Some days and nights, the itching is very severe.

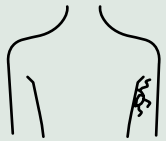
Emma never knows how the eczema will look in the morning and whether she will have to use ointments so it is less itchy and visible during the day.

Historically, she was only treated with two different types of hormone creams. In the beginning, the effect was good, but they became less effective over time and today the creams have almost no effect. For Emma, the hormone creams also have side effects. Her skin at selected vulnerable areas has become very thin and tight, and when using the creams, her skin dries out even more.

Many patients with AD receive topical treatment despite their known limitations. This was also the case for Emma. It was not until Emma's eczema had spread all over her body, including large areas of inflammation, that Emma consulted a specialist in AD and was introduced to other treatment options.

"In many situations, I feel that the eczema has limited my possibilities of doing things, for example going out with my friends, as the eczema can be very itchy, or doing sports, as sweat makes the itching even worse."

See video on UNION's website.



Hidradenitis suppurativa

Hidradenitis suppurativa (HS) is a chronic, progressive, inflammatory skin disease that usually develops after puberty as a result of inflamed hair follicles, most notably in the armpit and genital regions.

There are approximately 700,000 patients diagnosed with HS across the US, EU5* and Japan[1]. HS is a very painful disease, as patients experience inflammatory nodules, boils or abscesses that typically open and release odorous fluids. As HS progresses, the scars form tunnels or sinus tracts that connect.

HS patients suffer from pain and significant discomfort as a result of the constant formation of pus and often require the use of bandages. Many patients are stigmatized by these symptoms, leading to a severely diminished quality of life resulting in social isolation. HS is associated with various more general diseases, such as arthritis and metabolic syndrome.

Need for better oral treatment options

There is no cure for HS and there is currently only one drug approved for the treatment of moderate to severe HS, which is a biologic administered through injection. For mild HS, there are no treatments approved.

The general standard of care for HS patients, although off-label, includes topical antiseptics and oral antibiotic treatment which often provide only temporary symptomatic relief. Antibiotics do not target the underlying inflammation and their usage is associated with resistance development. Orismilast holds the potential to be a first-in-class oral treatment with a broad anti-inflammatory mode of action.

700,000

patients diagnosed with HS across US, EU5* and Japan[1].

* EU5: UK, Germany, France, Italy, and Spain.

1 Evaluate Pharma (2023).

Development of orismilast as a potential first-in-class safe oral treatment of HS

Oral orismilast is currently in development for the treatment of mild, moderate and severe HS in OSIRIS, an investigator-sponsored Phase 2a study.

In September 2022, the Danish Medicines Agency and Ethics Committee granted Treatment Extension for patients who have completed the OSIRIS study to continue treatment with oral orismilast for a period of up to 52 weeks.

In January 2023, The FDA has granted Fast Track designation to oral orismilast for the treatment of moderate to severe HS.

Professor Gregor B. Jemec

PhD, MD, Founding Chairman of the Department of Dermatology, Zealand University Hospital Roskilde, Denmark, Lead Investigator of the Phase 2a study

"HS is an inflammatory systemic skin disease that seriously affects the life of patients. It causes wide-spread inflammation, pain and scarring resulting in serious detrimental effects on the quality of life of patients. Despite the recent advances in the treatment of HS, there is still a high unmet need for safe and efficacious oral treatments. It is encouraging to see that FDA recognizes the potential of oral orismilast in HS and has granted it Fast Track designation."

Patient story

Living with hidradenitis suppurativa

Meet Ole, aged 39, suffering from hidradenitis suppurativa (HS) and psoriasis, two skin diseases with significant impact on quality of life.

Ole was diagnosed with psoriasis when he was a teenager and diagnosed with HS at the age of 33. For Ole, the first symptoms of HS started with a small inflammatory abscess on his back. He consulted a doctor specialized in HS who gave him the diagnosis and prescribed a cream to treat the abscess.

Ole was fortunate to be treated by a doctor who was familiar with HS. On another occasion when Ole was travelling, he started feeling pain and found an abscess the size of a golf ball on his thigh. The pain was so intense that he needed to get immediate treatment and he had to go to a local hospital. As he was travelling, he could not consult his regular dermatologist who is specialized in HS. At the hospital, the doctor he saw was not familiar with HS.

Ole received several different injections into the abscess before the inflammation had been reduced and was no longer causing pain. The doctor's lack of knowledge of HS resulted in a lot of pain and very damaged skin due to all the injections. Ole had to undergo laser surgery when he came back from his travels to completely remove the abscess and repair his skin. This was a complicated process due to the anesthesia, and after the surgery it took a long time for the wound to heal.

For Ole, it was not possible to effectively treat his HS with topical cream, and after a couple of years, he was offered biologic treatment. With Ole's fear of needles, a family member must help with his weekly injections, which is frustrating and stressful for both Ole and his family.

As the injectable is the only approved treatment for HS, Ole has no other option but to continue with it, but his hope is that one day an oral treatment option will be available.

"In my family we speak openly about having HS, as both my mother and sister have the disease. I have grown up with HS around me and know how negatively the disease influences the lives of people living with HS and their surrounding family."

Niclosamide

First-in-class drug candidate for the prevention of COVID-19 and other respiratory infections.

Small molecule with a big potential

Niclosamide is a host-targeting, broad-spectrum antiviral with demonstrated effect (in-vitro) against a broad range of viruses, including SARS-CoV-2, influenza and RSV. UNION is currently developing niclosamide for the prevention of COVID-19 in immunocompromised patients.

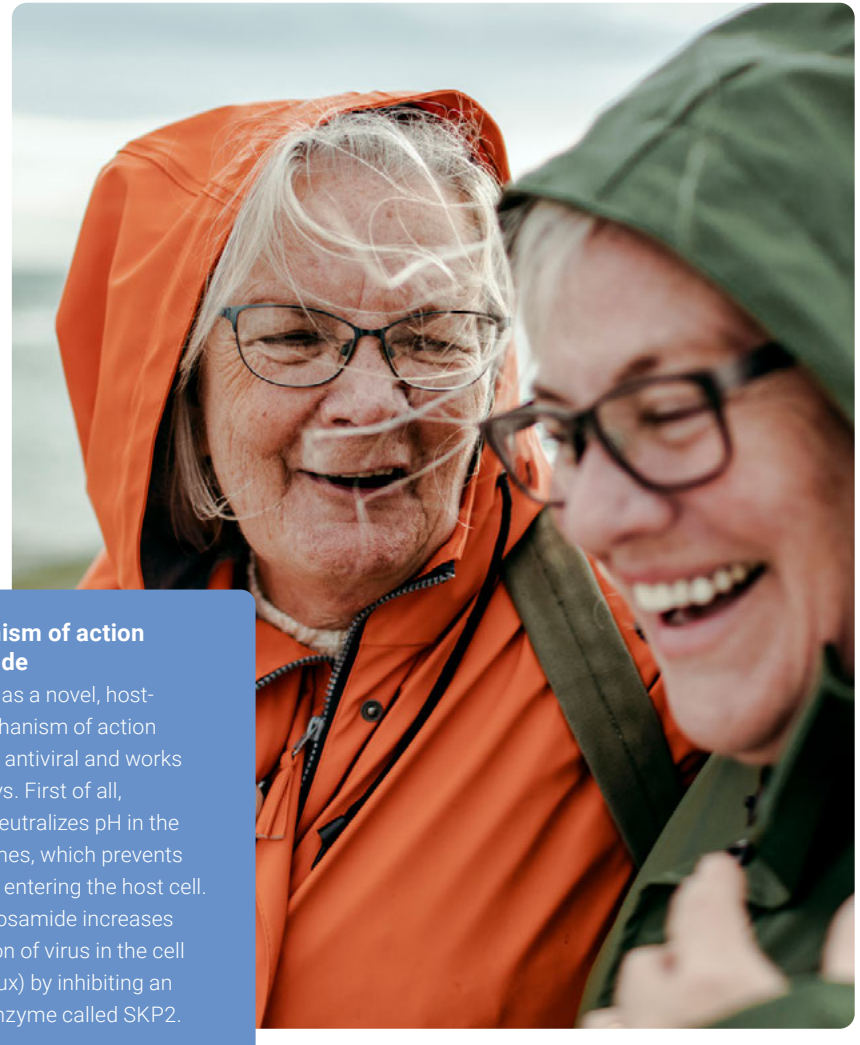
In an in-vitro screening (cell studies) of approved molecules conducted by Institut Pasteur in South Korea in early 2020 in response to the emerging COVID-19 pandemic, niclosamide was found to be the most potent inhibitor of SARS-CoV-2, including being 40 times more potent than remdesivir (the first approved drug for the treatment of COVID-19).

Developing a new formulation of niclosamide that allows delivery directly at the site of infection

Niclosamide is poorly absorbed in its original formulation as an oral tablet, which limits the application for treatment and prevention of respiratory infections. UNION has developed a concentrated liquid formulation of niclosamide that allows for delivery as a nasal spray to the upper respiratory tract. For respiratory infections, such as COVID-19, this enables local delivery of niclosamide directly to the site of infection.

Discovered by Bayer Healthcare

Niclosamide is a salicylanilide that was discovered by Bayer in the 1960s and introduced into clinics as an oral treatment for tapeworm infections. Today, it is still marketed in several European countries and developing countries. UNION has identified antimicrobial properties of niclosamide and secured protection of the intellectual property rights, forming the basis for the company's development of niclosamide.



The mechanism of action of niclosamide

Niclosamide has a novel, host-targeting mechanism of action that is broadly antiviral and works in two key ways. First of all, niclosamide neutralizes pH in the cells' endosomes, which prevents virus particles entering the host cell. Secondly, niclosamide increases the degradation of virus in the cell (autophagic flux) by inhibiting an intracellular enzyme called SKP2.

COVID-19 and immuno-compromised patients

Immunocompromised patients continue to be at high risk of contracting COVID-19 and experience significantly higher mortality rates than the general population.

Unmet medical needs persist

Despite the roll-out of vaccines and the availability of monoclonal antibodies and antiviral tablet treatments to reduce the risk of hospitalization and death, significant unmet medical needs persist in COVID-19. Two unmet medical needs are low vaccine efficacy in immunocompromised patients and emerging variants of SARS-CoV-2.

Weak protection of immunocompromised patients

Immunocompromised patients, who are estimated to represent ~3% of the total population[1], are at high risk of contracting COVID-19 because they have a weak immune system due to medication or underlying disease, for example kidney disease patients on dialysis, organ transplant patients and cancer patients on chemotherapy. Due to the immunocompromised state of these patients, they do not mount a proper antibody response to vaccination and are thus often not sufficiently protected. The monoclonal antibodies and antiviral tablet treatments are challenged by either limited efficacy against new variants of SARS-CoV-2, for example Omicron and sub-variants of Omicron, or not appropriate for long-term use.

There used to be one prophylactic treatment, a monoclonal antibody, authorized for use in immunocompromised patients but this authorization was halted by FDA in January 2023 until further notice due to failure to retain efficacy against sub-variants of Omicron. In contrast to this, in-vitro studies have demonstrated that niclosamide conserves potency against variants of concern, including Omicron BA.1 and BA.5 which have been the dominant strains of the virus for the majority of 2022. No potential competitors to UNION's niclosamide nasal spray have completed clinical trials in an immunocompromised patient population, similar to PROTECT-V.

1 MacMillan (2022).
2 Weiss et al. (2022)

Development of niclosamide in COVID-19 – The PROTECT-V platform trial

UNION is developing niclosamide nasal spray as a prophylactic treatment of COVID-19 for immunocompromised patients. Niclosamide nasal spray was selected by Cambridge University Hospital as the first agent for the event-driven Phase 2/3 platform trial PROTECT-V. The target of 230 events was met in 2022, having enrolled 1,660 patients. The trial was initiated in UK in February 2021 and expanded to include India in March 2022. Results are expected in the first half of 2023.

"The vaccines have been a huge step forward, but patients with weak immune systems, such as the patients enrolled in the PROTECT-V study, do not mount a proper response to the vaccines and are thus not sufficiently protected. With the virus rapidly evolving, and new emerging variants, a huge unmet medical need exists for a variant-agnostic drug that can provide additional protection for immunocompromised patients. Niclosamide might be that drug."

Dr. Rona Smith
Senior Research Associate at the University of Cambridge and Honorary Consultant Nephrologist at Addenbrooke's Hospital, Lead Investigator for the PROTEC-V study

Higher mortality rates among immunocompromised patients

Large-scale analysis of data from the UK Kidney Association between December 2020 and March 2022 on 9,388 COVID-19 cases among dialysis and kidney transplant patients in the UK, of which 924 were fatal, clearly illustrates the need for additional protection of kidney patients, as one example of an immunocompromised patient group[2]. The analysis shows that excess mortality rates and case fatality rates have been substantially higher for kidney disease patients compared to the general population. During the Omicron wave from December 2021 to March 2022, 1 out of 20 kidney transplant patients infected with COVID-19 have died, whereas COVID-19 infection has only been fatal to 1 out of 330 in the general population.

Patient story

Getting a kidney transplant during a pandemic

Meet Sanjay, aged 45, who lives with a new kidney and pancreas.

Sanjay was 39 years old when he was diagnosed with a chronic kidney disease. Within 12 months, his kidney function had been severely reduced, and he had to start dialysis treatment while being added to the kidney transplant list. Doctors suggested he would also get a new pancreas due to his type 2 diabetes.

During the summer of 2020, Sanjay was offered a new kidney and pancreas. He was hospitalized for six weeks after the transplantation, where his only physical point of contact was with doctors and nurses in surgical masks due to the COVID-19 pandemic.

Sanjay was very concerned about COVID-19 as he was aware it could be fatal to him. During the pandemic, Sanjay and his family had to radically change their lives as they could no longer have visitors at home, and he had to be separated from his wife and kids if they were sick. The family took all precautionary measures to protect Sanjay, as they knew that COVID-19 or another respiratory infection would have severe consequences for him.

In January 2022, Sanjay and his wife were infected with COVID-19. Sanjay was hospitalized and was treated with monoclonal antibodies to help fight the infection. His COVID-19 disease path was severe and it took him more than five weeks to fully recover compared to his wife who was fully recovered after one week.

Sanjay recognizes the need to stay updated on vaccinations for the flu, COVID-19 and other diseases. This way he feels that he does what he can to stay healthy. He is concerned that there is no longer a focus on protection of immunocompromised patients and their need for new treatments to protect them from various life-threatening respiratory infections.

"COVID-19 had a big impact on my family and me. No one could visit us at home due to my disease, and when I came back from hospital after my kidney and pancreas transplant, I felt like transferring from one prison to another. I did struggle mentally with that."

Impact and corporate responsibility

This section constitutes UNION's statutory reporting on corporate responsibility and gender distribution in management, pursuant to section §99a and §99b of the Danish Financial Statements Act.

William, Associate Business Analyst.

ESG strategy and focus areas

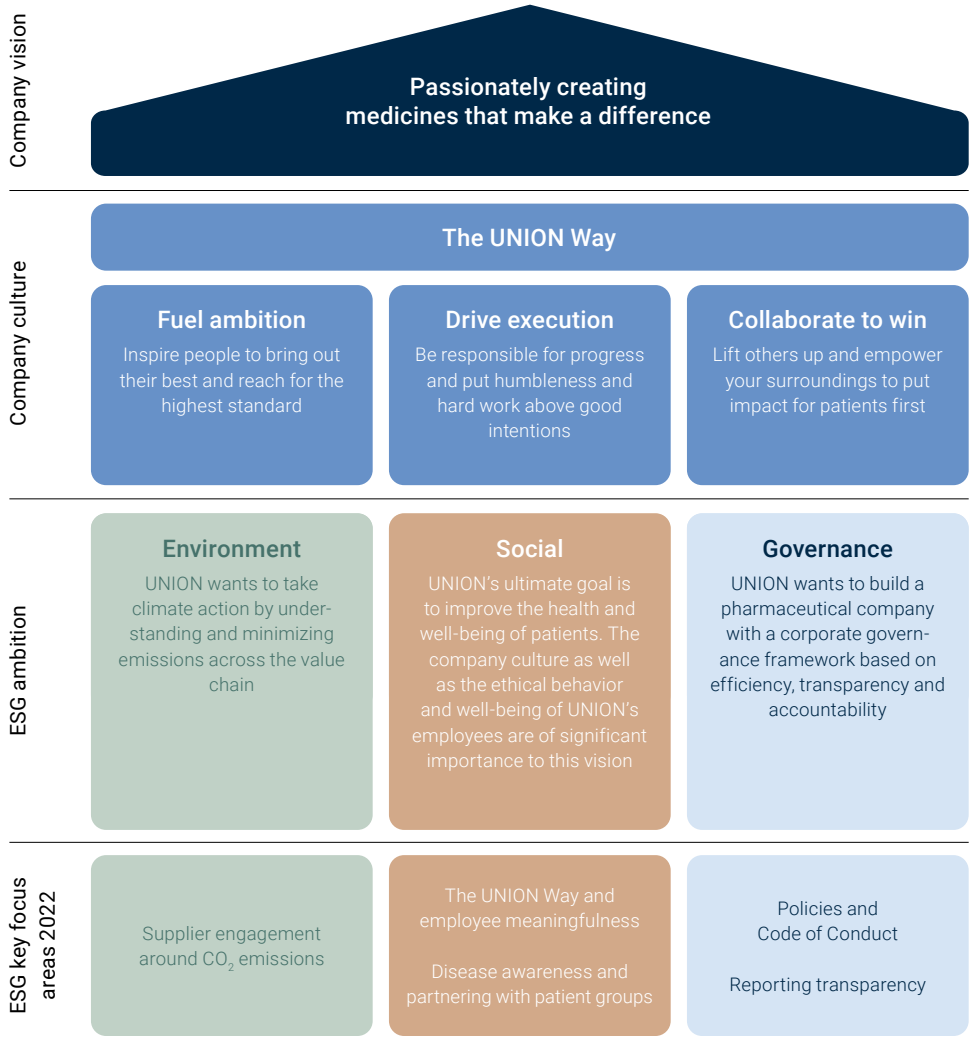
UNION's Environment, Social and Governance (ESG) strategy and focus areas take part in the company's patient-centric vision around passionately creating medicines that make a difference.

Sustainability and contributing positively to society as a whole have always been embedded in UNION's business and way of working. From its inception, UNION had a desire to address the emerging issue associated with antimicrobial resistance. As the company has grown, it has developed and improved its sustainability efforts and expanded to cover its environmental footprint where the starting point has been CO_2-baselining. As part of this journey, UNION started to communicate externally about ESG priorities and progress in the 2021 Annual Report.

During 2022, UNION has further refined the company's ESG strategy and focus areas. Different ESG initiatives have been identified and are progressing as planned. Environmental efforts are centered around CO_2 emissions, including estimation of CO_2 emission baseline, improving data accuracy and initiating a dialogue with the most important suppliers across the value chain from a CO_2-emission perspective.

Following the growth of the organization, the employee-related social efforts have focused on the development and implementation of a common company culture, The UNION Way, whereas the patient-related social efforts have focused on disease awareness and patient engagement. With respect to governance, the objectives have been to integrate environmental and social efforts with the corporate governance framework.

Sustainability reporting frameworks
UNION adheres to legal requirements and follows selected standards and recommendations, for example the Danish Financial Statements Act, the sector-specific reporting metrics defined by the Sustainability Accounting Standards Board (SASB), now part of the IFRS Foundation and the United Nations' Sustainable Development Goals (SDGs).



UNION's response to UN's Sustainable Development Goals

UNION is addressing several of UN's Sustainable Development Goals (SDGs) but three goals are in particular focus and in line with the company's vision and core business operations

Focused on immunology and infectious disease, UNION is developing innovative drugs that hold potential to address some of the currently most important global health priorities.

UNION's response

- Improving patient quality of life
- Aspiring to ensure better access and affordability in low- and middle-income countries
- Help fighting antimicrobial resistance
- Preparing for future pandemic(s)

Despite being a development-focused biotechnology company with limited direct impact on the environment, UNION takes climate action by understanding and minimizing emissions across the value chain.

UNION's response

- Providing transparency of CO_2 emissions across scope 1, 2 and 3
- Collaborating with key suppliers across the value chain on CO_2-emission data

UNION leverages the SASB standards for Biotechnology & Pharmaceuticals to focus on financially material sustainability topics. However, since UNION does not currently have any drug products on the market, some SASB metrics are more relevant than others. SASB metrics, when relevant, are referenced in footnotes throughout the present chapter.

Nina, Director of Regulatory Affairs and Tanya, Project Director for Niclosamide.

Patient care

Passionately creating medicines that make a difference requires insights through close collaboration with patients and patient organizations.

Patient insights
UNION interacts with individual patients and patient organizations to better understand the unmet medical needs among patients and to get insights that are important for the company's work with pharmaceutical innovation and clinical development. This can be in relation to drug delivery and ease-of-use of the drug supporting patient adherence or with respect to endpoints and the use of quality-of-life metrics in clinical studies.

Raising awareness about the burden of disease
UNION is committed to the development of safe and effective medicines that can help improve quality of life among patients suffering from immunological and infectious diseases. These include patients living with psoriasis, atopic dermatitis (AD), and hidradenitis suppurativa (HS), as well as immunocompromised patients whose lives have been, and still are, impacted by not only COVID-19 but also higher rates of influenza and RSV. UNION acknowledges the important role that patient organizations have in speaking up about the burden of disease.

During the last year, UNION became a member of Danish patient organizations for psoriasis, AD and HS: Psoriasisforeningen Danmark, Atopisk Eksem Forening and Patientforeningen HS Danmark. UNION also made a joint statement on the need for improved protection and prevention for immunocompromised patients in the context of the COVID-19 pandemic together with the European Cancer Patient Coalition, the European Kidney Health Alliance, the European Kidney Patients' Federation and the European Society for Organ Transplantation.

In 2022, a large-scale analysis of data from the UK Kidney Association from the period December 2021 to March 2022 on COVID-19 cases among dialysis and kidney transplant patients in the UK was undertaken by UNION. It was published in the peer-reviewed journal Transplantation, creating awareness about the significantly increased risk of severe and fatal outcomes from COVID-19 for immunocompromised patients, such as kidney patients, compared to the general population.

See chapter 2 "Our business" for patient insights on the burden of disease.

Innovation to the benefit for patients*

In 2022, UNION innovated and further progressed the clinical development of its product candidates to the benefit of patients. UNION's product candidates are supported by a strong patent estate consisting of 250 granted patents as of December 31, 2022 (+42 vs. December 31, 2021).

The PROTECT-V Phase 2/3 platform study was expanded to India in March 2022 and patient enrollment, including 1,660 patients, was completed in late 2022. The investigator-initiated Phase 2a study in HS, OSIRIS, was granted a Treatment Extension by the Danish Medicines Agency and Ethics Committee in September 2022, giving patients who have completed the initial treatment period the opportunity to continue treatment with orismilast for a period of up to 52 weeks. Patient enrollment in the Phase 2b study in psoriasis, IASOS, was completed in August 2022, having enrolled 202 patients. Moreover, the Phase 2b study in AD, ADESOS, was initiated in August 2022.

As a result of the clinical development progress with UNION's product candidates, patient enrollment in 2022 has been from an increasingly diverse set of countries. However, UNION acknowledges that some communities are often underrepresented as participants in clinical trials. Engaging with patient organizations, UNION wants to help remove barriers to participating in trials.

Safety of clinical trial participants**

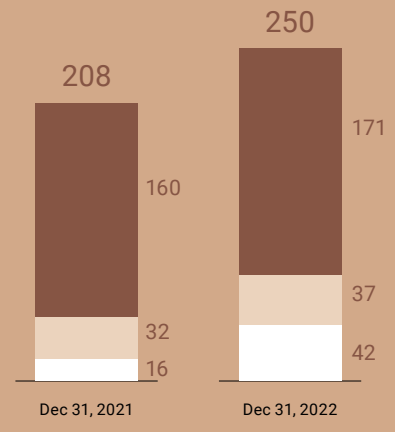
UNION applies the highest ethical standards in the conduct of research, development, and outsourced non-clinical and clinical development and manufacturing activities, adhering to the ICH Good Clinical Practice guidelines. Patient safety has the highest priority at UNION. In all activities related to the development and supply of investigational medicinal products, compliance with applicable laws and regulations designed to ensure the safety and quality of products, including reporting of safety information, is essential.

UNION has established a quality management system with formalized processes and procedures to ensure compliance with relevant regulatory requirements. The main purpose of the quality management system is to ensure that investigational medicinal products and new medicinal products are of the quality required for their intended use. The majority of business activities at UNION are outsourced to contract development and manufacturing organizations, contract research organizations and other suppliers or service providers. Thus, UNION has established the necessary vendor management and oversight activities, including qualification of vendors through evaluation of quality questionnaires and audit activities.

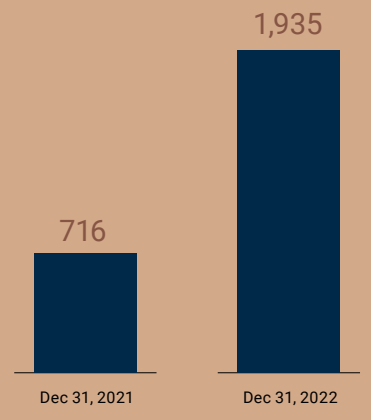
The frequency of audits conducted by UNION is determined by use of a risk-based approach, taking into consideration for example the criticality of processes and previous major quality events.

In 2022, UNION innovated and further progressed the clinical development of its pipeline candidates to the benefit for patients

Granted patents



Enrolled patients in clinical trials



Clinical trial diversity

* SASB metric: HC-BP-000.A (Number of patients treated).

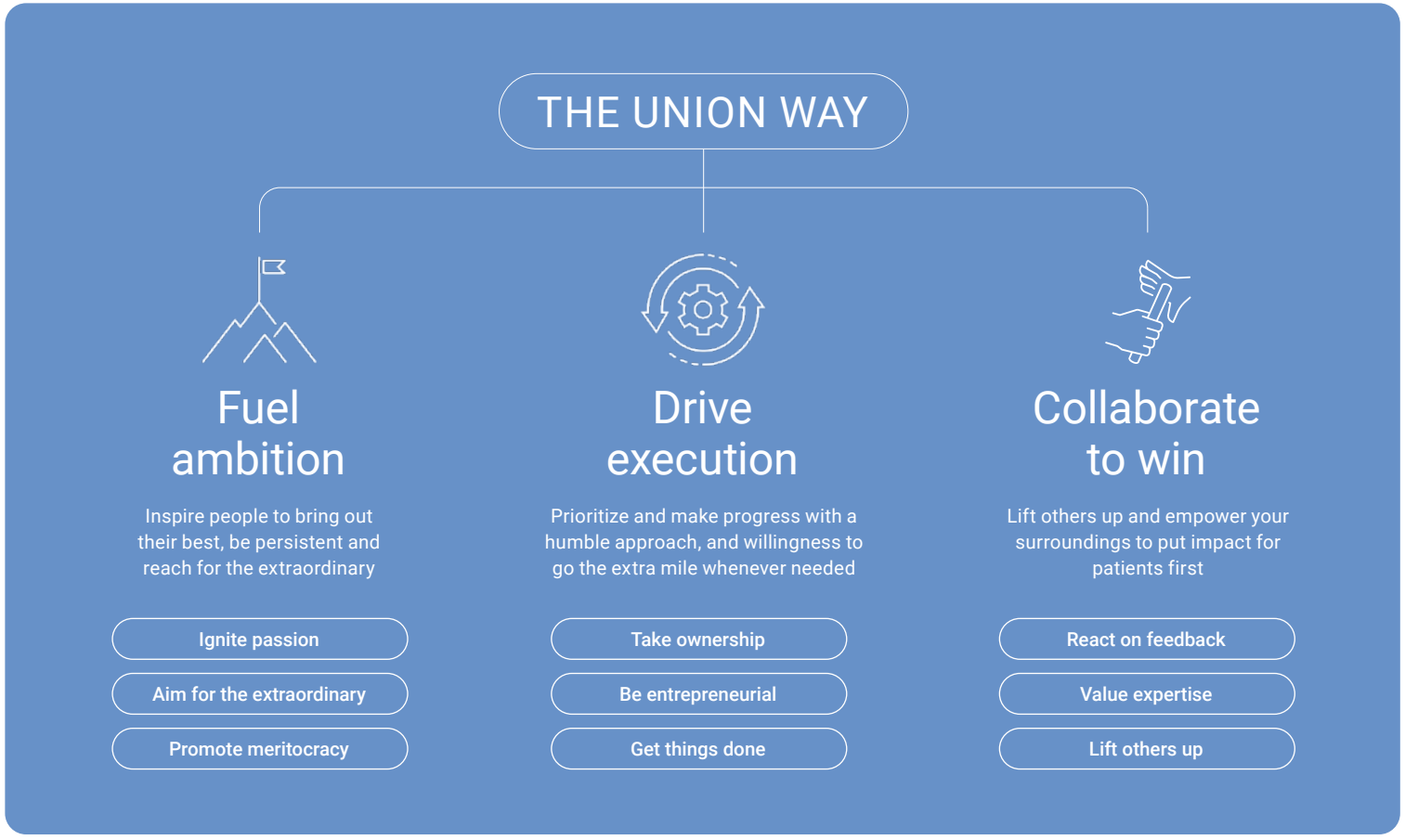
** SASB metric: HC-BP-210.a.1 (Discussion, by world region, of management process for ensuring quality and patient safety during clinical trials).

Our people

In 2022, the employees at UNION have defined a common company culture, The UNION Way, characterizing the company's way of working and desired virtues when engaging with colleagues, industry partners and other collaborators.

Based on workshops throughout the organization, a company culture with core values (DNA) being "Fuel ambition", "Drive execution" and "Collaborate to win" has been defined.

The different values and virtues are important for UNION to deliver on the ultimate goal, or vision, about passionately creating medicines that make a difference.



Organizational development*

UNION has grown significantly over the last few years, from 10 employees as of December 31, 2019 to 40 employees as of December 31, 2022. 27 employees, or 68%, work in Research and Development and related functions, with 13 employees working in general and administrative functions, for example Finance, Legal, HR and IT. 20 employees are male and 20 employees are female. The gender diversity and the diverse age range among employees, as well as the multitude of nationalities in addition to Danish, ensure that different perspectives and knowledge come into play when making decisions.

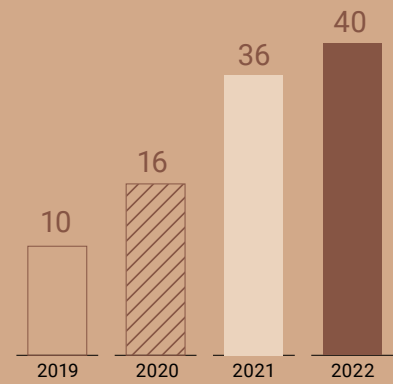
The Executive Management at UNION, portrayed on page 34, consists of four members who are all male. The extended management team, which includes other positions at the same organizational level as Executive Management, consists of five men and two women in addition to the Executive Management. Other managerial positions, defined as positions with people responsibility referring to members of the extended management team, include two men and two women. UNION's Diversity Policy, which was adopted in 2022, aims to improve the gender balance in all managerial functions by for example ensuring that both genders are represented in the final stage of the recruitment process when possible. The Board of Directors at UNION consists of seven members, including four Danish nationals and three internationals. Five board members are independent, whereas the two founders are also part of the management team. With five male board members and two female board members, UNION meets the Danish Business Authority's guidelines for board gender composition. In 2022, UNION had a turnover rate (voluntary and involuntary) of 9.6% (2021: 16.1%) with 3.4 FTEs leaving the company compared to an average number of FTEs throughout the year of 35.6.

Healthy and meaningful work**

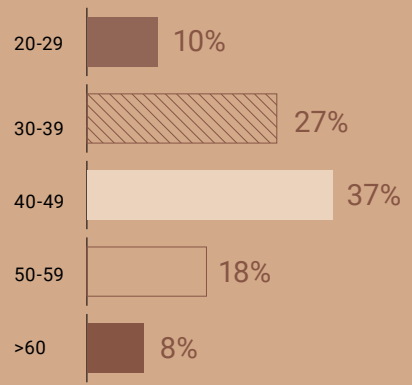
UNION is committed to being an employer with competitive terms of employment, excellent health and safety standards, and a motivating and inspiring work environment. The company considers competitive compensation to be a relevant factor with respect to the attraction and retention of top talent. In addition to compensation, employee engagement and flexible work arrangements are key efforts.

In 2022, UNION has established a Work Environment Committee, facilitating work environment and office assessments, addressing health- and safety-related matters. Initiatives promoting employee welfare include improved maternity and paternity leave benefits, enhancing gender diversity, and remote working allowance for employees to purchase relevant workstation equipment, enabling the continued flexibility to work from home in an ergonomically safe manner. Shaping a dynamic company culture, and developing a shared language around the purpose, values and virtues of the company have been important steps. Living the company culture will continue in 2023, as UNION aims to attract and retain passionate employees who come to work excited about creating medicines that make a difference.

Growth in employee numbers
(by year-end)



Age range of employees
(by year-end 2022)

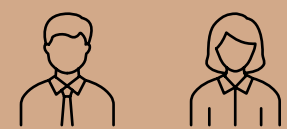


Employees by functional areas
(by year-end 2022)

68% R&D

32% General and administrative

Employees by gender diversity
(by year-end 2022)



50% Male

50% Female

* SASB metric: HC-BP-33a.2 (Turnover rate).

** SASB metric: HC-BP-330a.1 (Discussion of talent recruitment and retention efforts for scientists and research and development personnel).

Employee perspectives

Employee perspectives on The UNION Way: Meet Anne and Peter

All employees have been involved in defining the company culture and developing a shared language around purpose, values and virtues.

Anne, Senior Clinical Program Manager

"Working at UNION is never boring. The size of UNION, a small, mid- to late-stage biotech company, allows for a lot of opportunities and responsibility, and gives a huge diversity in my tasks. I have a lot of great and very skilled colleagues and I like how we support and assist each other to achieve a common goal. I think all of this makes my job very interesting and meaningful."

Read more at UNION's website

Peter, Vice President, General Counsel

"Driving Execution is intuitively close to the way my team and I work, as we are often responsible for activities that are not very visible but can be hard stops for UNION if not executed in time and at the required quality. Personally, I like seeing how the humble and hard work of my team pays off by supporting the objectives of my colleagues and UNION."

Read more at UNION's website

Environment and climate

At UNION, we have started improving the transparency of our CO_2 footprint, thereby enabling a better foundation for minimizing emissions across the value chain.

Science-based carbon accounting

In 2021, UNION partnered with a global leader in science-based carbon accounting to estimate and track the company's CO_2 footprint according to the Greenhouse Gas Protocol for the first time. The Greenhouse Gas Protocol is the world's most recognized greenhouse gas accounting standard and covers scope 1 (direct emissions from owned assets, e.g. vehicles and fuel use from production sites), scope 2 (indirect emissions from purchased energy, such as electricity and heating) and scope 3 (indirect emissions not already included in scope 2, e.g. emissions from purchased goods and services, transport and business travel).

In 2022, UNION has estimated its CO_2 emissions for purchased electricity and heating in scope 2 and for seven categories in scope 3, including purchased goods and services, capital goods, fuel- and energy-related activities, upstream transportation, waste, business travel and employee commuting. UNION does not have any scope 1 emissions.

Small increase in CO_2 emissions from 2021 to 2022

Due to the advancement of several clinical studies in 2022, UNION's general activity level and the associated operating costs have increased significantly from 2021 to 2022. However, UNION's total CO_2 emissions are roughly unchanged, increasing 2.8% to 3,969 ton CO_2-equivalent in 2022 (2021: 3,862 ton)*.

Scope 2 CO_2 emissions have increased to 17 ton CO_2-equivalent in 2022 (2021: 10 ton), under the market-based approach**, driven by expansion of the office space in mid-2021 to accommodate the continued growth in employees.

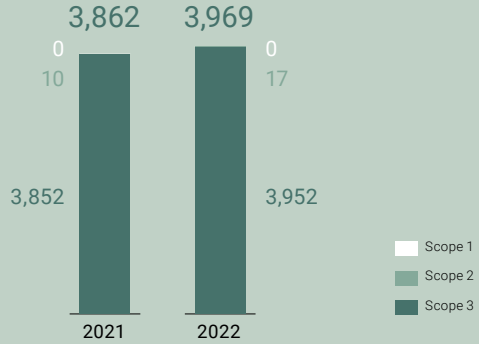
* Emissions in 2021 are slightly lower than the emissions presented in the 2021 Annual Report as a result of re-categorization of suppliers, improving accuracy and enabling comparison across years.

** Location-based estimation of scope 2 is 6.6 ton CO_2-equivalent, i.e. considering the avg. emission intensity in the geographic location where the energy consumption occurs. On the contrary, the market-based approach, which is viewed as more accurate by the GHG protocol and has been used in the presentation of UNION's emissions, considers the emission intensity from the relevant energy provider(s).

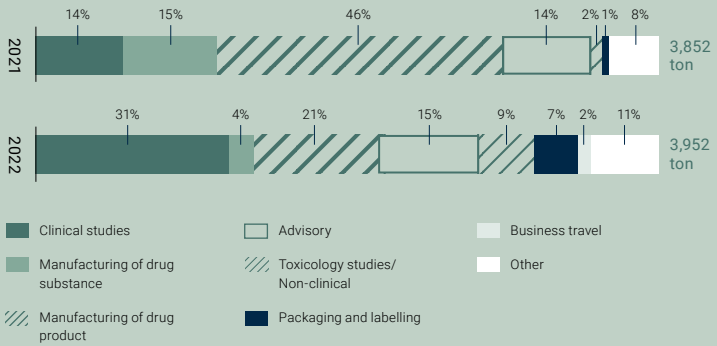
UNION's CO_2 footprint

Total CO_2 emissions

(ton CO_2-equivalent)



Breakdown of scope 3 emissions




Louise, Financial Controller.

Scope 3 CO_2 emissions have increased 2.6% to 3,952 ton CO_2-equivalent in 2022 (2021: 3,852 ton). This relatively small increase of 100 ton CO_2-equivalent in scope 3 CO_2 emissions from 2021 to 2022, despite the generally increasing activity level, is explained by less CO_2-intensive activities in 2022 compared to 2021. Clinical studies have increased 17%-points and manufacturing of active pharmaceutical ingredient, or drug substance, and drug product, which is more CO_2-intensive, has decreased 36%-points between 2021 and 2022. The increase in CO_2 emissions from clinical study execution, further driven by toxicology/non-clinical and packaging/labelling, is not sufficient to notably offset the reduction in CO_2 emissions from manufacturing.

Spend-based vs. activity-based estimates

An important distinction in estimation of CO_2 emissions is that between spend-based estimates and activity-based estimates. Spend-based estimates take the financial value of a purchased good and service, for example the spend associated with purchased flight tickets, and multiply the financial value by an emission factor derived from an industry average of emission levels, whereas activity-based estimates consider the actual activities, for example details on the destination travelled by flight based on departure and destination.

The activity-based approach is more granular and insightful but more data-intensive in terms of collecting relevant input data, often because close dialogue with suppliers is needed, compared to the spend-based approach. Consequently, a hybrid approach is often pursued by many companies. In 2022, UNION has used activity-based estimates for electricity and heating, waste, business travel and employee commuting.

Supplier engagement

Indirect emissions across the value chain (scope 3) represent almost 100% of UNION's CO_2 footprint. Therefore, UNION has in 2022 conducted a supplier engagement pilot project and initiated a dialogue with key suppliers, representing 46% of estimated CO_2 emissions in 2022 (spend-based approach), to get a better understanding of emissions across the value chain and eventually replace spend-based estimates with activity-based estimates from suppliers. This serves as not only more accurate CO_2 estimation but also a good starting point for continued dialogue with key suppliers about identification of CO_2-minimizing initiatives in the future.

The activity-based estimates, which are derived from either suppliers' own scope 1 estimates and scope 2 estimates, as well as revenue and UNION's costs associated with these suppliers, or suppliers' CO_2 emissions intensity level, resulted in CO_2 emission estimates that were slightly higher for ~60% of suppliers included in the pilot and slightly lower for ~40% of suppliers. In aggregate, activity-based CO_2 emission estimates from the supplier engagement pilot were 26% higher than the spend-based estimates. Replacing spend-based estimates with activity-based estimates would have resulted in total CO_2 emissions of 4,441 ton CO_2-equivalent in 2022 compared to the 3,969 ton CO_2-equivalent. To enable comparison between 2022 and 2021, spend-based estimates for the suppliers included in the supplier engagement pilot project have been used in the formal presentation of UNION's CO_2 footprint.

Going forward, UNION will continue the dialogue with key suppliers to improve and streamline the activity-based CO_2 emission input as well as start identifying initiatives that can help minimize UNION's indirect CO_2 emissions as the company grows.

Corporate governance

During the year 2022, the corporate governance framework at UNION has matured significantly with respect to policies, processes, guidelines, compliance and risk management.

Strengthening of governance framework and integrating ESG-related policies
In 2022, the Board of Directors approved several new policies governing the rules, standards and ethical principles that employees and UNION as an organization must adhere to. These policies include ESG-related policies, such as Sustainability Policy, describing the company's principles and values with respect to the environment, human rights and business ethics, Diversity Policy, outlining target figures for the share of the under-represented gender in the Board of Directors and facilitating gender balance in other managerial functions, Code of Conduct, articulating the main principles of ethical behavior expected from all employees, and Anti-Bribery and Anti-Corruption Policy, ensuring that the company's activities are ethically conducted and with integrity. In 2022, there have been no identified cases of corruption or bribery.

The documentation of training of employees in certain non-GxP policies and standard operating procedures has been anchored in a governance, risk and compliance tool that was implemented in 2022. This tool, which is also being used for other internal controls, is now fully operational and will be further implemented in 2023.

Two-tier management structure
The Board of Directors is responsible for the overall and strategic management of UNION and the supervision of the company's Executive Management. The Board of Directors appoints and dismisses the members of Executive Management who are responsible for the daily management of the company. Daily management of the company includes strategy execution and management of the organization, as well as identification and management of key risks.

For more information about the potential impact of key risks identified and the mitigating actions.

Go to pages 36-37

Number of BoD meetings and meeting attendance in 2022

Name	Nationality	Independence	Meeting attendance in 2022*
Stig Løkke Pedersen, Chair	Danish	Independent	●●●●●●●●●●
Arthur Higgins, Deputy Chair	British/American	Independent	●●●●○●●○●
Gitte Pugholm Aabo	Danish	Independent	●●●●●●●○●●
Andrew J. Oakley	Australian	Independent	●●●●●●●●●●
Dr. Jutta Heim	German/Swiss	Independent	○●●●●●●●●●
Dr. Rasmus Toft-Kehler	Danish	Not independent	●●●●●●●●○●
Dr. Morten Sommer	Danish	Not independent	●●●●●●●●●●

● Attended ○ Absent

* Attendance for face-to-face and video meetings only; written resolutions not included.

Executive Management

Dr. Kim D. Kjøller

Chief Executive Officer

Born 1967, Danish

Dr. Kim D. Kjøller has been CEO of UNION since January 2021. He brings more than 20 years of experience from various senior executive positions in the pharmaceutical industry, of which the last 10 years were in dermatology.

Before joining UNION, Kim was EVP and Head of R&D at LEO Pharma. Kim also held senior positions in both Strategic Marketing, Medical Affairs, Global Development and as General Manager at Sanofi, Lundbeck, and Sanofi Pasteur MSD.

Kim is an MD from Copenhagen University and has authored and co-authored over 35 scientific publications and given presentations at both scientific and pharmaceutical marketing meetings globally.

Morten H. Boesen

Chief Financial Officer

Born 1982, Danish

Morten H. Boesen joined UNION in 2018 as Chief Financial Officer. Prior to UNION, Morten worked at EQT, the largest private equity fund in the Nordics, initially as an investment professional and subsequently as an executive director in the EQT-owned global retailer Flying Tiger Copenhagen, where he held responsibility for strategy, business development as well as global commercial and supply chain operations.

Earlier in his career, Morten worked as a management consultant with McKinsey & Company, in the M&A advisory group of Nordea Bank and in the finance department of Novozymes, the world leader in industrial biotech.

Morten holds an M.Sc. in Finance and Accounting from Copenhagen Business School.

Dr. Rasmus Toft-Kehler

Co-founder, Chief Operating Officer and Board member

Born 1980, Danish

Rasmus Toft-Kehler is co-founder, board member and Chief Operating Officer at UNION. Rasmus has extensive leadership and strategic development experience from founding and building companies in the life science industry, and he is co-founder and board member of multiple biotechnology and life science companies.

Before going into biotech, Rasmus worked in investment banking and in management consulting, e.g. Goldman Sachs and Booz Allen Hamilton, and acted as board member of a family-owned company that was sold in 2005.

Rasmus holds a Ph.D. in Entrepreneurship from Copenhagen Business School and executive education from Harvard Business School.

Dr. Morten Sommer

Co-founder, Chief Scientific Officer and Board member

Born 1981, Danish

Morten Sommer is the co-founder of several biotechnology companies specialized within the fields of drug development, industrial biotech and microbiome research.

Morten is also a Professor and Scientific Director at the Technical University of Denmark with a lab of more than 20 Ph.D.s and Post-Doctorial researchers, working primarily at the intersection of antibiotic resistance and the human microbiome.

Morten is Chair of the Board at Clinical-Microbiomics, and member of the board in Novozymes, SNIPR biome, Biosyntia and UTILITY therapeutics.

Morten holds an M.Sc. in Physics from University of Copenhagen and a Ph.D. in Biophysics from Harvard University from the laboratory of Professor George Church.

Board of Directors

Stig Løkke Pedersen

Chair of the Board

Born 1961, Danish

Stig has more than 35 years of strategic, commercial and leadership expertise from the life science industry, holding senior positions at H. Lundbeck and Ciba-Geigy.

Chair of the Board and Board Member in several private and publicly listed biotechnology companies, including StemMedical, SSI Diagnostica and moksha8 Pharmaceuticals. In addition, Stig is Operating Partner in the private equity fund Catacap.

Arthur Higgins

Deputy Chair of the Board

Born 1956, British and American

Arthur is a global executive with extensive business development, marketing and leadership expertise from large healthcare companies in both the US and Europe, holding CEO positions at Bayer HealthCare and Assertio Therapeutics, and senior executive roles at Abbott Laboratories.

Arthur is a Senior Operating Advisor to Abu Dhabi Investment Authority, Director of Ecolab and ZimmerBiomet.

Gitte Pugholm Aabo

Member of the Board

Born 1967, Danish

Gitte brings extensive global leadership experience from the life science industry and a deep understanding of dermatology, marketing, and capital markets. Gitte was previously President & Chief Executive Officer of LEO Pharma for more than 10 years.

Gitte is Chief Executive Officer at GN Hearing, and a member of the Committee of Directors of Danmarks Nationalbank (the Danish Central Bank), board member of ALK-Abelló, and member of the board and the Executive Committee at Danish Chamber of Commerce (Dansk Erhverv).

Andrew J. Oakley

Member of the Board

Born 1962, Australian

Andrew is a global executive with more than 20 years of financial and capital markets experience, holding positions as Chief Financial Officer of Actelion, Vectura PLC, Sosei Group Corporation and Autolus Therapeutics PLC.

Andrew currently serves as Chief Financial Officer of Theolytics Ltd. and is also a board member of Novaremed AG.

Jutta Heim

Member of the Board

Born 1951, German and Swiss

Jutta has more than 20 years of research experience within infectious disease, coagulation disorders and oncology. She has worked for more than 30 years at Ciba-Geigy/Novartis in both Switzerland and the US, as well as in Basilea Pharmaceutica and Evolva.

Chair of the Board of Directors of Synendos Therapeutics and advisor to Discoveric bio group and to Aukera Therapeutics, all companies located in Switzerland.

She is also a member of the scientific advisory board of the HZI, the infectious diseases institute of the Helmholtz association.

Dr. Rasmus Toft-Kehler

Co-founder, Chief Operating Officer, Member of the Board

Born 1980, Danish

Rasmus has extensive leadership and strategic development experience from founding and building companies in the life science industry. Before going into biotech, he worked in investment banking and in management consulting.

Rasmus is the Chief Operating Officer of UNION and co-founder of several biotech companies. He is also board member at Clinical-Microbiomics and UTILITY Therapeutics.

Dr. Morten Sommer

Co-founder, Chief Scientific Officer, Member of the Board

Born 1981, Danish

Morten has extensive research and development experience working within the fields of drug development, industrial biotechnology and microbiome research. He has published more than 100 scientific publications and is an inventor of several issued patents.

Morten is the Chief Scientific Officer of UNION and holds the position as Professor and Scientific Director at the Technical University of Denmark. He is also Chair of the Board at Clinical-Microbiomics and board member at Novozymes, SNIPR biome, Biosyntia and UTILITY Therapeutics.

Key risks

UNION is continuously monitoring they key risks it is exposed to. Failure to mitigate significant risks can potentially impact the development of the company's product candidates negatively, thus impacting future sales, profit and market position. The risks are diverse and range from failure to document efficacy and safety of the product candidates to not being able to attract and retain qualified employees, all with different likelihood and impact profiles.

	Description	Potential impact (non-exhaustive)	Mitigating actions
 **Clinical development risks**	UNION's product candidates will go through lengthy and costly clinical trials to document efficacy and safety before filing for approval with the relevant regulatory authorities. Clinical trials are generally associated with a high risk of failure. UNION could experience delays in completing clinical trials, incur additional costs in clinical trials and ultimately fail to progress orismilast and niclosamide towards the market.	• Patients will not benefit from new treatments. • Potentially negative impact on sales, profit and market position.	• UNION's focus is molecules with well-established mechanisms of action and favorable safety profiles, implying that the clinical development risk is lower relative to molecules with mechanisms of action that have not been studied to the same extent before. • UNION's clinical project teams work closely with contract research organizations to design and conduct the clinical trials and engage with regulatory authorities to get guidance on the development path. • UNION's management team has quarterly program review meetings where Project Directors and the relevant functional leads in the project teams discuss the clinical development progress and associated risks. Risk management and prioritizations within and across programs are structured around a stage-gate model with defined milestones.
 **Product supply, quality and safety risks**	Shortage of the investigational medicinal product or quality issues could mean that UNION is unable to continue the development of its product candidates.	• Product shortage and quality issues could result in delays and ultimately discontinuation of UNION's product candidates. • Potentially negative impact on sales, profit and market position.	• UNION's CMC and supply chain team works closely with contract development and manufacturing organizations on early identification of root causes when issues materialize.
 **People risks**	UNION's ability to compete in the highly competitive pharmaceutical industry depends on its ability to attract and retain highly qualified managerial, scientific, medical, commercial and other personnel.	• UNION could be unable to continue the development of its product candidates, out-license or commercialize its product candidates or otherwise implement the business plan if key employees leave the organization and it is not possible to find suitable replacements in a timely manner. • Potentially negative impact on sales, profit and market position.	• UNION defined a company culture in 2022 with a shared language around a meaningful vision about creating medicines that make a difference, describing the virtues and behaviors encouraged by employees. • Different initiatives promoting employee welfare have been adopted in 2022, such as improved maternity and paternity leave benefits, which, together with a strong and meaningful company culture, are important aspects with respect to attraction and retention of qualified personnel.

	Description	Potential impact (non-exhaustive)	Mitigating actions
Environmental risks	UNION is developing chemically derived pharmaceutical drugs requiring relatively carbon-intensive operational activities. Since activities such as manufacturing are outsourced, UNION has a low direct impact on the environment. However, the activities of our contractors, operating on behalf of UNION, do have an environmental impact, including CO_2 footprint.	• The indirect carbon emissions of UNION, representing the vast majority of the company's emissions, could have a negative impact on the environment.	• UNION has in 2022 improved the data transparency and granularity of CO_2 emission estimates by engaging with suppliers, thereby enabling a stronger foundation for identification of CO_2-minimizing initiatives going forward.
Business ethics risks	Partnerships and collaborations can bring significant benefits but also involve risks. The key business ethics risk includes violation by employees and business partners or contractors of our anti-corruption commitment.	• Potentially legal and financial consequences from business ethics violation • Potentially negative impact on sales, profit and market position.	• The Board of Directors has in 2022 approved several new policies governing the rules, standards and ethical principles at UNION, for example anti-bribery and anti-corruption policy, sustainability policy and code of conduct. • All UNION employees are encouraged to speak up if potential illegal or unethical business behaviors are detected or suspected.
Intellectual property risks	UNION could be unable to maintain or enforce intellectual property rights that cover the current product candidates. UNION could also face infringement claims or challenges by third parties.	• UNION could lose its competitive advantage if the company is unable to protect its intellectual property, whereas patent infringement claims could prevent development of the product candidates. • Potentially negative impact on sales, profit and market position.	• UNION owns a patent portfolio consisting of key patent families that include issued patents and pending patent applications worldwide, providing comprehensive protection of the company's product candidates. • UNION works closely with external patent counsels to minimize the risk of patent infringement against UNION and to prepare for any potential patent infringement claims as well as defense.
Financing risks	UNION is a development-focused pharmaceutical company. As a consequence, lack of external funding could impact UNION's ability to advance the development of medicines end even the company's ability to continue as a going concern.	• Potentially negative impact on ability to continue development of medicine. • Potentially negative impact on cash position. • Potential impact on UNION's ability to continue as a going concern.	• In 2022, investors have supported UNION with an additional DKK 62.0m private placement. • The cooperation agreement with Innovent, resulted in milestone payments of DKK 29.1m in 2022. • In 2022, the loan period was extended for the European Investment Bank loan facility. • Management believes that sufficient liquidity resources can be obtained in due time during 2023 to enable the company to continue its activities as planned through December 2024. This could be in the form of issuance of new shares, renegotiation of terms for current outstanding debt instruments, entering license and research and development collaboration agreements, expense management activities, or a combination of such.
IT risks	IT systems are key to UNION's business operations. IT risks, such as cyber-attacks and infrastructure failure, could result in business disruption.	• IT risks could compromise patients', employees' and other individuals' privacy. • IT risks could limit UNION's ability to continue its business operations. • Potentially negative impact on sales, profit and market position.	• UNION has appropriate protection from viruses and malware, and sensitive data is encrypted and subject to restricted use. The IT environment is evolving rapidly, hence the company works with external IT specialists to improve IT protection on a continuous basis. • In 2022, a new information security policy has been adopted, standard operating procedures and controls have been improved, and records of processing activities, i.e. mapping of data, have been developed and anchored in a governance, risk and compliance tool.

Financial review

Morten, VP of Medical Science.

Financial review

Significant advancement of UNION's pipeline, including Phase 2b studies with oral orismilast in psoriasis and atopic dermatitis, and continued strengthening of the organization have driven the higher activity level in 2022.

The financial review is based on the consolidated financial statements for the year ended December 31, 2022, with comparative 2021 and 2020 figures in brackets. There is no significant difference in the development of the Group and the Parent Company.

Income statement

Revenue

Revenue in 2022 was DKK 34.4m (2021: DKK 118.9m; 2020: DKK 0m). The revenue all relates to the strategic collaboration and regional license agreement for orismilast in Greater China (Mainland China, Hong Kong, Macau and Taiwan) entered with Innovent Biologics (the Innovent Agreement) in 2021. As part of the Innovent Agreement, UNION is entitled to receive milestone payments contingent on the achievement of certain development and regulatory milestones across multiple therapeutic indications and on the achievement of certain sales-based milestones. In 2022, Innovent received Chinese IND clearance for oral orismilast in psoriasis and atopic dermatitis resulting in milestones totaling DKK 29.1m. Additionally, DKK 5.3m was recognized as License revenue reflecting the progress of the Phase 2 studies.

Research and development costs

Research and development costs increased to DKK 186.4m in 2022 (2021: DKK 155.3m; 2020 DKK 65.1m). Higher activity level in 2022, in particular the Phase 2b studies in psoriasis and atopic dermatitis, has driven the increase in costs compared to 2021 and 2020. Additionally, employee costs have increased as an effect of the strengthening of the research and development organization.

Administrative costs

Administrative costs increased to DKK 31.6m in 2022 (2021: DKK 21.7m; 2020: DKK 8.3m) The increased cost is primarily due to full year effect of increase in employees in 2021 and related employee costs. External costs are at the same level as in 2021, reflecting continued system, process and compliance optimization efforts as well as preparations for future growth supported by external service providers and advisors.

Other operating income

Other operating income decreased to DKK 0m in 2022 (2021: DKK 6.2m; 2020: DKK 9.0m). In 2021 and 2020, Other operating income consisted of government grants (primarily Innovation Fund Denmark).

Financial income/(expenses)

Financial income/(expenses) increased to DKK -36.1m (2021: -9.6m; 2020: DKK -22.1m). The 2022 costs are primarily due to fair value adjustments of convertible debt and warrant and put option as well as interest expenses and modification costs related to the European Investment Bank loan.

Tax income/(expense)

Tax income of DKK 5.5m in 2022 (2021: DKK 5.5m; 2020: DKK 5.5m) comprises receivable tax credit for research and development expenditures at the applicable tax rate under the Danish Tax Assessment Act.

Result for the year

The Result for the year of DKK -214.3m (DKK: -56.0m; 2020: DKK -80.9m) reflects higher research and development costs, financial expenses and revenue from the Innovent agreement.

Cash flow

Cash flow from operating activities

Cash flow from operating activities totaled DKK DKK -158.1m (2021: -3.0m; 2020: DKK -51.5m), which reflects the Result for the year adjusted for non-cash items.

Cash flow from financing activities

Cash flow from financing activities totaled DKK 61.4m (2021: DKK 216.5m; 2020: DKK 43.5m) primarily due to proceeds from a capital increase.

Liquidity and capital resources

As of December 31, 2022, UNION had cash and cash equivalents of DKK 159.0m (2021: DKK 253.4m; 2020 DKK 36.4m). The decrease is primarily due to cash flow from operating activities, partially offset by the capital increase.

Loss of subscribed share capital

As a result of the group's accounting policy, financing strategy and utilization of the credit

facility provided by the European Investment Bank, at December 31, 2022 the company had lost more than 50% of its subscribed share capital. Management expects to re-establish the subscribed share capital through additional capital increase in 2023.

Material uncertainty related to going concern

UNION monitors its liquidity position and forecasts rolling twelve-month cash requirements monthly to identify liquidity risks and enable the Board of Directors and Executive Management to prepare for new financing transactions and/or take relevant tactical or strategic actions to allow the company to continue its research and development activities as planned as a going concern.

UNION, considering its net current assets and forecasted cash requirements, has liquidity to fund its operations as planned through December 2023, assuming relevant expense management measures have been implemented in the event that managements plans, as described below, do not materialize. Further, repayment of the first tranche of the loan from the European Investment Bank of DKK 85.5m, which falls due for payment in January 2024, is not funded yet.

UNION plans to obtain additional long-term sources of funding following the announcement in January 2023 of topline results from the Phase 2b study with oral orismilast in psoriasis and expected data read-outs through 2023. This could be in the form of issuance of new shares, entering license and research and development collaboration agreements, expense management activities, renegotiated terms for current outstanding debt instruments or a combination of such.

The Board of Directors and Executive Management believe it is probable that sufficient liquidity resources can be obtained in due time during 2023 to enable the company to continue its activities as planned through December 2024 and beyond. Based on these assumptions, the Board of Directors and the Executive Management have prepared the Financial Statements based on a going concern assumption.

Since such new source of funding is not obtained as of the date of these Financial Statements, material uncertainty that may cast significant doubt on the company's ability to continue as a going concern exists, and therefore the company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Equity

Equity as of December 31, 2022 totaled DKK -27.7m (2021: 49.4m; 2020: DKK -58.4m). The development was driven primarily by net income and the capital increase. The equity corresponds to an equity ratio of -14.9% (2021: 17.3%; 2020: -84.8%).

In 2022 share capital has increased to DKK 710 thousand (2021: 660 thousand; 2020: 563 thousand).

Financial statements

Nina, Director of Regulatory Affairs and Anna, VP of Medical Affairs.

Consolidated financial statements

Statement of comprehensive income or loss

DKK'000	Notes	2022	2021	2020
Revenue	3	34,393	118,912	0
Research and development costs	4	-186,434	-155,305	-65,107
Administrative costs	4	-31,584	-21,724	-8,270
Operating result before other income		**-183,625**	**-58,117**	**-73,377**
Other operating income	7	0	6,178	9,049
Operating result		**-183,625**	**-51,939**	**-64,328**
Financial income	8	2,687	4,286	6
Financial expenses	8	-38,820	-13,848	-22,084
Result before tax		**-219,758**	**-61,501**	**-86,406**
Tax income/(expense)	9	5,454	5,475	5,510
Result for the year		**-214,304**	**-56,026**	**-80,896**
Other comprehensive income or loss				
Items that may be reclassified to profit or loss in subsequent periods, net of tax				
Exchange differences on translation of foreign operations		6	13	-40
Other comprehensive result for the period, net of tax		**6**	**13**	**-40**
Total comprehensive result for the year		**-214,298**	**-56,013**	**-80,936**
Basic net earnings/(loss) per share	10	-32	-9	-15
Diluted net earnings/(loss) per share	10	-32	-9	-15

Result for the year and total comprehensive result is attributable to the shareholders of UNION therapeutics A/S.

Cash flow statement

DKK'000	Notes	2022	2021	2020
Result for the year		-214,304	-56,026	-80,896
Adjustment for non-cash items	21	52,742	14,129	23,459
Changes in net working capital	22	-1,174	34,762	1,945
Changes in non-current financial assets		-43	-130	-10
Interest received		401	0	7
Interest paid		-1,150	-1,184	-221
Income taxes received/(paid)		5,454	5,475	4,170
Cash flow from operating activities		**-158,074**	**-2,974**	**-51,546**
Investment in intangible assets	11	0	0	-1,668
Investment in property, plant and equipment	12	-178	-140	0
Cash flow from investing activities		**-178**	**-140**	**-1,668**
Proceeds from capital increase		62,037	154,786	43,749
Proceeds from exercise of warrants		201	0	0
Costs associated with capital increase		-100	-15	-70
Proceeds from issuance of convertible loans	17	0	62,037	0
Repayment of loans	20	-126	0	0
Lease instalments	20	-564	-312	-155
Cash flow from financing activities		**61,448**	**216,496**	**43,524**
Net cash flow for the year		**-96,804**	**213,382**	**-9,690**
Cash at the beginning of the year		253,402	36,425	46,466
Exchange rate adjustments of cash		2,407	3,595	-351
Cash and cash equivalents at end of the year		**159,005**	**253,402**	**36,425**
Cash and cash equivalents as per statement of financial position		**159,005**	**253,402**	**36,425**
Non-cash investing activities				
Non-cash capital increases included in equity		0	0	14,898

Statement of financial position

DKK'000	Notes	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Assets				
Non-current assets				
Intangible assets	11	16,566	16,566	16,566
Property, plant and equipment	12	1,048	1,160	168
Other receivables	13	294	252	122
Total non-current assets		**17,908**	**17,978**	**16,856**
Current assets				
Tax receivables	9	5,500	5,500	5,500
Other receivables	13	3,262	8,045	10,103
Cash and cash equivalents		159,005	253,402	36,425
Total current assets		**167,767**	**266,947**	**52,028**
Total assets		**185,675**	**284,925**	**68,884**

DKK'000	Notes	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Equity and liabilities				
Equity				
Share capital	14	710	660	563
Other reserves		-28,398	48,720	-58,960
Total equity		**-27,688**	**49,380**	**-58,397**
Non-current liabilities				
Long-term debt	15	107,224	99,286	88,894
Cash-settled warrant obligation	6	9,990	6,074	6,069
Deferred revenue	3	0	876	0
Convertible loans	17	19,358	63,778	0
Lease liabilities	15	221	661	0
Total non-current liabilities		**136,793**	**170,675**	**94,963**
Current liabilities				
Lease liabilities	15	814	429	167
Trade payables	15	17,743	11,424	7,350
Warrant and put option	16	34,884	18,480	18,018
Deferred revenue	3	2,920	7,344	0
Other payables	18	20,209	27,193	6,783
Total current liabilities		**76,570**	**64,870**	**32,318**
Total liabilities		**213,363**	**235,545**	**127,281**
Total equity and liabilities		**185,675**	**284,925**	**68,884**

Statement of changes in equity

DKK'000	Notes	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: (Accumulated deficit)/ Retained earnings	Total
Equity at January 1, 2022		**660**	**-12**	**48,732**	**49,380**
Result for the year		0	0	-214,304	-214,304
Other comprehensive income or loss		0	6	0	6
Total comprehensive result for the year		**0**	**6**	**-214,304**	**-214,298**
Transactions with owners:					
Exercise of warrants	14	2	0	199	201
Conversion of convertible loans	17	23	0	57,518	57,541
Capital increase	14	25	0	62,012	62,037
Cost associated with capital increase		0	0	-100	-100
Share-based compensation	6	0	0	17,551	17,551
Equity at December 31, 2022		**710**	**-6**	**-28,392**	**-27,688**

DKK'000	Notes	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: (Accumulated deficit)/ Retained earnings	Total
Equity at January 1, 2021		**563**	**-25**	**-58,935**	**-58,397**
Result for the year		0	0	-56,026	-56,026
Other comprehensive income or loss		0	13	0	13
Total comprehensive result for the year		**0**	**13**	**-56,026**	**-56,013**
Transactions with owners:					
Capital increases	14	97	0	154,689	154,786
Cost associated with capital increase		0	0	-15	-15
Share-based compensation	6	0	0	9,019	9,019
Equity at December 31, 2021		**660**	**-12**	**48,732**	**49,380**
Equity at January 1, 2020		**515**	**15**	**-38,838**	**-38,308**
Result for the year		0	0	-80,896	-80,896
Other comprehensive income or loss		0	-40	0	-40
Total comprehensive result for the year		**0**	**-40**	**-80,896**	**-80,936**
Transactions with owners:					
Capital increases	14	48	0	58,600	58,648
Cost associated with capital increase		0	0	-70	-70
Share-based compensation	6	0	0	2,269	2,269
Equity at December 31, 2020		**563**	**-25**	**-58,935**	**-58,397**

Notes

1. Accounting policies

Basis for preparation
The consolidated financial statements of UNION therapeutics A/S (referred to as "UNION" or "the company" throughout the annual report) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial Statements Act (class B and selected disclosure requirements for class C).

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial assets and liabilities that are measured at fair value.

Applied materiality
UNIONs consolidated financial statement is based on the concept of materiality focusing on information that is considered material and relevant.

The consolidated financial statements are a result of processing large numbers of transactions and aggregating those into classes according to their nature or function. The aggregated transactions are presented in classes of similar items in the financial statements. Line items not individually material are aggregated with other items of similar nature in the consolidated financial statements or in the notes.

The disclosure requirements are substantial in IFRS and the Danish Financial Statement Act. Management provides specific disclosures required unless the information is considered immaterial to the financial decision-making of the users of these consolidated financial statements and otherwise not warranted or not applicable.

Information on COVID-19
UNION's business, operations and clinical studies were impacted by the effects of COVID-19. Although the clinical studies continued without interruption during 2022, delays and increased costs resulting from implications of COVID-19 were experienced. However, UNION has not recognized any write-offs, impairments of assets, or losses due to onerous contracts. UNION continuously monitors the COVID-19 pandemic and its potential impact on the business and financials.

Information on the conflict in Ukraine
UNION does not have any activities in Ukraine or Russia and is not directly impacted by the war in Ukraine.

Changes in the accounting policies and disclosures
Implementation of new and revised standards and interpretations
UNION applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2022.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
An onerous contract is a contract under which the costs that UNION cannot avoid because it has the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labor and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

UNION applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period. UNION did not identify any onerous contracts. Therefore, these amendments had no impact on the consolidated financial statements.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, UNION applies the amendments retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, UNION applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application), refer to note 16.

Standards and interpretations not yet in force
At the date of publication of the consolidated financial statements, a number of new and amended standards and interpretations have not yet entered into force or have not yet been adopted by the EU.

UNION has elected to adapt amendments to IAS 1 Presentation of Financial statements regarding applying materiality judgements to accounting policy disclosure, early.

None of the new or amended standards and interpretations not adapted early are expected to have a material impact on the consolidated financial statements.

Notes

1. Accounting policies continued

IAS 1 Presentation of Financial Statements - Disclosure of Accounting policies
The amendments to IAS 1 replace the requirement to disclose "significant accounting policies" with a requirement to disclose "material accounting policy information".

UNION has adapted the amended standard for the annual report for the financial year January 1 - December 31. As an effect UNION is only disclosing accounting policies if:

- A choice of accounting policy is permitted by the IFRS accounting standard,
- It is needed to provide context for a change of accounting policy that had a material effect on the information in the financial statements,
- It is needed to provide context to significant judgements and estimates,
- The required accounting (recognition, measurement, presentation, disclosure) is complex and users would otherwise not understand the material transaction, event, or condition, or
- There are other qualitative factors that make the accounting policy information material.

Consolidated financial statements
The consolidated financial statements comprise the parent company, UNION therapeutics A/S, and three wholly-owned subsidiaries controlled by UNION therapeutics A/S: UNION Research Services ApS, UNION therapeutics Germany GmbH and UNION therapeutics North America Inc.

The consolidated financial statements are prepared by combining the parent company's and the individual subsidiaries' financial statements and eliminating intercompany transactions such as intra-group income and expenses, shareholdings, and intra-group balances, and realized and unrealized gains on intra-group transactions.

Translation of foreign operations
Items included in the consolidated financial statements of each of the group's entities are measured using the currency of the primary economic environment that best reflects the economic substance in which the legal entities operate (functional currency). The functional currency of the parent company and the Danish subsidiary is DKK. The functional currency of the U.S. subsidiary is USD and the functional currency of the German subsidiary is EUR.

Transactions denominated in currencies other than the functional currency are foreign currency transactions.

On initial recognition, foreign currency transactions are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the rate at the transaction date and the rate at the date of payment are recognized in profit or loss as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated into the functional currency at the exchange rates at the date of the statement of financial position.

The difference between the exchange rates at the end of the reporting period and at the date at which the receivable or payable arose or was recognized in the latest annual report is recognized in the statement of comprehensive income as financial income or financial expenses.

Financial statements of foreign subsidiaries are translated into DKK at the exchange rates prevailing at the reporting date for assets and liabilities, and at average exchange rates for income statement items. The following exchange rate differences, arising from translation using the exchange rate prevailing at the reporting date, are recognized in Other comprehensive income:

- Translation of foreign subsidiaries' net assets at the beginning of the year
- Translation of foreign subsidiaries' income statements from average exchange rates.

Current versus Non-current classification
The company presents assets and liabilities in the statement of financial position based on Current/Non-current classification.

An asset is classified as Current when it is:

- expected to be realized or intended to be sold or consumed in the normal operating cycle
- held primarily for the purpose of trading
- expected to be realized within twelve months after the reporting period or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is classified as Current when:

- it is expected to be settled in the normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as Non-current. Deferred tax assets and liabilities are classified as Non-current assets and liabilities.

Equity
Foreign currency translation reserve
Exchange differences arising on translation of foreign controlled entities into the presentation currency, DKK, are recognized in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified in the statement of comprehensive income when the net investment is disposed of.

(Accumulated deficit)/Retained earnings
Accumulated deficit include the accumulated profit or loss for the year. Further, accumulated deficit includes the share premium comprising the amount received, attributable to shareholders' equity, in excess of the nominal amount of the shares issued at the company's capital increases, reduced by any expenses directly attributable to the capital increases. Accumulated deficit also includes the corresponding increase in equity relating to share-based payment expense recognized in the profit or loss arising from equity-settled share-based compensation programs.

Cash flow statement
The cash flow statement shows the company's net cash flows, broken down by operating, investing and financing activities, the year's changes in cash and cash equivalents and the company's cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are presented using the indirect method and are made up as the result for the year, adjusted for non-cash operating items, changes in

Notes

1. Accounting policies continued

working capital, interest paid and received, and paid or received income taxes.

Cash flows from investing activities comprise payments in connection with purchase and sale of fixed assets, securities which are part of investment activities and payments in connection with purchase and sale of businesses and activities.

Cash flows from financing activities comprise dividends paid to shareholders, capital increases and reductions, borrowings and repayments of interest-bearing debt.

Cash is comprised of cash on hand and in bank deposit accounts.

Segment information
Although UNION has established subsidiaries in Denmark, Germany and USA, the company is managed and operated as one business unit which is reflected in the internal reporting. No separate lines of business or separate business entities have been identified with respect to any product candidate or geographical market and no segment information is currently disclosed in the company's internal reporting. All material non-current assets are located in Denmark.

Notes

2. Going concern and critical accounting estimates and judgements

Material uncertainty related to going concern
UNION monitors its liquidity position and forecasts rolling twelve-month cash requirements monthly to identify liquidity risks and enable the Board of Directors and Executive Management to prepare for new financing transactions and/or take relevant tactical or strategic actions to allow the company to continue its research and development activities as planned as a going concern.

UNION, considering its net current assets and forecasted cash requirements, has liquidity to fund its operations as planned through December 2023, assuming relevant expense management measures have been implemented in the event that managements plans, as described below, do not materialize. Further, repayment of the first tranche of the loan from the European Investment Bank of DKK 85.5m, which falls due for payment in January 2024, is not funded yet.

UNION plans to obtain additional long-term sources of funding following the announcement in January 2023 of topline results from the Phase 2b study with oral orismilast in psoriasis and expected data read-outs through 2023. This could be in the form of issuance of new shares, entering license and research and development collaboration agreements, expense management activities, renegotiated terms for current outstanding debt instruments or a combination of such.

The Board of Directors and Executive Management believe it is probable that sufficient liquidity resources can be obtained in due time during 2023 to enable the company to continue its activities as planned through December 2024 and beyond. Based on these assumptions, the Board of Directors and the Executive Management have prepared the Financial Statements based on a going concern assumption.

Since such new source of funding is not obtained as of the date of these Financial Statements, material uncertainty that may cast significant doubt on the company's ability to continue as a going concern exists, and therefore the company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Critical Estimates and judgements
In preparing the consolidated financial statements, management makes various accounting judgements as well as estimates and define assumptions which form the basis of recognition, measurement and presentation of the company's assets and liabilities.

The estimates and assumptions applied are based on historical experience, the most recent information available at the reporting date, and other factors that management considers reasonable under the circumstances.

The basis for judgement and information can by nature be inaccurate or incomplete, and UNION is subject to uncertainties, which can result in an actual outcome that deviates from the estimates and defined assumptions. It may be necessary in the future to change previous estimates and judgements as a result of supplementary information, additional knowledge and experience of subsequent events.

In applying the accounting policies described in the individual notes, management has exercised the following critical accounting judgements and estimates which significantly influence the amounts recognized in the consolidated financial statements:

Note		Critical accounting estimates and judgements	Estimate/ Judgement
2	Going concern uncertainties	Judgement relating to timing and extend of future funding transactions.	Judgement
3	Revenue recognition	Application of the five step model of IFRS 15.	Judgement and estimate
4	Preclinical and Clinical cost assessment	Estimating cost not invoiced (accruals).	Estimate
6	Measuring of Share-based compensation	Estimating inputs to the valuation model including the share price, expected life of the share option, market interest rate, and volatility and making assumptions about them.	Estimate
9	Income taxes	Determine whether to recognize deferred tax assets.	Judgement
16	Measuring European Investment Bank Warrant and Put Option	Estimating inputs to the valuation model including the share price.	Estimate
17	Valuation of convertible debt instrument	Estimates concerning variables such as discount rates, probability of exit events taking place, and the timing of such exit events.	Estimate

Notes

3. Revenue

Revenue from license and collaboration agreements may vary from period to period as revenue may comprise license revenue, sales-based royalties, development milestones and regulatory milestone payments, research and development services and option fees.

Innovent Agreement
On September 28, 2021, UNION entered into a strategic collaboration and license agreement for orismilast, a next-generation PDE4 inhibitor currently in development for inflammatory dermatology conditions, with Innovent Biologics, Inc (the Innovent Agreement). As part of the Innovent Agreement, UNION received a non-refundable, non-creditable and not subject to set-off up-front payment of USD 20m (DKK 127m) and is eligible to receive future milestones and option payments of up to USD 250m, of which up to USD 89m is contingent on the achievement of certain development and regulatory milestones across multiple therapeutic indications and up to USD 158m is contingent on the achievement of certain sales-based milestones. Lastly, UNION is entitled to receive a sales-based royalty fee ranging from a high single digit to a low twenties percentage of all net sales of orismilast in Greater China (including Mainland China, Hong Kong, Macao and Taiwan) by or on behalf of Innovent.

Within the Innovent Agreement, UNION identified three performance obligations: (1) delivery of license for orismilast (at a point in time), (2) delivery of Phase 2 study data for orismilast (over time) (3) Option to enter into agreement regarding topical formulation (at a point in time).

Out of the total contract value of DKK 1,715m (USD 270m) excluding royalties, the upfront payment of DKK 127m has been recognized as the transaction price, as the future potential milestone and option amounts were not deemed to be highly probable as they are contingent upon success in future clinical trials and regulatory approvals which are not within UNION's control and were uncertain at the inception of the agreement. Milestones will be recognized when their achievement is deemed to be highly probable, and a significant revenue reversal would not occur. Upon commercialization of products, if any, under this agreement, royalties and net sales-based milestones will be recognized when the related sales occur.

The transaction price of DKK 127m was at the inception of the contract allocated to the performance obligations based on the best estimate of relative stand-alone selling prices. As such, DKK 117m was allocated to the perfomance obligation related to to the delivery of license of orismilast, DKK 10m was allocated to the performance obligation related to the delivery of Phase 2 study data for orismilast. The transaction price of DKK 127m comprises UNION's unconditional rights to considerations under the Innovent agreement.

The performance obligations related to the delivery of licenses were completed at a point in time (September 2021) and UNION recognized DKK 117.0m as revenue in September 2021. The performance obligation regarding Phase 2 study data will be completed as the studies progress. Revenue will be recognized over time based on incurred cost as a percentage of total expected cost.

In 2022 DKK 5.3m (2021: DKK 1.9m; 2020: DKK 0m) was recognized as License revenue from upfront payment recognized over time reflecting the progress of the Phase 2 studies.

On July 25, 2022 Innovent received Chinese Investigational New Drug (IND) clearances for psoriasis and atopic dermatitis. Two development milestones totaling USD 4.0m (DKK 29.1m) were contingent on the achievement of the IND clearances. Accordingly, DKK 29.1m is recognized as License revenue from milestones recognized at a point in time in 2022.

Other out-license agreements
In January 2019, UNION entered into an out-licensing agreement with an external party. Under the terms of the agreement, UNION is eligible for upfront and milestone payments upon successful achievement of certain development milestones and regulatory approval milestones, as well as royalties on sales.

100% of UNION's revenue in 2022 and 2021 arise from the Innovent agreement. Payment terms are between 30 and 60 days.

Revenue

DKK'000	2022	2021	2020
License revenue from upfront payment recognized over time	5,300	1,886	0
License revenue from upfront payment recognized at a point in time	0	117,026	0
License revenue from milestones recognized at a point in time	29,093	0	0
	34,393	**118,912**	**0**
Geographical split of revenue:			
Denmark	0	0	0
Greater China	34,393	118,912	0
	34,393	**118,912**	**0**

Notes

3. Revenue continued

Deferred revenue
Deferred revenue at December 31, 2022 of DKK 2.9m (December 31, 2021: DKK 8.2m; December 31, 2020: DKK 0m) represents the aggregated amount of the transaction price allocated to the performance obligations (delivery of Phase 2 study data for orismilast) that are unsatisfied at the end of the reporting period. Deferred revenue presented as Current of DKK 2.9m (December 31, 2021: DKK 7.3m; December 31, 2020: DKK 0m), relates to performance obligations that UNION expects to satisfy during the coming twelve months, whereas the Non-current portion of DKK 0m (December 31, 2021: DKK 0.9m; December 31, 2020: DKK 0m) represents performance obligations that UNION expects to satisfy after the coming twelve months.

Deferred revenue

DKK'000	2022	2021	2020
At January 1	8,220	0	0
Portion of upfront payment recognized over time	0	10,106	0
Recognized as revenue	-5,300	-1,886	0
At December 31	**2,920**	**8,220**	**0**
Of which is presented as:			
Non-current	0	876	0
Current	2,920	7,344	0
	2,920	**8,220**	**0**

Joint arrangements
For the Innovent agreement UNION and Innovent Biologics have agreed an initial joint development plan in respect of activities that support the development of orismilast. Costs under any such joint development plan will be shared between Innovent Biologics and UNION, with UNION covering 90% and Innovent Biologics covering 10% of such costs.

Accounting policies

Revenue
Revenue is recognized when the customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of IFRS 15, the following five steps are performed: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The five-step model to contracts is only applied when it is probable that the consideration UNION is entitled to in exchange for the goods or services it transfers to the customer will be collected. At contract inception, once the contract is determined to be within the scope of IFRS 15, UNION assesses the goods or services promised within each contract and identifies, as a performance obligation, and assesses whether each promised good or service is distinct. Revenue is recognized in the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Royalties: Certain license and collaboration agreements include sales-based royalties including commercial milestone payments based on the level of sales. The license has been deemed to be the predominant item to which the royalties relate under license and collaboration agreements. As a result, revenue is recognized when the related sales occur.

Upfront payments: Certain agreements include payments to UNION at signing. To the extend the customer obtains control of goods or services related to the upfront payments at signing, revenue is recognized at signing. To the extent the customer obtains control of goods and services related to the upfront payment at a later point in time, upfront payments are initially recognized as deferred revenue and only recognized as revenue when the customer obtains control of goods or services.

Milestone revenue: At the inception of each arrangement that includes milestone payments, it is evaluated whether the achievement of milestones is considered highly probable and UNION estimates the amount to be included in the transaction price. If it is highly probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of UNION or the license and collaboration partner, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which revenue is recognized as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the probability of achievement of such development milestones and any related constraint is re-evaluated, and if necessary, the estimate of the overall transaction price is adjusted. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and earnings in the period of adjustment.

Notes

3. Revenue continued

Accounting policies continued

License revenue for intellectual property: If license to functional intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, revenue is recognized from non-refundable upfront fees allocated to the license at the point in time the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are bundled with other promises, UNION utilizes judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, upfront fees.

Revenue is measured at the fair value of the agreed consideration exclusive of VAT and taxes charged on behalf of third parties. Revenue is presented in the country in which the delivery takes place, which is the customer's country of domicile.

Joint arrangements
When UNION enters into an agreement, the agreement might include joint development arrangement plans in respect of activities that support the development of the UNION Asset. Costs arising under any such joint development plan will be shared between UNION and the development partner. These collaboration agreements are considered joint operations as defined in IFRS 11 "Joint Arrangements". As a consequence, such agreements are not considered performance obligations.

Deferred revenue
Deferred revenue represents the aggregated amount of consideration to which UNION has obtained unconditional right to but for which performance obligations are not yet satisfied at the end of the reporting period. The split between Current and Non-current deferred revenue is based on UNION's underlying development plans under which the performance obligations are expected to be satisfied.

Critical accounting estimates and judgements

Revenue comprises license payments, milestone payments and royalty income. License payments which provide the buyer with the right to use the license as it exists at the date of transfer are recognized upon transfer of the associated licensing rights at the point at which the buyer obtains the right to use the license.

The evaluation of the criteria for revenue recognition requires management to apply significant judgment in the application of the five step model of IFRS 15. Specifically, in relation to the Innovent Biologics license and collaboration agreement management has performed significant judgements and estimates in its (i) identification of performance obligations under the contract, including the determination of whether promised services under the contract are capable of being distinct, (ii) allocation of the transaction price to various performance obligations, (iii) determining whether licenses granted under the contract provide the costumer with either a right to access the company's intellectual property as it exists throughout the license period or a right to use the company's intellectual property as it exists at a point in time at which the license is granted, and (iv) estimation of budget costs and cost to complete the research and development projects, which are applied in measuring progress of performance obligation satisfied over time.

Notes

4. Research and development costs and Administrative costs

DKK'000	Notes	2022	2021	2020
Research and development costs				
Employee benefit costs	5	32,016	21,289	7,453
Share-based compensation	6	13,080	6,750	5,542
External costs		141,338	127,266	52,112
		186,434	**155,305**	**65,107**

Higher activity level in 2022 compared to 2021 and 2020, particularly in the Phase 2b studies in psoriasis and atopic dermatitis, caused the increase in research and development costs. Additionally, employee costs have increased as an effect of the strengthening of the research and development organization in 2021.

DKK'000	Notes	2022	2021	2020
Administrative costs				
Employee benefit costs	5	10,858	7,451	4,026
Share-based compensation	6	8,387	2,274	1,354
External costs		11,593	11,648	2,735
Depreciation	12	746	351	155
		31,584	**21,724**	**8,270**

To support the increased activity level in research and development, the administrative functions were also strengthened 2021 resulting in higher employee costs in 2022. External costs in 2022 are at the same level as in 2021 reflecting continued system, process and compliance optimization efforts together with preparations for future growth supported by external service providers.

Accounting policies

Research and development costs
Research and development costs are primarily external and, to a lesser extent, internal costs incurred in the development of the UNION's product candidates, including personnel costs and external research and development costs. Substantial portions of the company's clinical studies are performed by third-party laboratories, medical centers or contract research organizations.

UNION recognizes accruals for estimated research and development costs, comprising payments for work performed by third-party contractors and others. Payments for these activities are based on the terms of the individual agreements with the relevant counterparties, such as contract research organizations, which may differ from the pattern of costs incurred, in which case, they are reflected in the financial statements as expense, prepaid expense or accrued expense. For clinical studies, the company accrues expenses based upon the estimated percentage of work completed.

To the extent payments are made by UNION in advance of the related activities performed by the CROs, they are included in prepayments to clinical research organizations and expensed when the activities are performed by the CROs. To the extent the payments are made by UNION following the performance of the related activities, the expense is accrued for as a payable to clinical research organizations.

Administrative costs
Administrative costs consist primarily of personnel costs and costs related to corporate functions and business development. In addition, administrative costs include depreciation and other expenses for UNION's headquarters.

Critical accounting estimates and judgements

UNION's cost estimates depend on the timeliness and accuracy of the data provided by the CROs regarding the status of each program and total program spending. The company evaluates the estimates to determine if adjustments are necessary or appropriate based on information received.

Notes

5. Staff costs

DKK'000	Notes	2022	2021	2020
Wages and salaries		36,938	25,711	9,518
Defined contribution plans		1,557	1,005	300
Other social security costs		3,413	1,452	410
Share-based compensation	6	21,467	9,024	6,896
Other staff costs		966	572	1,250
		64,341	**37,764**	**18,374**
Research and development costs		45,096	28,039	12,995
Administrative costs		19,245	9,725	5,379
		64,341	**37,764**	**18,374**
Average number of full-time equivalents		36	25	9

Employee benefits are primarily made up of salaries and other social security expenses. The cost of these benefits is recognized as an expense.

Accounting policies

Staff costs, including wages and salaries, defined contribution plan costs, share-based compensation, social security costs and other staff expenses are recognized in the year in which the associated services are rendered by employees of UNION.

Remuneration to Board of Directors and Executive Management

	2022		
DKK'000	Board of Directors	Executive Management	Total
Wages and salaries	1,295	7,239	8,534
Share-based compensation	7,303	6,113	13,416
Social security	0	10	10
	8,598	**13,362**	**21,960**

	2021		
DKK'000	Board of Directors	Executive Management	Total
Wages and salaries	888	6,938	7,826
Share-based compensation	1,819	3,545	5,364
Social security	0	10	10
	2,707	**10,493**	**13,200**

	2020		
DKK'000	Board of Directors	Executive Management	Total
Wages and salaries	140	4,693	4,833
Share-based compensation	391	644	1,035
Social security	0	7	7
	531	**5,344**	**5,875**

Executive Management members are the key management personnel of UNION.

Notes

6. Share-based compensation

The table below summarizes share-based compensation expenses included in the statement of comprehensive income or loss:

DKK'000	2022	2021	2020
Research and development costs, from equity-settled warrants	9,164	6,745	916
Research and development costs, from cash-settled warrants	3,916	5	4,626
Administrative costs, from equity-settled warrants	8,387	2,274	1,354
Administrative costs, from cash-settled warrants	0	0	0
	21,467	**9,024**	**6,896**

Warrant programs
UNION has established share-based incentive programs (equity-settled and cash-settled) for members of the Board of Directors, members of the Executive Management and key personnel in the form of warrants. Warrants are granted by the Board of Directors in accordance with authorizations given to it by the general meeting of shareholders and as incorporated into the company's articles of association.

Warrants granted in February 2017 (cash-settled)
In April 2017, the general meeting of shareholders granted warrants with rights to subscribe for up to 44,654 shares of nominally DKK 0.1 with an exercise price of DKK 24 per warrant. At December 31, 2022, the Board of Directors have granted in total 44,654 (December 31, 2021: 44,654; December 31, 2020: 44,654). These warrants vest and become exercisable upon an "exit event", defined as an event of IPO, merger, demerger, or solvent liquidation, which triggers an immediate expense recognition upon grant. These warrants may be settled in equity instruments of the company or in cash at the discretion of the warrant holder. Accordingly, these warrants are classified as cash-settled warrants. The life of the warrants under the February 2017 program is eight years from the date of grant. Upon occurrence of an 'exit event' the warrant holder has fourteen days to exercise the warrants or the warrants will lapse.

Warrants granted from November 2017 (equity-settled)
In November 2017, the Board of Directors were authorized to grant warrants for up to 250,000 shares of nominally DKK 0.1 per warrant in the company in the period until March 31, 2024. In June 2020, the Board of Directors were authorized to grant warrants for up to an additional 250,000 shares in the company in the period until June 25, 2025. At December 31, 2022, the Board of Directors have granted in total 438,670 (December 31, 2021: 419,230; December 31, 2020: 235,930) warrants adjusted for expired and exercised warrants under this authorization. Warrants granted under the November 2017 equity incentive plan are classified as equity settled and generally vest over four years' service periods in periodic installments that may or may not be equal, which triggers linear or graded vesting profiles. Certain warrants under this program vest immediately upon grant. The life of the warrants under the November 2017 program varies from 4-10 years from the date of grant.

The following schedule specifies the movements of number and weighted average exercise price of outstanding warrants for 2022, 2021 and 2020:

Equity-settled warrants

Number of warrants	Board of Directors	Executive Management	Employees	Total	Weighted average exercise price per warrant (DKK)	Weighted average grant date fair value per warrant (DKK)
Outstanding, December 31, 2019	**71,080**	**80,000**	**73,100**	**224,180**	**65**	**34**
Granted during the period	0	0	11,750	11,750	23	70
Outstanding, December 31, 2020	**71,080**	**80,000**	**84,850**	**235,930**	**63**	**35**
Granted during the period	37,500	105,960	39,840	183,300	97	110
Outstanding, December 31, 2021	**108,580**	**185,960**	**124,690**	**419,230**	**78**	**68**
Granted during the period	25,000	18,920	32,000	75,920	64	179
Expired during the period	-25,125	0	-10,400	-35,525	82	33
Exercised during the period	-20,955	0	0	-20,955	10	4
Outstanding, December 31, 2022	**87,500**	**204,880**	**146,290**	**438,670**	**78**	**93**
Exercisable warrants at December 31, 2022				289,191	78	
Exercisable warrants at December 31, 2021				183,421	75	
Exercisable warrants at December 31, 2020				94,454	70	

The average share-price at exercise was DKK 160 pr share of nominal DKK 0.1 each.

The weighted average remaining contractual life for outstanding equity-settled warrants was 3.5 years at December 31, 2022 (December 31, 2021: 3.8 years; December 2020: 3.3 years).

The range of the exercise price for outstanding equity-settled warrants was DKK 0.1-160 at December 31, 2022 (December 31, 2021: 0.1-124; December 31, 2020: 0.1-82).

Notes

6. Share-based compensation continued

Cash-settled warrants

Number of warrants	Former employees	Total	Weighted average exercise price per warrant (DKK)	Weighted average grant date fair value per warrant (DKK)
Outstanding, December 31, 2019	**44,654**	**44,654**	**24**	**10**
Granted during the period	0	0	0	0
Outstanding, December 31, 2020	**44,654**	**44,654**	**24**	**10**
Granted during the period	0	0	0	0
Outstanding, December 31, 2021	**44,654**	**44,654**	**24**	**10**
Granted during the period	0	0	0	0
Outstanding, December 31, 2022	**44,654**	**44,654**	**24**	**10**
Exercisable warrants at December 31, 2022		0	n/a	
Exercisable warrants at December 31, 2021		0	n/a	
Exercisable warrants at December 31, 2020		0	n/a	

The weighted average remaining contractual life for outstanding cash-settled warrants was 2.1 years at December 31, 2022 (December 31, 2021: 3.1 years; December 31, 2020: 4.1 years).

The exercise price for outstanding cash-settled warrants was DKK 24 at December 31, 2022 (December 31, 2021: 24; December 31, 2020: 24).

Determination of fair value of warrants

UNION determines and calculates the fair value of each equity-settled warrant at grant date and for each cash-settled warrant, at each balance sheet date, using the Black-Scholes pricing model. This pricing model requires the input of subjective assumptions such as:

- Dividend yield: Is determined to be zero.
- The expected stock price volatility: As it is not possible to estimate the expected volatility of a non-publicly listed entity's share price, UNION has estimated the fair value of its warrants by using the volatility of an appropriate peer group of listed international biotechnology companies.
- The risk-free interest rate, which is based on the Danish government bonds having a yield with a maturity equal to the expected term of the option in effect at the time of grant.
- The expected life of warrants, which is based on vesting terms, expected rate of exercise and life terms in the warrant program.
- Estimate of UNION therapeutics A/S' market share price. As UNION therapeutics A/S is not listed on a stock exchange, the estimated fair value of the warrants at each measuring date, using the Black-Scholes model, has been established by assuming that the value of UNION therapeutics A/S' shares is the price per share determined at the latest financing round and considering additional subsequent valuation infliction points and relevant facts and circumstances.

Notes

6. Share-based compensation continued

Valuation assumptions for warrants in 2022, 2021 and 2020
The fair value at each measuring date in 2022, 2021 and 2020 is measured using the following significant assumptions:

	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Equity-settled warrants			
Dividend yield	-	-	-
Volatility (%)	69	54-76	61-77
Risk-free interest rate	1.2%	-0.2% - -0.4%	-0.4% - -0.6%
Market share price range applied	DKK 160-248	DKK 160	DKK 53-160
Exercise price	DKK 0.1-160	DKK 0.1-124	DKK 0.1-53
Expected life of equity-settled warrants granted	5 years	5 years	5 years
The grant date fair value per warrant	DKK 86-217	DKK 83-160	DKK 53-93

	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Cash-settled warrants			
Dividend yield	-	-	-
Volatility (%)	71	76	67
Risk-free interest rate	1.4%	-0.2%	-0.6%
Market share price at year end	DKK 248	DKK 160	DKK 160
Exercise price	DKK 24	DKK 24	DKK 24
Expected life of cash-settled warrants at end period	2.1 years	3.1 years	4.1 years
The end period fair value per warrant	DKK 224	DKK 136	DKK 136

Reconciliation of fair value of cash-settled warrants:

DKK'000	Cash-settled warrants
At January 1 2020	1,443
Fair value adjustment through comprehensive income	4,626
At December 31, 2020	**6,069**
Fair value adjustment through comprehensive income	5
At December 31, 2021	**6,074**
Fair value adjustment through comprehensive income	3,916
At December 31, 2022	**9,990**

Accounting policies

Equity-settled awards
The cost of equity-settled awards is determined by the fair value at the date when the grant is made using an appropriate valuation model. The cost is recognized in the statement of comprehensive income together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

Cash-settled awards
A liability is recognized for the fair value of cash-settled awards. The fair value is measured initially at the date of grant and subsequently at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

Notes

6. Share-based compensation continued

Critical accounting estimates and judgements

Estimating fair value for share-based compensation transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the respective awards. This estimate also requires determination of the most appropriate inputs to the valuation model including the share price, expected life of the share option, market interest rate, and volatility and making assumptions about them. UNION determines the value of the share price with reference to the share price applied in most recent capital increase transactions, and adjusted for any value infliction points. UNION initially measures the cost of equity-settled and cash-settled share-based compensation awards using the Black-Scholes model to determine the fair value of the respective awards.

For cash-settled share-based compensation transactions, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognized in comprehensive income. This requires a reassessment of the estimates used at the end of each reporting period. The assumptions and models used for estimating fair value for share-based payment.

7. Other operating income

Other operating income consists of government grants and other items secondary to the company's activities. In 2020 UNION received a governmental grant from Innovation Fund Denmark. The grant provides compensation for a part of certain project-specific research and development expenses, including wages and salaries. In 2021 the remaining conditions attached to the government grant were fulfilled and the remaining part of the grant was recognized in the consolidated comprehensive income.

In 2022, UNION recognized DKK 0m (2021: DKK 6.2m; 2020: DKK 9.0m) as Other operating income, hereof income from the government grant accounts for DKK 0m (2021: DKK 6.2m; 2020: DKK 8.7m).

8. Financial income and expenses

Financial income

DKK'000	Notes	2022	2021	2020
Interest income		401	0	6
Foreign exchange gains, net		2,286	4,286	0
		2,687	**4,286**	**6**

Financial expenses

DKK'000	Notes	2022	2021	2020
Interest expenses		1,178	1,184	380
Interest expenses, lease liabilities		53	32	11
Fair value adjustment, Convertible debt (unrealized)	17	1,881	1,741	0
Fair value adjustment, Convertible debt (realized)	17	11,240	0	0
Interest expenses, European Investment Bank loan (amortized cost)	16	11,240	10,891	9,409
Modification loss, European Investment Bank loan	16	3,116	0	0
Foreign exchange loss, net		0	0	272
Fair value adjustment, warrant and put option (unrealized)	16	10,112	0	12,012
		38,820	**13,848**	**22,084**

Foreign exchange gains in 2022 are primarily related to USD cash positions.

The fair value adjustment of convertible debt in 2022 is due to conversion of nominal DKK 45.0m of total DKK 62.0m of the convertible loan into share capital.

Fair value adjustments of warrant and put option is primarily due to increase in market share price.

Modification loss is a result of extending the tranche 1 European Investment Bank loan.

Accounting policies

For accounting policies regarding share-based compensation, European Investment Bank loan and Convertible loan, please refer to note 6, 16 and 17, respectively.

Notes

9. Income taxes

The major components of income tax income for the years ended December 31, 2022, 2021 and 2020 are:

DKK'000	2022	2021	2020
Income taxes in the statement of profit or loss			
Net result before tax	-219,758	-61,501	-86,406
Corporate income tax rate in Denmark	22%	22%	22%
Computed corporate income tax (income)	**-48,347**	**-13,530**	**-19,009**
Prior year adjustments	-2	1,983	-15
Adjustment for non-deductible expenses	1,579	3,748	106
Adjustment for research and development super deduction	-4,468	-7,532	-4,027
Adjustment for warrant expense (equity and cash settled)	4,723	1,560	1,517
Change in deferred tax asset not recognized	41,061	8,296	15,918
Tax expense/(income) for the period	**-5,454**	**-5,475**	**-5,510**
Deferred tax in the statement of financial position			
Tax deductible losses	33,188	15,952	22,262
Research and development expenses being capitalized for tax purpose	33,072	11,312	0
Other temporary differences	7,521	5,420	2,536
Deferred tax asset/(liability) at December 31	**73,781**	**32,684**	**24,798**
Deferred tax assets not recognized			
Deferred tax assets not recognized	-73,781	-32,684	-24,798
Deferred tax at December 31	**0**	**0**	**0**

The biotechnology and pharmaceutical industry is subject to considerable risks and uncertainties. UNION has so far reported significant losses and, consequently, has unused tax losses. Management has concluded that deferred tax assets should not be recognized at December 31, 2022. (none recognized at December 31, 2021 and December 31, 2020) due to uncertainty related to future utilization of loss carry-forward.

Income tax receivables are recognized in accordance with the Danish tax credit scheme (Skattekreditordningen). Companies covered by the tax credit scheme may obtain payment of the tax base of losses originating from research and development expenses of up to DKK 25.0m (tax value of DKK 5.5m). Under Danish tax legislation, UNION is eligible to receive DKK 5.5m in 2022 (2021: DKK 5.5m; 2020: DKK 5.5m) in cash relating to the surrendered tax loss based on qualifying research and development expenses. These tax receipts comprise the majority of the current tax income in 2022, 2021 and 2020, respectively.

Accounting policies

Current income tax

Tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities within one year of the date of the statement of financial position. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the company operates.

Deferred tax

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses, can be utilized. Unused tax losses can be carried forward indefinitely.

Critical accounting estimates and judgements

If management assesses that tax assets can be offset against positive taxable income within the foreseeable future, UNION recognizes deferred tax assets, including the tax base of tax loss carryforwards. Management has assessed that UNION do not meet the recognition criteria for capitalization of deferred tax assets due to the uncertainty as to the future utilization of tax loss carryforward. Judgments are made in respect of determination of research and development costs applicable for super deduction, impacting amounts if non capitalized deferred tax assets.

Notes

10. Earnings per share

The result for the period and weighted average number of shares used in the calculation of basic and diluted result per share are as follows:

DKK'000, except share amounts and per share amounts	Notes	2022	2021	2020
Result for the year		-214,304	-56,026	-80,896
Weighted average number of shares outstanding		6,753,204	6,492,633	5,447,310
Average dilutive effect of outstanding stock options and warrants		0	0	0
Average number of diluted shares		**6,753,204**	**6,492,633**	**5,447,310**
Basic net earnings/(loss) per share		-32	-9	-15
Diluted net earnings/(loss) per share		-32	-9	-15

The following potential ordinary shares are anti-dilutive and are therefore not included in the weighted average number of shares for the purpose of diluted earnings per share:

	Notes	2022	2021	2020
Outstanding warrants under employee incentive programs	6	483,324	463,880	280,580
Outstanding warrants relating to European Investment Bank loan facility	16	141,003	115,572	112,680
Contingent issuable shares relating to convertible loans	17	120,737	681,609	0
Total outstanding warrants		**745,064**	**1,261,061**	**393,260**

Accounting policies

Basic net earnings per share are calculated as the result for the year compared to the weighted average of the issued shares in the financial year.

The basis for the calculation of diluted net earnings per share is the weighted-average number of ordinary shares in the financial year adjusted for the dilutive effects of warrants.

11. Intangible assets

	Patents, trademarks and other rights		
DKK'000	**2022**	**2021**	**2020**
Cost			
At January 1	16,566	16,566	0
Additions	0	0	16,566
At December 31	**16,566**	**16,566**	**16,566**
Amortization			
At January 1	0	0	0
Additions	0	0	0
At December 31	0	**0**	**0**
Carrying amount			
At December 31	**16,566**	**16,566**	**16,566**

Acquisition of PDE4-inhibitor program

The intangible assets consist of certain intangible rights in the form of patents and compound data relating to the 'PDE4 inhibitor compounds' acquired from Leo Pharma A/S in 2020.

Under the terms of the Agreement, UNION agreed to make future payments to LEO Pharma A/S that are contingent upon the achievement of specified clinical, regulatory, and sales milestones. UNION applies the cost accumulation method for the accounting for such contingent payments.

Under the agreement, UNION will, subject to meeting certain clinical, regulatory, and sales milestones, pay in cash to the seller up to USD 202m equivalent to DKK 1,240m. Also, UNION will pay to the seller low single-digit percentage royalty applied on net sales of covered products until the expiry of the royalty term which ends at the latest on the twelfth anniversary of the first commercial sale of covered products.

UNION has no internally generated intangible assets from development, as the criteria for recognition of an asset are not considered met.

Notes

11. Intangible assets continued

The intangible asset is not being amortized until approval of the underlying asset has been received from regulatory authorities.

Management has in 2020, 2021 and 2022 not identified indicators of impairment concerning the acquired intangible rights.

Impairment test has been carried out in 2022. Present value has been calculated based on 12 years of discontinued cashflow using a WACC of 14%. The impairment test shows no signs of impairment.

Accounting policies

Separately acquired intangible assets
Separately acquired intangible assets are measured at historical costs. Such assets have a finite useful life and are subsequent to initial measurement carried at costs less accumulated amortization and impairment.

For acquisition of intangible rights involving equity-settled share-based payment transactions, management measures the fair value of the rights received and the corresponding increase in equity by reference to the fair value of the rights received unless that fair value cannot be estimated reliably. If management cannot estimate reliably the fair value of the rights received, it measures the fair value and the corresponding increase in equity by reference to the fair value of the equity instruments granted.

Variable or contingent consideration for the acquisition of intangible rights is accounted for under the cost accumulation model, whereby all future considerations are added, when incurred, to the cost of the asset initially recorded.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized using the straight-line method over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at least once a year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Internally generated intangible assets from development
Intangible assets arising from development projects are recognized in the balance sheet when:

- the development project is clearly defined and identifiable and the attributable costs can be measured reliably during the development period;
- the technological feasibility, adequate resources to complete and a market for the product or an internal use of the product can be documented; and
- management has the intent to produce and market the product or to use it internally

Such an intangible asset is recognized if it can be documented that the future income from the development project will exceed the aggregate cost of production, development, and sale and administration of the product, with sufficient certainty.

Costs not recognized in the balance sheet are recognized in the statement of comprehensive income as Research and development costs when incurred.

Impairment test of intangible assets
During the year, the carrying amounts of intangible assets are reviewed in order to determine whether there is any indication that they have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs of disposal and value in use. On assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Notes

12. Property, plant and equipment

DKK'000	Right-of-use assets	Other equipment	Total
Cost			
At January 1, 2022	1,647	157	1,804
Additions	456	178	634
Disposals	0	-16	-16
At December 31, 2022	**2,103**	**319**	**2,422**
Depreciation			
At January 1, 2022	-618	-26	-644
Additions	-604	-142	-746
Disposals	0	16	16
At December 31, 2022	**-1,222**	**-152**	**-1,374**
Carrying amount			
At December 31, 2022	**881**	**167**	**1,048**
Cost			
At January 1, 2021	444	95	539
Additions	1,203	140	1,343
Disposals	0	-78	-78
At December 31, 2021	**1,647**	**157**	**1,804**
Depreciation			
At January 1, 2021	-288	-83	-371
Additions	-330	-21	-351
Disposals	0	78	78
At December 31, 2021	**-618**	**-26**	**-644**
Carrying amount			
At December 31, 2021	**1,029**	**131**	**1,160**

DKK'000	Right-of-use assets	Other equipment	Total
Cost			
At January 1, 2020	650	95	745
Adjustments	-206	0	-206
Additions	0	0	0
At December 31, 2020	**444**	**95**	**539**
Depreciation			
At January 1, 2020	-217	-64	-281
Adjustments	65	0	65
Additions	-136	-19	-155
At December 31, 2020	**-288**	**-83**	**-371**
Carrying amount			
At December 31, 2020	**156**	**12**	**168**

Right-of-use assets
The company leases its office premises in Copenhagen. The property lease is non-cancellable in the period through June 15, 2023. Hereafter, the option to terminate is six months. The contract does not provide a right, obligation, or an option to buy the office premises. The contract contains both lease and non-lease components according to the specific pricing of the services in the agreements.

Additionally, the company leases parking spaces in the area of the office premises. The contracts include options to terminate in three months, but the leasing contracts are expected to continue at least until June 30, 2025. The contracts does not contain any non-lease components.

In 2020, 2021 and 2022, the expense related to variable lease payments not included in the lease liabilities amounts to DKK 0.1m per year and was recognized in administrative costs.

Accounting policies

Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets, as follows:

Other fixtures and fittings, tools and equipment: 2-5 years. Leasehold improvements: Extend of lease term, but no longer than 5 years.

Notes

13. Other receivables

DKK'000	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
VAT receivables	2,786	4,224	972
Prepayments	341	2,170	119
Deposits	294	252	122
Other receivables	135	1,651	9,012
Other receivables	**3,556**	**8,297**	**10,225**
Classified as:			
Non-curent assets	294	252	122
Current assets	3,262	8,045	10,103
Other receivables	**3,556**	**8,297**	**10,225**

In 2022 Other receivables primarily consist of VAT receivables. In 2021 and 2020, Other receivables primarily consisted of VAT receivables and government grant from Innovation Fund Denmark not yet fully paid out.

14. Capital management and share capital

Capital Management
The Board of Directors monitors the share and capital structure to ensure that UNION's capital resources support the strategic goals. UNION's goal is to maintain a strong capital base to maintain confidence from investors, creditors, employees and collaboration partners, and a continuous advancement of the research and development pipeline and business in general.

UNION is primarily financed through equity investments from shareholders, convertible loans, and a long-term loan agreement with the European Investment Bank. UNION has also obtained financing through license agreements and governmental- and private grants. The adequacy of UNION's available funds will depend on various factors, including the advancement of the research and development programs, the magnitude of investments in these programs, and UNION's ability to establish commercial collaboration and licensing agreements with partners.

As such, UNION will require additional funds and plans to obtain additional long-term sources of funding through issuance of new shares, entering license and research and development collaboration agreements, expense management activities, renegotiate terms for current outstanding debt instruments or a combination of such.

For further information regarding the European Investment Bank loan and convertible loan, refer to note 16 and 17, respectively. For further information regarding going concern, refer to note 2.

Loss of subscribed share capital
As a result of the group's accounting policy, financing strategy and utilization of the credit facility provided by the European Investment Bank, at December 31, 2022 the company had lost more than 50% of its subscribed share capital. Management expects to re-establish the subscribed share capital through additional long-term sources of funding or through retained earnings if entering into license or research and development colaboration agreements in 2023.

Share capital
On December 29, 2021, a 10-for-1 stock split of issued and outstanding ordinary shares was approved at an extraordinary general meeting. The stock split also resulted in a reduction of the nominal value of the company's ordinary shares from DKK 1 to DKK 0.1.

The share split directly affects granted warrants, as warrants effectively split 10-for-1, while the exercise price of each warrant is reduced to 1/10 of the pre-split value. The total value of granted warrants is unchanged, refer to note 6, 10, 16 and 17, respectively.

At December 31, 2022 the share capital comprises of 7,100,075 shares of nominal DKK 0.1, each of which have been issued and paid in full. Only one class of shares exists, and no shares carry any special rights.

	Number of shares	Share capital (DKK'000)
Share capital at January 1, 2020	515,448	515
Capital increase at May 7, 2020	35,367	36
Capital increase at June 23, 2020	12,044	12
Share capital at December 31, 2020	**562,859**	**563**
Share capital at January 1, 2021	562,859	563
Capital increase at February 9, 2021	96,741	97
Effect of 10-for-1 share split December 29, 2021	5,936,400	0
Share capital at December 31, 2021	**6,596,000**	**660**
Share capital at January 1, 2022	6,596,000	660
Capital increase at January 3, 2022 (exercise of warrants)	20,955	2
Capital increase at June 30, 2022 (conversion of loan)	232,477	23
Capital increase at December 2, 2022	250,643	25
Share capital at December 31, 2022	**7,100,075**	**710**

Notes

15. Financial risks

The company's financial risks are managed by the Executive Management. UNION follows a policy where management continually monitors the following defined risks: liquidity risk, interest rate risk, currency risk and credit risk.

Liquidity risk
Liquidity risk is the risk that UNION will not be able to meet its financial obligations as they fall due. The Executive Management monitors its risk of a shortage of funds using a liquidity planning tool.

The company's objective and policy is to maintain a balance between continuity of funding and flexibility through the use of equity investments from shareholders and external loans. For discusion of going concern refer to note 2.

UNION has no unused credit facilities at December 31, 2020, December 31, 2021 or December 31, 2022.

The following are the contractual undiscounted out flows associated with the company's financial liabilities in the current and prior year based on their contractual maturities.

DKK'000	Carrying amount	Falling due within 1 year	Falling due between 1-2 years	Falling due after 2 years	Total contractual cash flows
2022					
Long-term debt (amortized cost)	107,224	0	123,613	0	123,613
Trade payables (amortized cost)	17,743	17,743	0	0	17,743
Cost accruals (amortized cost)	18,789	18,789	0	0	18,789
Lease liabilities (amortized cost)	1,035	848	229	0	1,077
Convertible loans (fair value)	19,358	0	21,590	0	21,590
Warrant and put option (fair value)	34,884	34,884	0	0	34,884
	199,033	**72,264**	**145,432**	**0**	**217,696**
2021					
Long-term debt (amortized cost)	99,286	0	80,038	38,098	118,136
Trade payables (amortized cost)	11,424	11,424	0	0	11,424
Cost accruals (amortized cost)	25,059	25,059	0	0	25,059
Lease liabilities (amortized cost)	1,090	471	681	0	1,152
Convertible loans (fair value)	63,778	0	0	78,786	78,786
Warrant and put option (fair value)	18,480	18,480	0	0	18,480
	219,117	**55,434**	**80,719**	**116,884**	**253,037**
2020					
Long-term debt (amortized cost)	88,894	0	0	118,136	118,136
Trade payables (amortized cost)	7,350	7,350	0	0	7,350
Cost accruals (amortized cost)	4,891	4,891	0	0	4,891
Lease liabilities (amortized cost)	167	167	0	0	167
Warrant and put option (fair value)	18,018	18,018	0	0	18,018
	119,320	**30,426**	**0**	**118,136**	**148,562**

The amounts disclosed in the tables are the contractual undiscounted cash flows (including interest payments). Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Notes

15. Financial risks continued

The fair value of Convertible loan and Warrant and put option are based on level 3 in the fair value hierarchy. There were no transfers between levels 1, 2 and 3 for recurring fair value measurement during the period ended December 31, 2022, 2021 or 2020.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

UNION has no significant interest-bearing debt with variable interest, and UNION's interest rate risks primarily relate to the position of cash in banks. As such, no separate analysis is provided.

Foreign currency risk
UNION has foreign exchange exposure from vendors contracted and paid in other currencies than DKK, or EUR, to which the DKK is pegged. UNION also has foreign exchange exposure through certain income elements, e.g. future milestone payments as discussed in note 3 and 11.

UNION manages part of the cost-related foreign exchange exposure by buying and selling foreign currencies on a quarterly basis in order to hold amounts of foreign currency that correspond to the contractually committed costs in foreign currency on a 12-months rolling basis. This simple hedging approach is subject to hedging criteria related to size of foreign exchange exposure from vendor contracts, historical currency fluctuation and transaction costs. As of December 31, 2022, UNION holds positions in USD, GBP and PLN in addition to DKK.

The table shows the estimated exposure in USD, GBP and PLN and the net effect it would have had on equity and profit for the year if the year-end exchange rates of USD, GBP and PLN had been 10% higher than the actual exchange rates. A corresponding decrease in the actual exchange rates would have had an opposite (positive/negative) effect on equity and profit for the year.

DKK'000	Cash and cash equivalents	Trade payables	Net position
2022			
USD	17,079	-463	16,616
GBP	13,314	-2,792	10,522
PLN	5,520	0	5,520
2021			
USD	36,041	-645	35,396
GBP	17,721	-2,116	15,605
PLN	10,517	0	10,517
2020			
USD	2,683	-226	2,457
GBP	0	-1,017	-1,017

DKK'000	Change in equity	Change in profit for the year
2022		
Change if 10% higher USD-rate than actual rate	1,662	1,646
Change if 10% higher GBP-rate than actual rate	1,052	1,052
Change if 10% higher PLN-rate than actual rate	552	552
2021		
Change if 10% higher USD-rate than actual rate	3,540	3,512
Change if 10% higher GBP-rate than actual rate	1,560	1,560
Change if 10% higher PLN-rate than actual rate	1,052	1,052
2020		
Change if 10% higher USD-rate than actual rate	246	246
Change if 10% higher GBP-rate than actual rate	-102	-102

Credit risk
The primary potential credit risks relate to Cash and cash equivalents. Cash and cash equivalents are not deemed to be subject to any special credit risk as they are deposited with an accredited bank. At December 31, 2022 UNION has no trade receivables (December 31, 2021: none; December 31, 2020: none).

Notes

15. Financial risks continued

Accounting policies

Fair value
Fair value is the price that would be received from sale of an asset or paid to settle a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or settle the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

UNION uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, UNION has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Critical accounting estimates and judgements

Management assessed that cash, trade receivables, trade payables, and other current liabilities (except for cash-settled warrants and European Investment Bank warrant and put option) approximate their carrying amounts largely due to the short-term maturities of these instruments. For information regarding going concern, refer to note 2.

16. European Investment Bank Loan

Finance contract with the European Investment Bank
In October 2017, UNION entered into a finance contract with the European Investment Bank ensuring a loan facility of EUR 20.0m. Under the finance contract, the loan shall be disbursed in up to two tranches and the repayment date is no later than the fifth anniversary of the relevant disbursement date. The loan agreement is subject to a number of financial and non-financial terms.

In January 2018, UNION called the first of the two tranches under the finance contract. The first tranche totaled EUR 7.0m. The loan and accumulated interest originally fell due for payment in January 2023.

In December 2019, UNION called the second of the two tranches under the finance contract. The second tranche totaled EUR 3.3m. The loan and accumulated interest fall due for payment in December 2024.

Modification of tranche 1 in 2022
In June 2022 the loan period was extended for the tranche 1 loan, meaning the loan and accumulated interest fall due for payment on January 25, 2024.

It has been determined that the present value of cash flow arising from the modification does not exceed 10%. Therefore, the extension of the loan is considered a modification of the existing loan and not a new loan. The modification resulted in a modification loss of DKK 3.1m, that has been reported as Financial expenses in the consolidated statement of comprehensive income.

As a result of the modification, UNION obliged to apply 5% of proceeds in excess of EUR 8.0m from any equity fund raised (excluding an IPO and from any public offerings) occuring between June 2022 and January 2024 towards repayment of the tranche 1 loan.

As a concequence of the capital increase in December 2022 (refer to note 14), UNION made a partial repayment of the the tranche 1 loan of DKK 0.1m.

For further information refer to notes 15 and 20.

Consideration for the loan in the form of warrants
As consideration for the loan, UNION has granted 186,910 warrants to the European Investment Bank that vest relative to the drawdown on the loan in two tranches. Upon drawdown of the first tranche in 2018, 87,220 warrants vested. Upon drawdown of the second tranche in 2019, 25,460 warrants vested, and 74,230 warrants were lapsed and became void.

In 2021, the European Investment Bank has been granted additional 2,892 warrants, as an anti-dilution measure as a consequence of UNION granting additional equity settled warrants to the Board of Directors, members of the Executive Management and key personnel of the company.

Notes

16. European Investment Bank Loan continued

In connection with the modification and extension of the loan period of the first tranche in June 2022, the European Investment Bank has been granted an additional 25,431 warrants.

141,003 warrants were outstanding at December 31, 2022 (December 31, 2021: 115,572; December 31, 2020: 112,680). Each warrant entitles the European Investment Bank to subscribe for 1 share of nominal DKK 0.1 against payment of exercise price of DKK 0.1. Vested warrants can be exercised in part of in full at any time at the discretion of European Investment Bank. Warrants not exercised after 20 years shall lapse.

Put option related to repurchase of vested warrants held by the European Investment Bank
The loan agreement further includes an embedded derivative in form of a put option, pursuant to which the European Investment Bank may require UNION to purchase all or part of the vested warrants held by the European Investment Bank at an option price equivalent to the fair value of the warrants at the time of exercise.

Floating charge
As part of the loan agreement, UNION entered into a floating charge agreement pursuant to which a floating charge of EUR 2.0m is pledged. Furthermore, UNION entered into a negative pledge preventing it from subsisting any security over any of its assets. Refer to note 23.

The tables below summarize the assumptions, conditions and other information relating to the warrant and put option:

	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Dividend yield	-	-	-
Volatility (%)	69	76	67
Annual risk-free interest rate	1.2%	-0.2%	-0.6%
Market share price at year-end	DKK 248	DKK 160	DKK 160
Exercise price	DKK 0.1	DKK 0.1	DKK 0.1
Life of option	1-2 years	1-3 years	2-4 years

Sensitivity
At December 31, 2020, December 31, 2021 and December 31, 2022, other things being equal, a 1% increase in the share price will result in a 1% increase in the fair value of the warrant put option. Similarly, a 1% decrease in the share price will reduce the fair value of the warrant put option by 1%.

Reconciliation of fair value measurements under Level 3 hierarchy:

DKK '000	Warrant and put option
At December 31, 2019	6,006
Fair value adjustment through profit or loss (unrealized)	12,012
At December 31, 2020	**18,018**
Fair value adjustment through profit or loss (unrealized)	0
Warrants awarded	462
At December 31, 2021	**18,480**
Fair value adjustment through profit or loss (unrealized)	10,112
Warrants awarded	6,292
At December 31, 2022	**34,884**

Fair value adjustments through profit or loss are recognized in the statement of comprehensive income as financial income or financial expenses, as applicable.

Accounting policies

A compound financial instrument which contains both a liability and an embedded put option component is separated at the issue date.

When establishing the accounting treatment of these non-derivative instruments UNION first establishes whether the instrument is a compound instrument and classifies such instruments or components separately as financial liabilities, or warrant put option instruments in accordance with IAS 32 Financial Instruments: Presentation.

UNION separately recognizes the components of a financial instrument that: (a) creates a financial liability for the company; and (b) grants a put option to the lender to purchase all or part of the warrants held by the lender.

Classification of the liability and warrant put option components is not revised as a result of a change in the likelihood that the warrant put option will be exercised, even when exercise of the option may appear to have become economically advantageous to the holders. When allocating the initial carrying amount of a compound financial instrument to its liability and warrant put option components, the liability component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the warrant put option component.

Notes

16. European Investment Bank Loan continued

Accounting policies continued

Upon modification of loans UNION determine whether the present value of the cash flows under the new terms is at least 10% different from the present value of the remaining cash flows of the original liability, applying the original effective interest rate. If the difference is 10% or greater, the existing liability is de-recognized and a new financial liability is recognized. If the difference is less than 10% a qualitative assessment for derecognition is performed.

If a qualitative analysis is applied, determining whether the terms are substantially different, from a qualitative perspective, is judgmental and will depend on the specific facts and circumstances of each case. Qualitative factors include, but are not limited to:

- A change in the currency in which the liability is denominated.
- A change in the interest basis (such as a change from fixed rate to floating rate, or vice versa).
- A change in any conversion features in the instrument.
- A substantial change in covenants.

If the terms are not determined to be substantially different it is considered a modification of the existing loan and not a new loan. When modification of loans does not result in a derecognition any modification gain or loss are recognized in the income statement. Modification gains or losses are determined by recalculating the gross carrying amount of the financial liability by discounting the new contractual cash flows using the original effective interest rate.

Critical accounting estimates and judgements

Estimating the fair value of the European Investment Bank warrant and put option requires determination of the most appropriate measuring model and the determination of the most appropriate inputs to the measuring model. UNION measures the fair value by the end of each reporting period by use of the Black-Scholes model. This valuation method requires management to make certain estimates about the model inputs, such as the underlying share price and volatility. The probabilities of the various estimates within the applied range can be reasonably assessed and are used in Management's estimate of fair value. For the European Investment Bank warrant and put option, estimated share price is the most significant input. UNION determines the value of the share price with reference to the share price applied in most recent capital increase transactions and adjusted for any value infliction points.

17. Convertible loans

In July 2021, UNION issued a convertible debt instrument of DKK 62.0m, which was received from various parties, including members of the Board of Directors and Executive Management. UNION has elected the fair value option and accounts for both the debt and the embedded derivatives as a single instrument that is measured at fair value, whereby the convertible debenture at initial recognition is designated at fair value and subsequently remeasured with the change being presented on the statement of profit or loss for the reporting period.

On June 30, 2022, lenders holding nominal DKK 45.0m of total DKK 62.0m of the convertible loan agreed to convert the convertible loans including incurred interests into share capital with a discount of 15%. The fair value of the portion of the converted loan that was converted to equity is equal to DKK 57.5m.

The following table summarizes the changes in the convertible debt instrument in 2021 and 2022:

DKK '000	
Carrying amount at January 1, 2021	0
Amount received July 2021	62,037
Fair value adjustment through profit or loss, included in finance expenses	1,741
Carrying amount at fair value at December 31, 2021	**63,778**
Converted to equity	-57,541
Fair value adjustment through profit or loss, included in finance expenses	13,121
Carrying amount at fair value at December 31, 2022	**19,358**

The convertible loan is measured at fair value (level 3) taking into account:

- The convertible loan is a fixed rate loan carrying an interest rate of 9% with maturity on July 16 2024
- The convertible loan is denominated in DKK
- Conversion or repayment at maturity. On the maturity date, July 16, 2024, UNION has the discretion to 1) convert the loan into new shares of the company at the share price at the latest capital increase with a discount of 15%. If the loan is converted at maturity, the conversion price has a cap of DKK 160 per share less 15%; or 2) repay the loan in cash to the extent that the loan amount and accrued interest has not been converted into shares and the company's existing loan to European Investment Bank has been repaid or consent has been provided by European Investment Bank, though with bondhold discretion to elect conversion to equity.

Notes

17. Convertible loans continued

- Mandatory conversion in the occurrence of an exit-event including 1) an admission to trading of the company's shares on a regulated market (IPO), 2) a trade sale of more than 90% of the company's shares and 3) an equity financing with issuance of new shares with proceeds of minimum DKK 120m.
- Conversion or repayment in connection with a De-SPAC transaction. In the event of a De-SPAC transaction the lenders have the discretion to demand the outstanding loan amount repaid in cash or converted into shares with a conversion price equal to the final offer price with a discount of 15%. In the event of a De-SPAC transaction the lenders may elect to demand the loan repaid in cash against receiving additional 6% interest rate.

Since the convertible debt instrument includes conversion features resulting in settlement in a variable number of shares, the convertible debt instrument does not comprise an equity component. The convertible debt instrument includes the following elements:

- Fixed rate debt host contract
- Embedded prepayment option (exit event)
- Embedded prepayment option (De-SPAC)
- Cap on conversion price at maturity

Management has designated, due to the existence of non-closely related embedded derivatives, the entire debt instrument to be carried at fair value through profit or loss using a probability weighted expected return method. Changes arising from changes in the company's own credit risk are recognized in other comprehensive income. The inputs used in the valuation as at December 31, 2022 are detailed in the table below:

Assumptions applied	December 31, 2022	December 31, 2021
Discount rate	36.6%	36.6%
Probability of conversion at maturity	1%	1%
Probability of conversion due to exit event, including De-SPAC event	99%	99%

The sensitivity of the required return towards key assumptions regarding probabilities has been analyzed.

The below table, shows the market value of the convertible loan assuming a fixed discount rate of 36.6% if the probability associated with an exit event is changed (unchanged dates and 2/3 of the probability change is allocated to a "De-SPAC" event and 1/3 is allocated to conversion at maturity):

	Illustrative probability of exit event	Calculated debt at Dec. 31 (DKK'000)
	94%	19,171
	96%	19,246
	98%	19,321
	99%	19,358
	100%	19,396

Accounting policies

Convertible debt instrument determined to be a financial instrument is, as required by IAS 32 and IFRS 9, separated into its components: debt, and embedded derivatives related to the conversion features; conversion or repayment at maturity, mandatory conversion in the occurrence of an exit event, or conversion or repayment in connection with a De-SPAC transaction.

UNION has elected the fair value option and accounts for both the debt and the embedded derivatives as a single instrument that is measured at fair value, whereby the convertible debenture at initial recognition is designated at fair value through profit or loss. At each reporting date the entire agreement is remeasured at fair value, whereby:

- changes in fair value related to changes in UNION's own credit risk is presented in other comprehensive income; and
- all other changes in fair value to be presented in the income statement

Amounts recognized in other comprehensive income are not subsequently to be recycled to the income statement.

Upon the conversion, the fair value of the converted portion of the convertible loan is transferred to equity. The increase in equity is distributed between share capital and accumulated deficit/retained earnings in the ratio between the nominal value of the shares and the conversion price.

Critical accounting estimates and judgements

UNION has elected the fair value option for including embedded derivatives with their debt hosts and the combined instruments are measured at fair value. In order to value these various instruments, UNION makes assumptions and estimates concerning variables such as discount rates, probability of exit events taking place, and the timing of such exit events. The assumptions of future outcomes, and other sources of estimating uncertainty concerning the determination of key inputs to the valuation models, are based on management's best assessment using the knowledge available, management's historical experiences as well as other factors that are considered to be relevant. The estimates and assumptions are reviewed on an ongoing basis.

Notes

18. Other payables

DKK'000	2022	2021	2020
Salary related payables	1,242	1,711	1,889
Cost accruals	18,789	25,059	4,891
Other payables	178	423	3
	20,209	**27,193**	**6,783**

Other liabilities primarily comprise of accruals for clinical research organizations costs. There were fewer outstanding invoices at year-end 2022 compared to year-end 2021, resulting in lower cost accruals at year-end.

Accounting policies

For accounting policies regarding accrual for costs not yet invoiced, refer to note 4.

19. Related party disclosures

Related parties exercising control or significant influence
As of December 31, 2022, 2021 and 2020, there are no related parties that individually or jointly exercise control over UNION therapeutics A/S.

Related Parties with significant influence
As of December 31, Vendler ApS and Manjin ApS, which are controlled by the two founders and current members of the Board of Directors and the Executive Management, Rasmus Vendler Toft-Kehler and Morten Sommer, respectively, holds 26.15% each of the share capital and voting rights of UNION therapeutics A/S.

Related parties with significant influence comprise the board members and companies controlled by board members. For remuneration of the board of directors refer to note 5 and note 6.

Key management personnel
Key management personnel comprise the Executive Management of UNION.
For disclosures of compensation to the Board of Directors and Key management personnel, including the Executive Management, refer to note 5 and note 6.

DKK'000	2022	2021	2020
Transactions with related parties exercising control, Board of Directors and Key management personnel:			
Administrative costs*	2,160	4,109	2,312
Year end balances arising from transactions with related parties exercising control, Board of Directors and Key management personnel:			
Convertible loan	0	3,227	0
Trade payables	0	61	49

* The company has received consultancy services from a company which is 50% owned by the Chairperson of the Board of Directors. The expenses related to such services amounted to DKK 45 thousand in 2022 (2021: DKK 60 thousand; 2020: DKK 60 thousand).

* The Company renders contract research and management services from a company owned directly by a member of the Executive Management and Board of Directors.

* The Company renders recruitment services from a company that is owned by Vendler ApS and Manjin ApS.

Notes

19. Related party disclosures continued

Subsidiaries
Balances and transactions between UNION therapeutics A/S and its subsidiaries, which are related parties of UNION therapeutics A/S, have been eliminated during consolidation and are not disclosed in this note.

Other related parties
Other related parties include subsidiaries and associates of shareholders with significant influence and companies controlled by and close family members of members of executive management or members of the board of directors.

DKK'000	2022	2021	2020
Transactions with other related parties:			
Research and development costs*	367	488	488
Year end balances arising from transactions with other related parties:			
Convertible loan	0	167	0

* The company has received employee services from the spouse of one of the members of the Board of Directors and Executive Management. The employee benefits amounted to DKK 367 thousand in 2022 (2021: DKK 480 thousand; 2020: DKK 480 thousand). The employment was terminated in September 2022.

In July 2021 UNION received a convertible debt instrument of DKK 62.0m from various parties, including Board of Directors and Executive Management. At December 31, 2021 the Board of Directors and Executive Management's part of the loan totaled DKK 3.4m. On June 30, 2022 the Board of Directors and Executive Management agreed to convert the convertible loans into share capital.

20. Changes in liabilities arising from financing activities

2022

			Non-cash changes				
DKK'000	2021	Cash flows	Conversion to equity	Addition during the period	Fair value adjustment/ Interest	Foreign exchange adjustment	2022
Debt facility	99,286	-126	0	0	8,064	0	107,224
Convertible loan	63,778	0	-57,541	0	13,121	0	19,358
Leasing liability	1,090	-564	0	456	53	0	1,035
Total	**164,154**	**-690**	**-57,541**	**456**	**21,238**	**0**	**127,617**

2021

			Non-cash changes				
DKK'000	2020	Cash flows	Conversion to equity	Addition during the period	Fair value adjustment/ Interest	Foreign exchange adjustment	2021
Debt facility	88,894	0	0	0	10,429	-37	99,286
Convertible loan	0	62,037	0	0	1,741	0	63,778
Leasing liability	167	-312	0	1,203	32	0	1,090
Total	**89,061**	**61,725**	**0**	**1,203**	**12,202**	**-37**	**164,154**

2019

			Non-cash changes				
DKK'000	2019	Cash flows	Adjustment opening	Addition during the period	Interest	Foreign exchange adjustment	2020
Debt facility	79,558	0	0	0	9,409	-73	88,894
Leasing	451	-155	-140	0	11	0	167
Total	**80,009**	**-155**	**-140**	**0**	**9,420**	**-73**	**89,061**

Notes

21. Cash flow statement - adjustment for non-cash items

DKK'000	2022	2021	2020
Income taxes	-5,454	-5,475	-5,510
Depreciation and amortization	746	351	155
Financial costs/income	35,983	10,229	21,918
Share-based compensation	21,467	9,024	6,896
	52,742	**14,129**	**23,459**

22. Cash flow statement - changes in net working capital

DKK'000	2022	2021	2020
Changes in other receivables	1,515	7,362	-8,358
Changes in VAT receivables	1,438	-3,253	-624
Changes in prepayments	1,838	-2,051	-65
Changes in employee related liabilities	-707	221	1,358
Changes in trade payables	6,319	4,074	6,147
Changes in other liabilities	-11,577	28,409	3,487
	-1,174	**34,762**	**1,945**

23. Contingent assets and liabilities, contractual obligations and pledges

Pledges
UNION has entered into a floating charge agreement with the European Investment Bank pursuant to which a floating charge of EUR 2.0m (2021: EUR 2.0m; 2020: EUR 2.0m) is pledged. Furthermore, the group has entered into a negative pledge preventing it from placing any of its assets as security, excluding the aforementioned floating charge to the European Investment Bank.

Bank accounts in UNION therapeutics Germany GmbH has been pledged as security for outstanding creditcard debt in the entity.

Contingent payments under out-license agreements
UNION is entitled to potential milestone payments and royalties on successful commercialization of products developed under license agreements with Innovent Biologics Ind and another external party (reference is made to note 3). Since the size and timing of such payments are uncertain until the milestones are reached or sales are generated, the agreements may qualify as contingent assets. However, it is associated with a high degree of uncertainty to measure the value of such contingent assets, and, accordingly, no such assets have been recognized.

Contingent payment of acquisition of intangible assets
As part of the acquisition of intangible rights, UNION may be required to make milestone and royalty payments to the seller. Refer to note 11.

24. Events after the balance sheet date

January 9, 2023 UNION announced positive topline results from the IASOS Phase 2b study of oral orismilast in patients with moderate to severe psoriasis.

January 10, 2023 UNION announced that the company has received FDA Fast Track designation for oral orismilast for the treatment of moderate to severe hidradenitis suppurativa.

Parent company financial statements

Statement of comprehensive income or loss

DKK'000	Notes	2022	2021	2020
Revenue	3	34,393	118,912	0
Research and development costs	4	-187,140	-155,528	-65,121
Administrative costs	4	-31,583	-21,724	-8,270
Operating result before other income		**-184,330**	**-58,340**	**-73,391**
Other operating income	7	0	5,980	9,049
Operating result		**-184,330**	**-52,360**	**-64,342**
Financial income	8	2,721	4,289	46
Financial expenses	8	-38,809	-13,823	-21,957
Result before tax		**-220,418**	**-61,894**	**-86,253**
Tax income/(expense)	9	5,500	5,500	5,515
Result for the year		**-214,918**	**-56,394**	**-80,738**
Other comprehensive income or loss				
Items that may be reclassified to profit or loss in subsequent periods, net of tax				
Exchange differences on translation of foreign operations		0	0	0
Other comprehensive result for the year, net of tax		**0**	**0**	**0**
Total comprehensive result for the year		**-214,918**	**-56,394**	**-80,738**

Result for the period and total comprehensive result is attributable to the shareholders of UNION therapeutics A/S.

Cash flow statement

DKK'000	Notes	2022	2021	2020
Result for the year		-214,918	-56,394	-80,738
Adjustment for non-cash items	21	52,872	12,827	23,447
Changes in net working capital	22	-1,122	34,725	2,027
Changes in non-current financial assets		-43	-130	-10
Interest received		401	0	6
Interest paid		-1,139	-1,158	-261
Income taxes received/(paid)		5,500	5,500	4,170
Cash flow from operating activities		**-158,449**	**-4,630**	**-51,359**
Investment in intangible assets	10	0	0	-1,668
Investment in property, plant and equipment	11	-169	-140	0
Cash flow from investing activities		**-169**	**-140**	**-1,668**
Proceeds from capital increase		62,037	154,786	43,749
Proceeds from exercise of warrants		201	0	0
Costs associated with capital increase		-100	-15	-70
Proceeds from issuance of convertible loans	17	0	62,037	0
Repayment of loans	20	-126	0	0
Lease instalments	20	-564	-312	-155
Cash flow from financing activities		**61,448**	**216,496**	**43,524**
Net cash flow for the year		**-97,170**	**211,726**	**-9,503**
Cash at the beginning of the year		251,335	36,027	45,827
Exchange rate adjustments of cash		2,407	3,582	-297
Cash and cash equivalents at end of the year		**156,572**	**251,335**	**36,027**
Cash and cash equivalents as per statement of financial position		**156,572**	**251,335**	**36,027**
Non-cash investing activities				
Non-cash capital increases included in equity		0	0	14,898

Statement of financial position

DKK'000	Notes	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Assets				
Non-current assets				
Intangible assets	10	16,566	16,566	16,566
Property, plant and equipment	11	1,040	1,160	168
Investments in subsidiaries	13	226	226	40
Other receivables	12	294	252	122
Total non-current assets		**18,126**	**18,204**	**16,896**
Current assets				
Tax receivables	9	5,500	5,500	5,500
Receivables from group entities	19	1,290	1,120	1,353
Other receivables	12	3,269	7,908	10,102
Cash and cash equivalents		156,572	251,335	36,027
Total current assets		**166,631**	**265,863**	**52,982**
Total assets		**184,757**	**284,067**	**69,878**

DKK'000	Notes	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Equity and liabilities				
Equity				
Share capital	14	710	660	563
Other reserves		-29,696	48,042	-59,248
Total equity		**-28,986**	**48,702**	**-58,685**
Non-current liabilities				
Long-term debt	15	107,224	99,286	88,894
Cash-settled warrant obligation	6	9,990	6,074	6,069
Deferred revenue	3	0	876	0
Convertible loans	17	19,358	63,778	0
Lease liabilities	15	221	661	0
Total non-current liabilities		**136,793**	**170,675**	**94,963**
Current liabilities				
Lease liabilities	15	814	429	167
Trade payables	15	17,728	11,391	7,350
Warrant and put option	16	34,884	18,480	18,018
Deferred revenue	3	2,920	7,344	0
Payables to group entities	19	735	430	1,268
Other payables	18	19,869	26,616	6,797
Total current liabilities		**76,950**	**64,690**	**33,600**
Total liabilities		**213,743**	**235,365**	**128,563**
Total equity and liabilities		**184,757**	**284,067**	**69,878**

Statement of changes in equity

DKK'000	Notes	Share capital	Other reserves (Accumulated deficit)/ Retained earnings	Total
Equity at January 1, 2022		**660**	**48,042**	**48,702**
Result for the period		0	-214,918	-214,918
Other comprehensive income or loss		0	0	0
Total comprehensive result for the year		**0**	**-214,918**	**-214,918**
Transactions with owners:				
Exercise of warrants	14	2	199	201
Conversion of convertible loans	17	23	57,518	57,541
Capital increase	14	25	62,012	62,037
Costs associated with capital increase		0	-100	-100
Share-based compensation	6	0	17,551	17,551
Equity at December 31, 2022		**710**	**-29,696**	**-28,986**

DKK'000	Notes	Share capital	Other reserves (Accumulated deficit)/ Retained earnings	Total
Equity at January 1, 2021		**563**	**-59,248**	**-58,685**
Result for the period		0	-56,394	-56,394
Other comprehensive income or loss		0	0	0
Total comprehensive result for the year		**0**	**-56,394**	**-56,394**
Transactions with owners:				
Capital increases	14	97	154,689	154,786
Costs associated with capital increase		0	-15	-15
Share-based compensation	6	0	9,010	9,010
Equity at December 31, 2021		**660**	**48,042**	**48,702**
Equity at January 1, 2020		**515**	**-39,309**	**-38,794**
Result for the period		0	-80,738	-80,738
Other comprehensive income or loss		0	0	0
Total comprehensive result for the year		**0**	**-80,738**	**-80,738**
Transactions with owners:				
Capital increases	14	48	58,600	58,648
Costs associated with capital increase		0	-70	-70
Share-based compensation	6	0	2,269	2,269
Equity at December 31, 2020		**563**	**-59,248**	**-58,685**

Notes

1. Accounting policies

Basis of preparation
The parent company financial statements of UNION therapeutics A/S have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish requirements. The accounting policies are the same as for the consolidated financial statements with the supplementary accounting policies for the parent described below. For detailed description of the accounting policies of the group, please refer to individual notes in the consolidated financial statements.

The parent company financial statements are presented in DKK.

Supplementary accounting policies for the Parent Company

Investments in subsidiaries
Investments in subsidiaries are measured in the parent company financial statements at the lower of cost and recoverable amount. Distributed dividends are recognized in the income statement of the parent company.

2. Going concern and critical accounting estimates and judgements

In respect of the financial reporting for the parent company, no accounting estimates or judgements , in addition to the critical accounting estimates and judgements described in note 2 to the consolidated financial statements, are made when applying the parent company's accounting policies, which are significant to the financial reporting apart from those disclosed in individual notes in the consolidated financial statements.

3. Revenue

Innovent agreement
Revenue from license and collaboration agreements may vary from period to period as revenue may comprise license revenue, sales-based royalties, development milestones and regulatory milestone payments, research and development services and option fees.

On September 28, 2021, UNION therapeutics A/S entered into a strategic collaboration and license agreement for orismilast, a next-generation PDE4 inhibitor currently in development for inflammatory dermatology conditions, with Innovent Biologics, Inc (the Innovent Agreement). As part of the Innovent Agreement, UNION therapeutics A/S received a non-refundable, non-creditable and not subject to off-set up-front payment of USD 20m (DKK 127m) and is eligible to receive future milestones and option payments of up to USD 250m, of which up to USD 89m is contingent on the achievement of certain development and regulatory milestones across multiple therapeutic indications and up to USD 158m is contingent on the achievement of certain sales-based milestones. Lastly, the company is entitled to receive a sales-based royalty fee ranging from a high single digit to a low twenties percentage of all net sales of orismilast in Greater China (Mainland China, Hong Kong, Macau and Taiwan) by or on behalf of Innovent.

Within the Innovent Agreement, UNION therapeutics A/S identified three performance obligations: (1) delivery of license for orismilast (at a point in time), (2) delivery of Phase 2 study data for orismilast (over time) (3) Option to enter into agreement regarding topical formulation (at a point in time).

Out of the total contract value of DKK 1,175m (USD 270m) excluding royalties, the upfront payment of DKK 127m has been recognized as the transaction price, as the future potential milestone and option amounts were not deemed to be highly probable as they are contingent upon success in future clinical trials and regulatory approvals which are not within UNION therapeutics A/S' control and were uncertain at the inception of the agreement. Milestones will be recognized when their achievement are deemed to be highly probable, and a significant revenue reversal would not occur. Upon commercialization of products, if any, under this agreement, royalties and net sales-based milestones will be recognized when the related sales occur.

The transaction price of DKK 127m was at the inception of the contract allocated to the performance obligations based on the best estimate of relative stand-alone selling prices. As such, DKK 117m was allocated to the perfomance obligation related to the delivery of license of orismilast, DKK 10m was allocated to the performance obligation related to the delivery of Phase 2 study data for orismilast. The transaction price of DKK 127m comprises UNION therapeutics A/S' unconditional rights to considerations under the Innovent agreement.

The performance obligations related to the delivery of licenses were completed at a point in time (September 2021) and UNION therapeutics A/S recognized DKK 117.0m as revenue in September 2021. The performance obligation

Notes

3. Revenue continued

regarding Phase 2 study data will be completed as the studies progress. Revenue will be recognized over time based on incurred cost as a percentage of total expected cost.

In 2022 DKK 5.3m (2021: DKK 1.9m) was recognized as License revenue from upfront payment recognized over time reflecting the progress of the Phase 2 studies.

On July 25, 2022 Innovent received Chinese Investigational New Drug (IND) clearances for psoriasis and atopic dermatitis. Two development milestones totaling USD 4.0m (DKK 29.1m) were contingent on the achievement of the IND clearances. Accordingly, DKK 29.1m is recognized as License revenue from milestones recognized at a point in time in 2022.

Other out-license agreements
In January 2019, UNION therapeutics A/S entered into an out-licensing agreement with an external party. Under the terms of the agreement, UNION therapeutics A/S is eligible for upfront and milestone payments upon successful achievement of certain development milestones and regulatory approval milestones, as well as royalties on sales.

100% of UNION therapeutics A/S' revenue in 2022 and 2021 arise from the Innovent agreement. Payment terms are between 30 and 60 days.

Revenue

DKK'000	2022	2021	2020
License revenue from upfront payment recognized over time	5,300	1,886	0
License revenue from upfront payment recognized at a point in time	0	117,026	0
License revenue from milestones recognized at a point in time	29,093	0	0
	34,393	**118,912**	**0**
Geographical split of revenue:			
Denmark	0	0	0
Greater China	34,393	118,912	0
	34,393	**118,912**	**0**

Deferred revenue
Deferred revenue at December 31, 2022 of DKK 2.9m (December 31, 2021: DKK 8.2m; December 31, 2020: DKK 0m) represents the aggregated amount of the transaction price allocated to the performance obligations (delivery of Phase 2 study data for orismilast) that are unsatisfied at the end of the reporting period. Deferred revenue of DKK 2.9m presented as Current (December 31, 2021: DKK 7.3m; December 31, 2020: DKK 0m), relates to performance obligations that UNION therapeutics A/S expects to satisfy during the coming twelve months, whereas the Non-current portion of DKK 0m (December 31, 2021: DKK 0.9m; December 31, 2020: DKK 0m) represents performance obligations that UNION therapeutics A/S expects to satisfy after the coming twelve months.

Deferred revenue

DKK'000	2022	2021	2020
At January 1	8,220	0	0
Portion of upfront payment recognized over time	0	10,106	0
Recognized as revenue	-5,300	-1,886	0
At December 31	**2,920**	**8,220**	**0**
Of which is presented as:			
Non-current	0	876	0
Current	2,920	7,344	0
	2,920	**8,220**	**0**

Joint arrangements
For the Innovent agreement UNION therapeutics and Innovent Biologics have agreed an initial joint development plan in respect of activities that support the development of orismilast. Costs under any such joint development plan will be shared between Innovent Biologics and UNION therapeutics A/S, with UNION therapeutics A/S covering 90% and Innovent Biologics covering 10% of such costs.

Notes

4. Research and development costs and Administrative costs

DKK'000	Notes	2022	2021	2020
Research and development costs				
Employee benefit costs	5	27,827	19,250	7,454
Share-based compensation	6	13,080	6,740	5,541
External costs		146,233	129,538	52,126
		187,140	**155,528**	**65,121**

Higher activity level in 2022 compared to 2021 and 2020, particularly in the Phase 2b studies in psoriasis and atopic dermatitis, caused the increase in research and development costs. Additionally, employee costs have increased as an effect of the strengthening of the research and development organization in 2021.

DKK'000	Notes	2022	2021	2020
Administrative costs				
Employee benefit costs	5	10,858	7,451	4,025
Share-based compensation	6	8,387	2,275	1,354
External costs		11,593	11,647	2,736
Depreciation	11	745	351	155
		31,583	**21,724**	**8,270**

To support the increased activity level in research and development, the administrative functions were also strengthened 2021 resulting in higher employee costs in 2022. External costs in 2022 are at the same level as in 2021 reflecting continued system, process and compliance optimization efforts together with preparations for future growth supported by external service providers.

5. Staff costs

DKK'000	Notes	2022	2021	2020
Wages and salaries		32,982	23,673	9,518
Defined contribution plans		1,557	1,005	300
Other social security costs		3,180	1,452	410
Share-based compensation	6	21,467	9,015	6,896
Other staff costs		966	571	1,250
		60,152	**35,716**	**18,374**
Research and development costs		40,907	25,990	12,995
Administrative costs		19,245	9,726	5,379
		60,152	**35,716**	**18,374**
Average number of full-time equivalents		33	22	9

Employee benefits are primarily made up of salaries and other social security expenses. The cost of these benefits is recognized as an expense.

Notes

5. Staff costs continued

Remuneration to Board of Directors and Executive Management

	2022		
DKK'000	**Board of Directors**	**Executive Management**	**Total**
Wages and salaries	1,295	7,239	8,534
Share-based compensation	7,303	6,113	13,416
Social security	0	10	10
	8,598	**13,362**	**21,960**

	2021		
DKK'000	**Board of Directors**	**Executive Management**	**Total**
Wages and salaries	888	6,938	7,826
Share-based compensation	1,819	3,545	5,364
Social security	0	10	10
	2,707	**10,493**	**13,200**

	2020		
DKK'000	**Board of Directors**	**Executive Management**	**Total**
Wages and salaries	140	4,693	4,833
Share-based compensation	391	644	1,035
Social security	0	7	7
	531	**5,344**	**5,875**

Executive Management members are the key management personnel of UNION therapeutics A/S.

6. Share-based compensation

The table below summarizes share-based compensation expenses included in the statement of comprehensive income or loss:

DKK'000	**2022**	**2021**	**2020**
Research and development costs, from equity-settled warrants	9,164	6,735	915
Research and development costs, from cash-settled warrants	3,916	5	4,626
Administrative costs, from equity-settled warrants	8,387	2,275	1,354
Administrative costs, from cash-settled warrants	0	0	0
	21,467	**9,015**	**6,895**

Warrant programs
UNION therapeutics A/S has established share-based incentive programs (equity-settled and cash-settled) for members of the Board of Directors, members of the Executive Management and key personnel in the form of warrants. Warrants are granted by the Board of Directors in accordance with authorizations given to it by the general meeting of shareholders and as incorporated into the company's articles of association.

Warrants granted in February 2017 (Cash-settled)
In April 2017, the general meeting of shareholders granted warrants with rights to subscribe for up to 44,654 shares of nominally DKK 0.1 with an exercise price of DKK 24 per warrant. At December 31, 2022, the Board of Directors have granted in total 44,654 (December 31, 2021: 44,654; December 31, 2020: 44,654) warrants under this program. These warrants vest and become exercisable upon an "exit event", defined as an event of IPO, merger, demerger, or solvent liquidation, which triggers an immediate expense recognition upon grant. These warrants may be settled in equity instruments of the company or in cash at the discretion of the warrant holder. Accordingly, these warrants are classified as cash-settled warrants. The life of the warrants under the February 2017 program is eight years from the date of grant. Upon occurrence of an 'exit event' the warrant holder has fourteen days to exercise the warrants or the warrants will lapse.

Warrants granted from November 2017 (Equity-settled)
In November 2017, the Board of Directors were authorized to grant warrants for up to 250,000 shares of nominally DKK 0.1 in the period until March 31, 2024. In June 2020, the Board of Directors were authorized to grant warrants for up to an additional 250,000 shares of nominally 0.1 in the period until June 25, 2025. At December 31, 2021, the Board of Directors have granted in total 438,670 (December 31, 2021: 419,230; December 31, 2020: 235,930) warrants adjusted for expired and exercised warrants under this authorization. Warrants granted under the November 2017 equity incentive plan are classified as equity settled and generally vest over four years' service periods in periodic installments that may or may not be equal, which triggers linear or graded vesting profiles. Certain warrants under this program vest immediately upon grant. The life of the warrants under the November 2017 program varies from 4-10 years from the date of grant.

Notes

6. Share-based compensation continued

The following schedule specifies the movements of number and weighted average exercise price of outstanding warrants for 2022, 2021 and 2020:

Equity-settled warrants

Number of warrants	Board of Directors	Executive Manage-ment	Employ-ees	Total	Weighted average exercise price per warrant (DKK)	Weighted average grant date fair value per warrant (DKK)
Outstanding, December 31, 2019	**71,080**	**80,000**	**73,100**	**224,180**	**65**	**34**
Granted during the period	0	0	11,750	11,750	23	70
Outstanding, December 31, 2020	**71,080**	**80,000**	**84,850**	**235,930**	**63**	**354**
Granted during the period	37,500	105,960	39,840	183,300	97	110
Outstanding, December 31, 2021	**108,580**	**185,960**	**124,690**	**419,230**	**78**	**68**
Granted during the period	25,000	18,920	32,000	75,920	64	179
Expired during the period	-25,125	0	-10,400	-35,525	82	33
Exercised during the period	-20,955	0	0	-20,935	10	4
Outstanding, December 31, 2022	**87,500**	**204,880**	**146,290**	**438,670**	**78**	**93**
Exercisable warrants at December 31, 2022				289,191	78	
Exercisable warrants at December 31, 2021				183,421	75	
Exercisable warrants at December 31, 2020				94,454	70	

The average share-price at exercise was DKK 160 pr share of nominal DKK 0.1 each.

The weighted average remaining contractual life for outstanding equity-settled warrants was 3.5 years at December 31, 2022 (December 31, 2021: 3.8 years; December 31, 2020: 3.3 years).

The range of the exercise price for outstanding equity-settled warrants was DKK 0.1-160 at December 31, 2022 (December 31, 2021: 0.1-124; December 31, 2020: 0.1-82).

Cash-settled warrants

Number of warrants	Former employees	Total	Weighted average exercise price per warrant (DKK)	Weighted average grant date fair value per warrant (DKK)
Outstanding, December 31, 2019	**44,654**	**44,654**	**24**	**10**
Granted during the period	0	0	0	0
Outstanding, December 31, 2020	**44,654**	**44,654**	**24**	**10**
Granted during the period	0	0	0	0
Outstanding, December 31, 2021	**44,654**	**44,654**	**24**	**10**
Granted during the period	0	0	0	0
Outstanding, December 31, 2022	**44,654**	**44,654**	**24**	**10**
Exercisable warrants at December 31, 2022		0	n/a	
Exercisable warrants at December 31, 2021		0	n/a	
Exercisable warrants at December 31, 2020		0	n/a	

The weighted average remaining contractual life for outstanding cash-settled warrants was 2.1 years at December 31, 2022 (December 31, 2021: 3.1 years; December 31, 2020: 4.1 years).

The exercise price for outstanding cash-settled warrants was DKK 24 at December 31, 2022 (December 31, 2021: 24; December 31, 2020: 24).

Notes

6. Share-based compensation continued

Determination of fair value of warrants
UNION therapeutics A/S determines and calculates the fair value of each equity-settled warrant at grant date and for each cash-settled warrant, at each balance sheet date, using the Black-Scholes pricing model. This pricing model requires the input of subjective assumptions such as:

- Dividend yield: Is determined to be zero.
- The expected stock price volatility: As it is not possible to estimate the expected volatility of a non-publicly listed entity's share price, UNION therapeutics A/S has estimated the fair value of its warrants by using the volatility of an appropriate peer group of listed international biotechnology companies.
- The risk-free interest rate, which is based on the Danish government bonds having a yield with a maturity equal to the expected term of the option in effect at the time of grant.
- The expected life of warrants, which is based on vesting terms, expected rate of exercise and life terms in the warrant program.
- Estimate of UNION therapeutics A/S' market share price. As UNION therapeutics A/S is not listed on a stock exchange, the estimated fair value of the warrants at each measuring date, using the Black-Scholes model, has been established by assuming that the value of UNION therapeutics A/S' shares is the price per share determined at the latest financing round and considering additional subsequent valuation infliction points and relevant facts and circumstances.

Valuation assumptions for warrants in 2022, 2021 and 2020
The fair value at each measuring date in 2022, 2021 and 2020 is measured using the following significant assumptions:

	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Equity-settled warrants			
Dividend yield	-	-	-
Volatility (%)	69	54-76	61-77
Risk-free interest rate	1.2%	-0.2% - -0.4%	-0.4% - -0.6%
Market share price range applied	DKK 160-248	DKK 160	DKK 53-160
Exercise price	DKK 0.1-160	DKK 0.1-124	DKK 0.1-53
Expected life of equity-settled warrants granted	5 years	5 years	5 years
The grant date fair value per warrant	DKK 86-217	DKK 83-160	DKK 53-93

	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Cash-settled warrants			
Dividend yield	-	-	-
Volatility (%)	71	76	67
Risk-free interest rate	1.4%	-0.2%	-0.6%
Market share price at year end	DKK 248	DKK 160	DKK 160
Exercise price	DKK 24	DKK 24	DKK 24
Expected life of cash-settled warrants at end period	2.1 years	3.1 years	4.1 years
The end period fair value per warrant	DKK 224	DKK 136	DKK 136

Reconciliation of fair value of cash-settled warrants:

DKK'000	Cash-settled warrants
At January 1, 2020	1,443
Fair value adjustment through comprehensive income	4,626
At December 31, 2020	**6,069**
Fair value adjustment through comprehensive income	5
At December 31, 2021	**6,074**
Fair value adjustment through comprehensive income	3,916
At December 31, 2022	**9,990**

Notes

7. Other operating income

Other operating income consists of government grants and other items secondary to the company's activities. In 2020 UNION therapeutics A/S received a grant from Innovation Fund Denmark. The grant provides compensation for a part of certain project-specific research and development expenses, including wages and salaries. In 2021 the remaining conditions attached to the government grant were fulfilled and the remaining part of the grant was recognized in the consolidated comprehensive income.

In 2022, the company recognized DKK 0m (2021: DKK 6.0m; 2020: DKK 9.0m) as Other operating income, hereof income from the government grant accounts for DKK 0m (2021: DKK 6.0m; 2020: DKK 8.7m).

8. Financial items

Financial income

DKK'000	Notes	2022	2021	2020
Interest income		401	0	6
Interest income, Group entities		33	3	40
Foreign exchange gains, net		2,287	4,286	0
		2,721	**4,289**	**46**

Financial expenses

DKK'000	Notes	2022	2021	2020
Interest expenses		1,167	1,159	380
Interest expenses, lease liabilities		53	32	11
Fair value adjustment, Convertible debt (unrealized)	17	1,881	1,741	0
Fair value adjustment, Convertible debt (realized)	17	11,240	0	0
Interest expenses, European Investment Bank loan	16	11,240	10,891	9,408
Modification loss, European Investment Bank loan	16	3,116	0	0
Foreign exchange loss,net		0	0	146
Fair value adjustment, warrant and put option (unrealized)	16	10,112	0	12,012
		38,809	**13,823**	**21,957**

Foreign exchange gains in 2022 are primarily related to USD cash positions.

The fair value adjustment of convertible debt in 2022 is due to conversion of nominal DKK 45.0m of total DKK 62.0m of the convertible loan into share capital.

Fair value adjustments of warrant and put option is primarily due to increase in market share price.

Modification loss is a result of extending the tranche 1 European Investment Bank loan.

Notes

9. Income taxes

The major components of income tax income for the years ended December 31, 2022, 2021 and 2020 are:

DKK'000	2022	2021	2020
Income taxes in the statement of profit or loss			
Net result before tax	-220,418	-61,894	-86,253
Corporate income tax rate in Denmark	22%	22%	22%
Computed corporate income tax (income)	**-48,492**	**-13,617**	**-18,976**
Prior year adjustments	-2	1,983	-15
Adjustment for non-deductible expenses	1,579	3,748	79
Adjustment for research and development super deduction	-4,468	-7,532	-4,027
Adjustment for warrant expense (equity and cash settled)	4,723	1,560	1,517
Change in deferred tax asset not recognized	41,160	8,358	15,907
Tax expense/(income) for the period	**-5,500**	**-5,500**	**-5,515**
Deferred tax in the statement of financial position			
Tax deductible losses	33,188	15,952	22,251
Research and Development expenses being capitalized for tax pupose	33,072	11,312	0
Other temporary differences	7,521	5,420	2,547
Deferred tax assets/(liabilities) at December 31	**73,781**	**32,684**	**24,798**
Deferred tax assets not recognized			
Deferred tax assets not recognized	-73,781	-32,684	-24,798
Deferred tax at December 31	**0**	**0**	**0**

9. Income taxes continued

The biotechnology and pharmaceutical industry is subject to considerable risks and uncertainties. UNION therapeutics has so far reported significant losses and, consequently, has unused tax losses. Management has concluded that deferred tax assets should not be recognized at December 31, 2022. (none recognized at December 31, 2021 and December 31, 2020) due to the uncertainty related to future utilization of tax loss carry-formard.

Income tax receivables are recognized in accordance with the Danish tax credit scheme (Skattekreditordningen). Companies covered by the tax credit scheme may obtain payment of the tax base of losses originating from research and development expenses of up to DKK 25m (tax value of DKK 5.5m). Under Danish tax legislation, UNION therapeutics is eligible to receive DKK 5.5m in 2022 (2021: DKK 5.5m; 2020: DKK 5.5m) in cash relating to the surrendered tax loss based on qualifying research and development expenses. These tax receipts comprise the majority of the current tax income in 2022, 2021 and 2020, respectively.

10. Intangible assets

	Patents, trademarks and other rights		
DKK'000	2022	2021	2020
Cost			
At January 1	16,566	16,566	0
Additions	0	0	16,566
At December 31	**16,566**	**16,566**	**16,566**
Amortization			
At January 1	0	0	0
Additions	0	0	0
At December 31	0	**0**	**0**
Carrying amount			
At December 31	**16,566**	**16,566**	**16,566**

Notes

10. Intangible assets continued

Acquisition of PDE4-inhibitor program
The intangible assets consist of certain intangible rights in the form of patents and compound data relating to the 'PDE4 inhibitor compounds acquired from Leo Pharma A/S in 2020.

Under the terms of the Agreement, UNION agreed to make future payments to LEO Pharma A/S that are contingent upon the achievement of specified clinical, regulatory, and sales milestones. UNION applies the cost accumulation method for the accounting for such contingent payments.

Under the terms of the Agreement, UNION therapeutics A/S agreed to make future payments to LEO Pharma A/S that were contingent upon the achievement of specified clinical, regulatory, and sales milestones. UNION therapeutics A/S applies the cost accumulation method for the accounting for such contingent payments.

Under the agreement, UNION therapeutics A/S will, subject to meeting certain clinical, regulatory, and sales milestones, pay in cash to the seller up to USD 202m equivalent to DKK 1,240m. Also, UNION therapeutics A/S will pay to the seller low single-digit percentage royalty applied on net sales of covered products until the expiry of the royalty term which ends at the latest on the twelfth anniversary of the first commercial sale of covered products.

UNION has no internally generated intangible assets from development, as the criteria for recognition of an asset are not considered met.

The acquired intangible asset is not being amortized until approval of the underlying asset has been received from regulatory authorities. Management has in 2020, 2021 and 2022 not identified indicators of impairment, concerning the acquired intangible rights.

Impairment test has been carried out in 2022. Present value has been calculated based on 12 years of discontinued cashflow using a WACC of 14%. The impairment test shows no signs of impairment.

11. Property, plant and equipment

DKK'000	Right-of-use assets	Other equipment	Total
Cost			
At January 1, 2022	1,647	157	1,804
Additions	456	169	625
Disposals	0	-16	-16
At December 31, 2022	**2,103**	**310**	**2,413**
Depreciation			
At January 1, 2022	-618	-26	-644
Additions	-604	-141	-745
Disposals	0	16	16
At December 31, 2022	**-1,222**	**-151**	**-1,373**
Carrying amount			
At December 31, 2022	**881**	**159**	**1,040**
Cost			
At January 1, 2021	444	95	539
Additions	1,203	140	1,343
Disposals	0	-78	-78
At December 31, 2021	**1,647**	**157**	**1,804**
Depreciation			
At January 1, 2021	-288	-83	-371
Additions	-330	-21	-351
Disposals	0	78	78
At December 31, 2021	**-618**	**-26**	**-644**
Carrying amount			
At December 31, 2021	**1,029**	**131**	**1,160**

Notes

11. Property, plant and equipment continued

DKK'000	Right-of-use assets	Other equipment	Total
Cost			
At January 1, 2020	650	95	745
Adjustments	-206	0	-206
Additions	0	0	0
At December 31, 2020	**444**	**95**	**539**
Depreciation			
At January 1, 2020	-217	-64	-281
Adjustments	65	0	65
Additions	-136	-19	-155
At December 31, 2020	**-288**	**-83**	**-371**
Carrying amount			
At December 31, 2020	**156**	**12**	**168**

Right-of-use assets
The company leases its office premises in Copenhagen. The property lease is non-cancellable in the period through June 15, 2023. Hereafter, the option to terminate is six months. The contract does not provide a right, obligation, or an option to buy the office premises. The contract contains both lease and non-lease components according to the specific pricing of the services in the agreements.

Additionally, the company leases parking spaces in the area of the office premises. The contracts include options to terminate in three months, but the leasing contracts are expected to continue at least until June 30, 2025. The contracts does not contain any non-lease components.

In 2020, 2021 and 2022, the expense related to variable lease payments not included in the lease liabilities amounts to DKK 0.1m per year and was recognized in administrative costs.

12. Other receivables

DKK'000	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
VAT receivables	2,792	4,224	972
Prepayments	341	2,170	119
Deposits	294	252	122
Other receivables	136	1,514	9,011
Other receivables	**3,563**	**8,160**	**10,224**
Classified as:			
Non-current assets	294	252	122
Current assets	3,269	7,908	10,102
Other receivables	**3,563**	**8,160**	**10,224**

In 2022 Other receivables primarily consist of VAT receivables. In 2021 and 2020, Other receivables primarily consisted of VAT receivables and government grant from Innovation Fund Denmark not yet fully paid out.

13. Investments in subsidiaries

DKK'000	2022	2021	2020
Cost at January 1	226	40	40
Additions	0	186	0
Cost at December 31	226	226	40
Carrying amount at December 31	**226**	**226**	**40**

Name and registered office	Voting rights and ownership
UNION therapeutics North America Inc., Collateral MMA, 33 Bedford Street, Suite 9, Lexington MA 02420	100%
UNION therapeutics Research Services ApS, Tuborg Havnevej 18, 2900 Hellerup	100%
UNION therapeutics Germany GmbH, Alter Kirchenweg 83, 24983 Handewitt	100%

Notes

14. Capital management and share capital

Capital Management
The Board of Directors monitors the share and capital structure to ensure that UNION therapeutics A/S' capital resources support the strategic goals. UNION therapeutics A/S' goal is to maintain a strong capital base so as to maintain confidence from investors, creditors, employees and collaboration partners, and a continuous advancement of the research and development pipeline and business in general.

UNION therapeutics A/S is primarily financed through equity investments from shareholders, convertible loans, and a long-term loan agreement with the European Investment Bank. UNION therapeutics A/S has also obtained financing through license agreements and governmental- and private grants.

The adequacy of UNION therapeutics A/S' available funds will depend on various factors, including the advancement of the research and development programs, the magnitude of investments in these programs, and UNION therapeutics A/S' ability to establish commercial collaboration and licensing agreements with partners.

As such, UNION therapeutics A/S will require additional funds and plans to obtain additional long-term sources of funding through issuance of new shares, entering license and research and development collaboration agreements, expense management activities, renegotiate terms for current outstanding debt instruments or a combination of such.

For further information regarding the European Investment Bank loan and the convertible loan, refer to note 16 and 17, respectively. For further information regarding going concern, refer to note 2 in the consolidated financial statements.

Loss of subscribed share capital
As a result of the group's accounting policy, financing strategy and utilization of the credit facility provided by the European Investment Bank, at December 31, 2022 the company had lost more than 50% of its subscribed share capital. Management expects to re-establish the subscribed share capital through additional long-term sources of funding or through retained earnings if entering into license or research and development collaboration agreements in 2023.

Share capital
On December 29, 2021, a 10-for-1 stock split of issued and outstanding ordinary shares was approved at an extraordinary general meeting. The stock split also resulted in a reduction of the nominal value of the company's ordinary shares from DKK 1 to DKK 0.1.

The share split directly affects granted warrants, as warrants effectively split 10-for-1, while the exercise price of each warrant is reduced to 1/10 of the pre-split value. The total value of granted warrants is unchanged, refer to note 6, 16 and 17, respectively.

At December 31, 2022, the share capital comprises of 7,100,075 shares of nominal DKK 0.1, each of which have been issued and paid in full. Only one class of shares exists, and no shares carry any special rights.

	Number of shares	Share capital (DKK'000)
Share capital at January 1, 2020	515,448	515
Capital increase at May 7, 2020	35,367	36
Capital increase at June 23, 2020	12,044	12
Share capital at December 31, 2020	**562,859**	**563**
Share capital at January 1, 2021	562,859	563
Capital increase at February 9, 2021	96,741	97
Effect of 10-for-1 share split	5,936,400	0
Share capital at December 31, 2021	**6,596,000**	**660**
Share capital at January 1, 2022	6,596,000	660
Capital increase at January 3, 2022 (exercise of warrants)	20,955	2
Capital increase at June 30, 2022 (conversion of loan)	232,477	23
Capital increase at December 2, 2022	250,643	25
Share capital at December 31, 2022	**7,100,075**	**710**

Notes

15. Financial risks

The company's financial risks are managed by the Executive Management. UNION therapeutics A/S follows a policy where management continually monitors the following defined risks: liquidity risk, interest rate risk, currency risk and credit risk.

Liquidity risk
Liquidity risk is the risk that UNION therapeutics A/S will not be able to meet its financial obligations as they fall due. The Executive Management monitors its risk of a shortage of funds using a liquidity planning tool.

The group's objective and policy is to maintain a balance between continuity of funding and flexibility through the use of equity investments from shareholders and external loans. For discussion of going concern refer to note 2 in the consolidated financial statements.

UNION therapeutics A/S has no unused credit facilities at December 31, 2020, at December 31, 2021 or at December 31, 2022.

The following are the contractual undiscounted out flows associated with the company's financial liabilities in the current and prior year based on their contractual maturities.

DKK'000	Carrying amount	Falling due within 1 year	Falling due between 1-2 years	Falling due after 2 years	Total contractual cash flows
2022					
Long-term debt (amortized cost)	107,224	0	123,613	0	123,613
Trade payables (amortized cost)	17,728	17,728	0	0	17,728
Cost accruals (amortized cost)	18,789	18,789	0	0	18,789
Lease liabilities (amortized cost)	1,035	848	229	0	1,077
Convertible loans (fair value)	19,358	0	21,590	0	21,590
Warrant and put option (fair value)	34,884	34,884	0	0	34,884
	199,018	**72,249**	**145,432**	**0**	**217,681**
2021					
Long-term debt (amortized cost)	99,286	0	80,038	38,098	118,136
Trade payables (amortized cost)	11,391	11,391	0	0	11,391
Cost accruals (amortized cost)	25,054	25,054	0	0	25,054
Lease liabilities (amortized cost)	1,090	471	681	0	1,152
Convertible loans (fair value)	63,778	0	0	78,786	78,786
Warrant and put option (fair value)	18,480	18,480	0	0	18,480
	219,079	**55,396**	**80,719**	**116,884**	**252,999**
2020					
Long-term debt (amortized cost)	88,894	0	0	118,136	118,136
Trade payables (amortized cost)	7,350	7,350	0	0	7,350
Cost accruals (amortized cost)	4,904	4,904	0	0	4,904
Lease liabilities (amortized cost)	167	167	0	0	167
Warrant and put option (fair value)	18,018	18,018	0	0	18,018
	119,333	**30,439**	**0**	**118,136**	**148,575**

The amounts disclosed in the tables are the contractual undiscounted cash flows (including interest payments). Balances due within 12 months equal their carrying balances as the impact of discounting is not significant, with the exception of convertible loans.

The fair value of Convertible loan and Warrant and put option are based on level 3 in the fair value hierarchy. There were no transfers between levels 1, 2 and 3 for recurring fair value measurement during the period ended December 31, 2022, 2021 or 2020.

Notes

15. Financial risks continued

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

UNION therapeutics A/S has no significant interest-bearing debt with variable interest, and UNION therapeutics A/S' interest rate risks primarily relate to the position of cash in banks. As such, no separate analysis is provided.

Foreign currency risk
UNION therapeutics A/S has foreign exchange exposure from vendors contracted and paid in other currencies than DKK, or EUR, to which the DKK is pegged. UNION therapeutics A/S also has foreign exchange exposure through certain income elements, e.g. future milestone payments as discussed in note 3 and 10.

UNION therapeutics A/S manages part of the cost-related foreign exchange exposure by buying and selling foreign currencies on a quarterly basis in order to hold amounts of foreign currency that correspond to the contractually committed costs in foreign currency on a 12-months rolling basis. This simple hedging approach is subject to hedging criteria related to size of foreign exchange exposure from vendor contracts, historical currency fluctuation and transaction costs. As of December 31, 2022, UNION therapeutics A/S holds positions in USD, GBP and PLN in addition to DKK.

The table shows the expected exposure in USD, GBP and PLN and the net effect it would have had on equity and profit for the year if the year-end exchange rates of USD, GBP and PLN had been 10% higher than the actual exchange rates. A corresponding decrease in the actual exchange rates would have had an opposite (positive/negative) effect on equity profit for the year.

DKK'000	Cash and cash equivalents	Trade receivables/ (payables)	Net position
2022			
USD	16,921	-654	16,267
GBP	13,314	-2,792	10,522
PLN	5,120	0	5,120
2021			
USD	35,765	-645	35,120
GBP	17,721	-2,116	15,605
PLN	10,517	0	10,517
2020			
USD	2,683	173	2,856
GBP	0	-1,017	-1,017

DKK'000	Change in equity	Change in profit for the year
2022		
Change if 10% higher USD-rate than actual rate	1,627	1,627
Change if 10% higher GBP-rate than actual rate	1,052	1,052
Change if 10% higher PLN-rate than actual rate	552	552
2021		
Change if 10% higher USD-rate than actual rate	3,512	3,512
Change if 10% higher GBP-rate than actual rate	1,560	1,560
Change if 10% higher PLN-rate than actual rate	1,052	1,052
2020		
Change if 10% higher USD-rate than actual rate	286	286
Change if 10% higher GBP-rate than actual rate	-102	-102

Credit risk
The primary potential credit risks relate to Cash and cash equivalents. Cash and cash equivalents are not deemed to be subject to any special credit risk as they are deposited with accredited bank. At December 31, 2022 UNION therapeutics A/S has no trade receivables (December 31, 2021: none; December 31, 2020: none).

Notes

16. European Investment Bank Loan

Finance contract with the European Investment Bank
In October 2017, UNION therapeutics A/S entered into a finance contract with the European Investment Bank ensuring a loan facility of EUR 20.0m. Under the finance contract, the loan shall be disbursed in up to two tranches and the repayment date is no later than the fifth anniversary of the relevant disbursement date. The loan agreement is subject to a number of financial and non-financial terms.

In January 2018, UNION therapeutics A/S called the first of the two tranches under the finance contract. The first tranche totaled EUR 7.0m. The loan and accumulated interest originally fell due for payment in January 2023.

In December 2019, UNION therapeutics A/S called the second of the two tranches under the finance contract. The second tranche totaled EUR 3.3m. The loan and accumulated interest fall due for payment in December 2024.

Modification of tranche 1 in 2022
In June 2022 the loan period was extended for the tranche 1 loan, meaning the loan and accumulated interest fall due for payment on January 25, 2024.

It has been determined that the present value of cash flow arising from the modification does not exceed 10%. Therefore, the extension of the loan is considered a modification of the existing loan and not a new loan. The modification resulted in a modification loss of DKK 3.1m, that has been reported as Financial expenses in the consolidated statement of comprehensive income.

As a result of the modification, UNION obliged to apply 5% of proceeds in excess of EUR 8.0m from any equity fund raised (excluding an IPO and from any public offerings) occuring between June 2022 and January 2024 towards repayment of the tranche 1 loan.

As a consequence of the capital increase in December 2022 (refer to note 14), UNION therapeutics A/S made a partial repayment of the the tranche 1 loan of DKK 0.1m.

For further information refer to notes 15 and 20.

Consideration for the loan in the form of warrants
As consideration for the loan, UNION therapeutics A/S has granted 186,910 warrants to the European Investment Bank that vest relative to the drawdown on the loan in two tranches.

Upon drawdown of the first tranche in 2018, 87,220 warrants vested. Upon drawdown of the second tranche in 2019, 25,460 warrants vested, and 74,230 warrants were lapsed and became void.

In 2021, the European Investment Bank has been granted additional 2,892 warrants, as an anti dilution measure as a consequence of UNION therapeutics A/S granting an additional equity settled warrants to the Board of Directors, members of the Executive Management and key personnel of the company.

In connection with the modification and extension of the loan period of the first tranche in June 2022, the European Investment Bank has been granted additional 25,431 warrants.

141,003 warrants were outstanding at December 31, 2022 (December 31, 2021: 115,572; December 31, 2020: 112,680). Each warrant entitles the European Investment Bank to subscribe for 1 share of nominal DKK 0.1 against payment of exercise price of DKK 0.1. Vested warrants can be exercised in part or in full at any time at the discretion of the European Investment Bank. Warrants not exercised after 20 years shall lapse.

Put option relation to repurchase of vested warrants held by the European Investment Bank
The loan agreement further includes an embedded derivative in form of a put option, pursuant to which the European Investment Bank may require UNION therapeutics A/S to purchase all or part of the vested warrants held by the European Investment Bank at an option price equivalent to the fair value of the warrants at the time of exercise.

Floating charge
The tables below summarize the assumptions, conditions and other information relating to the warant and put option:

	Dec. 31 2022	Dec. 31 2021	Dec. 31 2020
Dividend yield	-	-	-
Volatility (%)	69	76	67
Annual risk-free interest rate	1.2%	-0.2%	-0.6%
Market share price at year-end	DKK 248	DKK 160	DKK 160
Exercise price	DKK 0.1	DKK 0.1	DKK 0.1
Life of option	1-2 years	1-3 years	2-4 years

Notes

16. European Investment Bank Loan continued

As part of the loan agreement, UNION therapeutics A/S entered into a floating charge agreement pursuant to which a floating charge of EUR 2.0m is pledged. Furthermore, UNION therapeutics A/S entered into a negative pledge preventing it from subsisting any security over any of its assets. Refer to note 23.

Sensitivity
At December 31, 2022, December 31, 2021 and December 31, 2020, other things being equal, a 1% increase in the share price will result in a 1% increase in the fair value of the warrant put option. Similarly, a 1% decrease in the share price will reduce the fair value of the warrant put option by 1%.

Reconciliation of fair value measurements under Level 3 hierarchy:

DKK '000	Warrant and put option
At December 31, 2019	**6,006**
Fair value adjustment through profit or loss (unrealized)	12,012
At December 31, 2020	**18,018**
Fair value adjustment through profit or loss (unrealized)	0
Warrants awarded	462
At December 31, 2021	**18,480**
Fair value adjustment through profit or loss (unrealized)	10,112
Warrants awarded	6,292
At December 31, 2022	**34,884**

Fair value adjustments through profit or loss are recognized in the statement of taxable income as comprehensive income or financial expenses, as applicable.

17. Convertible loans

In July 2021, UNION therapeutics A/S issued a convertible debt instrument of DKK 62.0m, which was received from various parties, including members of the Board of Directors and Executive Management. UNION therapeutics A/S elected the fair value option and accounts for both the debt and the embedded derivatives as a single instrument that is measured at fair value, whereby the convertible debenture at initial recognition is designated at fair value and subsequently remeasured with the change being presented on the statement of profit or loss for the reporting period.

On June 30, 2022, lenders holding nominal DKK 45.0m of total DKK 62.0m of the convertible loan agreed to convert the convertible loans including incurred interests into share capital with a discount of 15%. The fair value of the portion of the converted loan that was converted to equity is equal to DKK 57.5m.

The following table summarizes the changes in the convertible debt instrument in 2021 and 2022:

DKK '000	
Carrying amount at January 1, 2021	0
Amount received July 2021	62,037
Fair value adjustment through profit or loss, included in finance expenses	1,741
Carrying amount at fair value at December 31, 2021	**63,778**
Converted to equity	-57,541
Fair value adjustment through profit or loss, included in finance expenses	13,121
Carrying amount at fair value at December 31, 2022	**19,358**

The convertible loan is measured at fair value (level 3) taking into account:

- The convertible loan is a fixed rate loan carrying an interest rate of 9% with maturity on July 16, 2024
- The convertible loan is denominated in DKK
- Conversion or repayment at maturity. On the maturity date, July 16, 2024, UNION therapeutics A/S has the discretion to 1) convert the loan into new shares of the company at the share price at the latest capital increase with a discount of 15%. If the loan is converted at maturity, the conversion price has a cap of DKK 160 per share less 15%; or 2) repay the loan in cash to the extent that the loan amount and accrued interest has not been converted into shares and the company's existing loan to European Investment Bank has been repaid or consent has been provided by European Investment Bank, though with bondholder's discretion to elect conversion to equity.

Notes

17. Convertible loans continued

- Mandatory conversion in the occurrence of an exit-event including 1) an admission to trading of the company's shares on a regulated market (IPO), 2) a trade sale of more than 90% of the company's shares and 3) an equity financing with issuance of new shares with proceeds of minimum DKK 120m.

- Conversion or repayment in connection with a De-SPAC transaction. In the event of a De-SPAC transaction the lenders have the discretion to demand the outstanding loan amount repaid in cash or converted into shares with a conversion price equal to the final offer price with a deduction of 15%. In the event of a De-SPAC transaction the lenders may elect to demand the loan repaid in cash against receiving additional 6% interest rate.

Since the convertible debt instrument includes conversion features resulting in settlement in a variable number of shares, the convertible debt instrument does not comprise an equity component. The convertible debt instrument includes the following elements:

- Fixed rate debt host contract
- Embedded prepayment option (exit event)
- Embedded prepayment option (De-SPAC)
- Cap on conversion price at maturity

Management has designated, due to the existence of non-closely related embedded derivatives, the entire debt instrument to be carried at fair value through profit or loss using a probability weighted expected return method. Changes arising from changes in the company's own credit risk are recognized in other comprehensive income. The inputs used in the valuation as at December 31, 2022 are detailed in the table below:

Assumptions applied	December 31, 2022	December 31, 2021
Discount rate	36.6%	36.6%
Probability of conversion at maturity	1%	1%
Probability of conversion due to exit event, including De-SPAC	99%	99%

The sensitivity of the required return towards key assumptions regarding probabilities has been analyzed.

The below table, shows the market value of the convertible loan assuming a fixed discount rate of 36.6% if the probability associated with an exit event is changed (unchanged dates and 2/3 of the probability change is allocated to a "De-SPAC" event and 1/3 is allocated to conversion at maturity):

Illustrative probability of exit event	Calculated debt at Dec. 31 (DKK'000)
94%	19,171
96%	19,246
98%	19,321
99%	19,358
100%	19,396

18. Other payables

DKK'000	2022	2021	2020
Salary related payables	1,102	1,552	1,889
Cost accruals	18,759	25,054	4,904
Other payables	8	10	4
	19,869	**26,616**	**6,797**

Other liabilities primarily comprise of accruals for clinical research organizations costs. There were fewer outstanding invoices at year-end 2022 compared to year-end 2021, resulting in lower cost accruals at year-end.

Notes

19. Related party disclosures

Related parties exercising control or significant influence
As of December 31, 2022, 2021 and 2020, there are no related parties that individually or jointly exercise control over UNION therapeutics A/S.

Related Parties with significant influence
As of December 31, Vendler ApS and Manjin ApS, which are controlled by the two founders and current members of Board of Directors and the Executive Management, Rasmus Vendler Toft-Kehler and Morten Sommer, respectively, holds 26.15% each of the hare capital and voting rights of UNION therapeutics A/S.

Related parties with significant influence comprise the board members and companies controlled by board members. For remuneration of the board of directors refer to note 5 and note 6.

Key management personnel
Key management personnel comprise the Executive Management of UNION.
For disclosures of compensation to the Board of Directors and Key management personnel, including the Executive Management, refer to note 5 and note 6.

DKK'000	2022	2021	2020
Transactions with related parties exercising control, Board of Directors and Key management personnel:			
Administrative costs*	2,160	4,109	2,312
Year end balances arising from transactions with related parties exercising control, Board of Directors and Key management personnel:			
Convertible loan	0	3,227	0
Trade payables	0	61	49

* The company has received consultancy services from a company which is 50% owned by the Chairperson of the Board of Directors. The expenses related to such services amounted to DKK 45 thousand in 2022 (2021: DKK 60 thousand; 2020: DKK 60 thousand).

* The Company renders contract research and management services from a company owned directly by a member of the Executive Management and Board of Directors.

* The Company renders recruitment services from a company that is owned by Vendler ApS and Manjin Aps.

Subsidiaries
Balances and transactions between UNION therapeutics A/S and its three subsidiaries controlled by UNION therapeutics A/S: UNION Research Services ApS, UNION therapeutics Germany GmbH and UNION therapeutics North America Inc.

Other related parties
Other related parties include subsidiaries and associates of shareholders with significant influence and companies controlled by and close family members of members of executive management or members of the board of directors.

DKK'000	2022	2021	2020
Transactions with subsidiaries:			
Research and development costs	5,472	2,625	1,623
Year end balances arising from transactions with subsidiaries:			
Trade receivables	1,290	1,120	1,353
Trade payables	735	430	1,268
Transactions with other related parties:			
Research and development costs*	367	488	488
Year end balances arising from transactions with other related parties:			
Convertible loan	0	167	0

* The company has received employee services from the spouse of one of the members of the Board of Directors and Executive Management. The employee benefits amounted to DKK 367 thousand in 2022 (2021: DKK 480 thousand; 2020: DKK 480 thousand). The employment was terminated in September 2022.

In July 2021 UNION received a convertible debt instrument of DKK 62.0m from various parties, including Board of Directors and Executive Management. At December 31 2021 the Board of Directors and Executive Management's part of the loan totaled DKK 3.4m. On June 30, 2022 the Board of Directors and Executive Management agreed to convert the convertible loans into share capital.

Notes

20. Changes in liabilities arising from financing activities

2022			Non-cash changes				
DKK'000	**2021**	**Cash flows**	**Conversion to equity**	**Addition during the period**	**Fair value adjustment/ Interest**	**Foreign exchange adjustment**	**2022**
Debt facility	99,286	-126	0	0	8,064	0	107,224
Convertible loan	63,778	0	-57,451	0	13,121	0	19,358
Leasing liability	1,090	-564	0	456	53	0	1,035
Total	**164,154**	**-690**	**-57,541**	**456**	**21,238**	**0**	**127,617**

2021			Non-cash changes				
DKK'000	**2020**	**Cash flows**	**Conversion to equity**	**Addition during the period**	**Fair value adjustment/ Interest**	**Foreign exchange adjustment**	**2021**
Debt facility	88,894	0	0	0	10,429	-37	99,286
Convertible loan	0	62,037	0	0	1,741	0	63,778
Leasing liability	167	-312	0	1,203	32	0	1,090
Total	**89,061**	**61,725**	**0**	**1,203**	**12,202**	**-37**	**164,154**

2019			Non-cash changes				
DKK'000	**2019**	**Cash flows**	**Adjustment opening**	**Addition during the period**	**Interest**	**Foreign exchange adjustment**	**2020**
Debt facility	79,558	0	0	0	9,409	-73	88,894
Leasing	451	-155	-140	0	11	0	167
Total	**80,009**	**-155**	**-140**	**0**	**9,420**	**-73**	**89,061**

21. Cash flow statement - adjustment for non-cash items

DKK'000	**2022**	**2021**	**2020**
Income taxes	-5,500	-5,500	-5,515
Depreciation and amortization	745	351	155
Financial costs/income	36,160	8,961	21,911
Share-based compensation	21,467	9,015	6,896
	52,872	**12,827**	**23,447**

22. Cash flow statement - changes in net working capital

DKK'000	**2022**	**2021**	**2020**
Changes in other receivables	1,358	7,519	-8,358
Changes in VAT receivables	1,452	-3,272	-624
Changes in prepayments	1,829	-2,051	-65
Changes in employee related liabilities	-451	-336	1,358
Changes in intercompany payables	-25	-838	1,434
Changes in intercompany receivables	-170	233	-1,313
Changes in trade payables	6,482	5,278	6,148
Changes in investments in subsidiaries	0	-186	-40
Changes in other liabilities	-11,597	28,378	3,487
	-1,122	**34,725**	**2,027**

Notes

23. Contingent assets and liabilities, contractual obligations and pledges

Pledges
UNION therapeutics A/S has entered into a floating charge agreement with the European Investment Bank pursuant to which a floating charge of EUR 2.0m (2021: EUR 2.0m; 2021: EUR 2.0m) is pledged. Furthermore, the group has entered into a negative pledge preventing it from placing any of its assets as security, excluding the aforementioned floating charge to the European Investment Bank.

Contingent payment under out-license agreements
UNION therapeutics A/S is entitled to potential milestone payments and royalties on successful commercialization of products developed under license agreements with Innovent Biologics Inc and another external party (reference is made to note 3). Since the size and timing of such payments are uncertain until the milestones are reached or sales are generated, the agreements may qualify as contingent assets. However, it is associated with a very high degree of uncertainty to measure the value of such contingent assets, and, accordingly, no such assets have been recognized.

Contingent payment of acquisition of intangible assets
As part of the acquisition of intangible rights, UNION therapeutics A/S may be required to make milestone and royalty payments to the seller. Refer to note 10.

Other information

UNION is passionate about creating medicines that offer significant benefits to patients, physicians and payers – in a sustainable way with care for key stakeholders, including employees, the environment and collaborators.

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have today discussed and approved the annual report of UNION therapeutics A/S for the financial year January 1 – December 31, 2022.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and further requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the group and the parent company at December 31, 2022 and of the results of their operations and cash flows for the financial year January 1 – December 31, 2022.

Further, in our opinion, the management's review includes a fair review of developments in the group's and the parent company's activities and finances, results for the year and the group's and the parent company's financial position in general, as well as a description of the most significant risks and uncertainties to which the group and the parent company are exposed.

We recommend that the annual report be approved at the annual general meeting.

Hellerup, Februar 9, 2023

Executive Management

Kim Domela Kjøller
Chief Executive Officer

Morten Højland Boesen
Chief Financial Officer

Rasmus Vendler Toft-Kehler
Chief Operating Officer

Morten Otto Alexander Sommer
Chief Scientific Officer

Board of Directors

Stig Løkke Pedersen
Chair of the Board

Arthur Higgins
Vice Chair of the Board

Gitte Pugholm Aabo
Board member

Andrew John Oakley
Board member

Jutta Monika Heim
Board member

Rasmus Vendler Toft-Kehler
Board member

Morten Otto Alexander Sommer
Board member

Independent Auditor's Report

To the shareholders of UNION therapeutics A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of UNION therapeutics A/S for the financial year 1 January – 31 December 2022, which comprise statement of comprehensive income or loss, cash flow statement, statement of financial position, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2022 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Material uncertainty related to going concern

The financial statements have been prepared on a going concern assumption. We draw attention to note 2 in the financial statements, which describes that the Group and the Parent Company has liquidity to finance its operations through December 2023. However, the first tranche of the European Investment Bank loan falls due for payment in January 2024 and is not funded yet, and accordingly, a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern exists. The Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

We have not modified our opinion in respect of this matter.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines 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, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism 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 Group's and the Parent 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 Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.

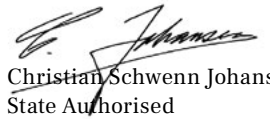
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

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

Copenhagen, 9 February 2023

EY Godkendt Revisionspartnerselskab



Christian Schwenn Johansen
State Authorised
Public Accountant
mne33234

Rasmus Bloch Jespersen
State Authorised
Public Accountant
mne35503

Forward looking statements

This annual report contains forward-looking statements. All statements other than statements of historical facts contained in this report, such as statements regarding future results of operations and financial position, business strategy, prospective products, availability of funding, clinical trial results, product approvals and regulatory pathways, collaborations, timing and likelihood of success, plans and objectives of management for future operations, and future results of current and anticipated products, are forward-looking statements.

These forward-looking statements are based on current expectations and beliefs, as well as assumptions concerning future events. These statements involve known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results discussed in the forward-looking statements.

Any forward-looking statement made in this report speaks only as of the date of this report and represents estimates and assumptions only as of the date of this report. Nothing contained in this report should be construed as a profit forecast or profit estimate.

To the extent this report includes market and industry data obtained by the company from industry publications and surveys, the company may not have access to the facts and assumptions underlying the numerical data, market data and other information extracted from public sources and as a result neither the company nor any of the company's advisors or representatives are able to verify such information and assume no responsibility for the accuracy or completeness of any such information. Any information contained or views expressed in this report do not purport to be comprehensive and are based on financial, economic, market and other conditions prevailing as of the date of this report and are subject to change without notice.

Except as required by law, UNION assumes no obligation to update these statements publicly, whether as a result of new information, future events or otherwise after the date of this report.

Sources

Page 14

Psoriasis

1 Evaluate Pharma (January 2023, Evaluate Ltd.)

Page 16

Atopic dermatitis

1 Evaluate Pharma (January 2023, Evaluate Ltd.)

2 Silverberg JI. (2017) Public Health Burden and Epidemiology of Atopic Dermatitis. Dermatol Clin. 2017;35(3):283-289.

Page 18

Hidradenitis suppurativa

1 Evaluate Pharma (January 2023, Evaluate Ltd.).

Page 20

Niclosamide

1 MacMillan (2022). What Does It Mean To Be 'Immunocompromised'? Yale Medicine. Published: February 14, 2022.
Link: https://www.yalemedicine.org/news/what-does-immunocompromised-mean

2 Weiss et al. (2022): Kidney Transplant and Dialysis Patients Remain at Increased Risk for Succumbing to COVID-19, Transplantation.

Company information

UNION therapeutics A/S

Tuborg Havnevej 18
2900 Hellerup
Denmark

E-mail: info@uniontherapeutics.com
Phone: +45 61777435

CVR-nr.: 33963750

Auditors

EY Godkendt Revisionspartnerselskab
Dirch Passers Allé 36
2000 Frederiksberg
Denmark

Established

October 10, 2011

UNION
THERAPEUTICS

Passionately creating medicines
that make a difference.

Production and layout: NOTED

UNION therapeutics A/S

Tuborg Havnevej 18
DK-2900 Hellerup
Denmark

E-mail: info@uniontherapeutics.com
Phone: +45 61777435

CVR-nr.: 33963750