

Sophion Bioscience A/S

**Industriparken 39
2750 Ballerup**

CVR no. 10021065

Annual report 2023

1st January – 31st December 2023

The Annual Report was presented to and approved at the company's Annual General Meeting of shareholders on 30th May 2024

Thais Taaning Johansen
Chairman of the meeting

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Company information

Company

Sophion Bioscience A/S
Industriparken 39
2750 Ballerup

Municipality of residence: Ballerup
CVR-no.: 10 02 10 65
Financial year: 1st January 2023 – 31st December 2023

Board of Directors

Gustaf Peter Reinhold von Ehrenheim, chairman
Thais Taaning Johansen
Peter Max
Harald Høegh
Eirik Lauglo

Executive management

Thais Taaning Johansen

Auditor

Dansk Revision Slagelse
Godkendt Revisionsaktieselskab
Ndr. Ringgade 74
4200 Slagelse

Management's report

Today the Board of Directors and the Executive Board have discussed and approved the Annual Report for the financial year 1st January 2023 – 31st December 2023 for Sophion Bioscience A/S.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements provide a true and fair view of the Company's assets, liabilities and financial position at 31st December 2023 and of the Company's operations for the financial year 1st January 2023 – 31st December 2023.

We believe that the Management's review provides a true and fair view of the activities that the review describes.

The Annual Report is recommended for approval at the annual general meeting.

Ballerup, 30st May 2024

Executive management:

Thais Taaning Johansen

Board of Directors:

Gustaf Peter Reinhold von Ehrenheim
Chairman

Thais Taaning Johansen

Peter Max

Harald Høegh

Eirik Lauglo

Independent auditors report on the annual report

To the shareholders of Sophion Bioscience A/S

Opinion

We have audited the financial statements of Sophion Bioscience A/S for the financial year 1st January 2023 – 31st December 2023, which comprise income statement, balance sheet, statement of changes in equity, notes and a summary of significant accounting policies. The Financial Statements are prepared under the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31st December 2023, and of the results of the Company operations for the financial year 1st January 2023 – 31st December 2023 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence standards) (IESBA Code), together with the ethical requirements, that are relevant to our audit of the financial statements in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with 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 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 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 about 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 the 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 these Financial Statements.

Independent auditors report on the annual report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment 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 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on Management's Review

Management is responsible for Management's Review. Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether 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 Management's Review provides the information required under the Danish Financial Statements Act.

Independent auditors report on the annual report

Based on the work we have performed, we conclude that Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Acts. We did not identify any material misstatement of Management's Review.

Slagelse, 30th May 2024

Dansk Revision Slagelse

Godkendt revisionsaktieselskab, CVR-no. 29919801

Kim Thomas Nielsen

State authorized public accountant

mne28660

Management's review

Core activities

The company's primary activities consist of development, production, and sale of solutions to streamline the research and in vitro safety phases of drug discovery in the pharmaceutical industry.

The company's activities are based on the patch clamp technique, where the impact of new drug candidates on the ion flow through membrane proteins (ion channels) of living cells can be measured. These Patch Clamp measurements can be performed automated and in parallel, thus enabling more than 1,000 times higher screening rate compared with the conventional manual patch clamp method. The company's resources are mainly used on commercialization of these novel high throughput screening systems, as well as the consumables needed to perform accurate and reliable measurements. Also, the Company offers technical and scientific services in relation to the screening systems.

Development in the year

Sophion Bioscience A/S had a very successful year with increased revenue compared to prior years. The company continued to sell its full suite of products for single cell analysis to the biotech and pharmaceutical industry, including new product introduced for the academia market.

Total revenue for the year grew compared to last year as both existing and new markets had a positive trend thus securing growth in top line. Prior years improvement in manufacturing and sourcing continue to impact operating margins and earnings positively. Operational expenses increased as planned during 2023 as the organizational ramp-up took place during the year. Over-all the activities in 2023 resulted in a strong net profit.

The year's profit reached 28,022 TDKK compared to last year of 44,369 TDKK.

Results compared to previous expectations

The expectation for 2023 was increased growth and earnings in the region of 20 DKK million to 30 million DKK and the actual result is within the range of the guidance.

Outlook

Sophion Bioscience A/S expects to continue its growth in its core markets as well as in new areas during 2024, especially in the academia market. The company continues to focus on strengthening global S&M and R&D activities. Especially larger than usual investments in R&D programs during the year will have an impact on earnings and cash flow, thus the financial performance will for the shorter term be modest.

A profit of 20 million DKK to 30 million DKK is expected for the coming year.

Risk profile and -management

The company and the Group emphasize minimizing the risk of events that may have unexpectedly negative operating and earnings impact, through a normal insurance coverage. Business risks, such as technological development, are mitigated by continuous design and product development and thus updating the product portfolio. In addition, significant changes in exchange rates may affect earnings, as the company and the group are sensitive to changes in the USD exchange rate. The increase of interest rates in the global money market have in-significant impact on the company.

Management's review

Impact on the external environment

The company and the Group place emphasis on managing the company in a sustainable and environmentally sound manner. The environmental impact of the Group's production and sales are not expected to affect the environment in an inappropriate manner compared to similar companies in the same industry.

Research and development activities

Sophion Bioscience A/S continues to invest in research and development (R&D). These activities will enhance current product lines and accelerate the development of new products.

Group and associated companies abroad

Sophion Bioscience have three foreign subsidiaries; in USA, Japan and China. All subsidiaries primarily function is to act as the company's sales offices in the region.

Events after the end of the financial year

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Financial highlights	2023	2022	2021	2020	2019
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Income statement					
Operating profit/loss	39,273	53,026	44,969	31,537	28,907
Profit/loss from financial income and expenses	-1,573	2,814	421	583	5
Profit/loss for the year	28,022	44,369	36,324	25,217	22,627
Balance Sheet					
Investments in property, plant and equipment	4,133	1,131	6,563	2,209	354
Total assets	201,723	222,631	174,724	140,116	139,308
Equity	156,953	188,146	143,846	106,465	101,149
Key figures, %					
Return on invested capital	22,4%	26.7%	28.6%	22.6%	22.1%
<i>Operating profit/ loss in percent of total average assets</i>					
Solvency ratio	77,8%	84.5%	82.3%	76.0%	72.6%
<i>Equity end year in percent of total assets</i>					
Return on equity	16,2%	26.7%	29.0%	24.3%	22.7%
<i>Profit loss for the year in percent of average equity</i>					

		2023	2022
Note	Income statement	DKK '000	DKK '000
	1st January – 31 December		
	Gross profit	112,805	117,686
1	Staff costs	-56,401	-42,392
	Depreciations	-17,131	-22,268
	Operating profit	39,273	53,026
	Income from investments in subsidiaries	-1,687	-35
2	Financial income	4,982	3,081
	Financial expenses	-6,556	-267
	Profit before taxes	36,012	55,805
3	Taxes for the year	-7,990	-11,436
	Profit for the year	28,022	44,369

		2023	2022
Note	Balance sheet	DKK '000	DKK '000
Assets at 31st December 2023			
4	Development projects	11,329	21,263
5	Intellectual property rights	1,087	922
6	Other intangible assets	570	771
7	Development projects in progress	33,413	20,053
	Intangible fixed assets	46,399	43,009
8	Leasehold improvements	1,766	202
9	Plant and machinery	3,800	2,583
10	Other fixtures and fittings, tools and equipment	1,480	1,415
	Tangible fixed assets	7,046	4,200
11	Equity investments in subsidiaries	0	1,221
12	Deposits	2,962	693
	Financial fixed assets	2,962	1,914
	Total fixed assets	56,407	49,123
	Raw materials and consumables	32,666	27,354
	Semi-finished goods	8,881	6,020
	Manufactured goods	28,931	27,952
	Inventories	70,478	61,326
	Trade receivables	11,339	19,645
	Receivables from group companies	21,441	58,018
13	Deferred tax assets	0	0
	Other receivables	1,360	1,300
14	Prepayments	2,790	2,971
	Receivables	36,930	81,934
	Cash at hand and in bank	37,908	30,248
	Total current assets	145,316	173,508
	Total assets	201,723	222,631

Note	Balance sheet	2023	2022
		DKK '000	DKK '000
Equity and liabilities at 31st December 2023			
15	Share capital	50,000	50,000
	Reserve for development costs	34,862	28,318
	Reserve for exchange rate adjustments	-37	-235
	Retained earnings	67,128	50,063
	Proposed dividend	5,000	60,000
	Total equity	156,953	188,146
16	Deferred tax liability	9,477	4,980
17	Other provisions	576	672
	Total provisions	10,053	5,652
	Bank debt	0	1,423
	Prepayments received from customers	10,709	9,049
	Trade payables	10,265	10,475
	Tax payable to group companies	593	0
	Other debt	13,150	7,886
	Short-term liabilities	34,717	28,833
	Total liabilities	34,717	28,833
	Total equity and liabilities	201,723	222,631
18	Contingent liabilities		
19	Contractual liabilities		
20	Related parties and ownership		

Equity	2023 DKK '000	2022 DKK '000
Equity 1st January – 31st December		
Share capital 1 st January	50,000	50,000
Share capital 31st December	50,000	50,000
Reserve for development costs 1 st January	28,318	25,508
Transfer to the reserve for the year	6,544	2,810
Reserve for development costs 31st December	34,862	28,318
Reserve for exchange rate adjustments costs 1 st January	-235	-166
Transfer to the reserve for the year	198	-69
Reserve for exchange rate adjustments costs 31st December	-37	-235
Retained earnings 1 st January	50,063	68,504
Profit for the year	16,478	-18,441
Other equity transfers	587	0
Retained earnings 31st December	67,128	50,063
Proposed dividend 1 st January	60,000	0
Proposed dividend of the year	5.000	60,000
Paid dividend	-60,000	0
Proposed dividend 31st December	5.000	60,000
Equity total	156,953	188,146
Recommended distribution of the profit for the year:		
Distributed to reserve for development costs	6,544	2,810
Proposed dividend	5.000	60,000
Retained earnings	16,478	-18,441
Distribution in total	28,022	44,369

Notes	2023 DKK '000	2022 DKK '000
1 Staff costs		
Wages and salaries	54,346	41,576
Pensions	1,249	27
Other social security costs	806	789
Total staff costs	56,401	42,392
Average number of employees	57	48
Remuneration to management	2,867	3,094
2 Financial income		
Interests, group companies	323	140
Other financial income	4,659	2,941
Total financial income	4,982	3,081
3 Taxes for the year		
Taxes for the year	3,493	4,185
Changes deferred taxes	4,497	7,251
Total taxes for the year	7,990	11,436
4 Development projects		
Cost 1 st January	97,751	86,911
Transferred from development projects in progress	5,854	10,840
Cost 31 st December	103,605	97,751
Depreciations 1 st January	-76,488	-55,926
Depreciations for the year	-15,788	-20,562
Depreciations 31 st December	-92,276	-76,488
Total development projects	11,339	21,263

Notes	2023 DKK '000	2022 DKK '000
Development projects relate to the development of the company's main products. The projects are marketed and make a significant contribution to the company's earnings.		
5 Intellectual property rights		
Cost 1 st January	18,091	17,933
Additions for the year	191	158
Disposals for the year	0	0
Cost 31 st December	<u>18,282</u>	<u>18,091</u>
Depreciations 1 st January	-17,169	-17,124
Depreciations for the year	-26	-45
Depreciations on disposals	0	0
Depreciations 31 st December	<u>-17,195</u>	<u>-17,169</u>
Total intellectual property rights	<u>1,087</u>	<u>922</u>
6 Other intangible assets		
Cost 1 st January	3,351	2,662
Additions for the year	0	689
Cost 31 st December	<u>3,351</u>	<u>3,351</u>
Depreciations 1 st January	-2,580	-2,261
Depreciations for the year	-201	-319
Depreciations 31 st December	<u>-2,781</u>	<u>-2,580</u>
Total other intangible assets	<u>570</u>	<u>771</u>

Notes	2023 DKK '000	2022 DKK '000
7 Development projects in progress		
Cost 1 st January	20,053	16,465
Additions for the year	19,214	14,428
Transferred to development projects	<u>-5,854</u>	<u>-10,840</u>
Cost 31 st December	<u>33,413</u>	<u>20,053</u>
Total development projects in progress	<u>36,413</u>	<u>20,053</u>
<p>The development projects relate to the development of additional functionalities on the company's main products as well as new products. The projects will proceed as planned using the resources that the management has allocated to the development.</p>		
8 Leasehold improvements		
Cost 1 st January	346	271
Additions for the year	<u>1,564</u>	<u>75</u>
Cost 31 st December	<u>1,910</u>	<u>346</u>
Depreciations 1 st January	-144	0
Depreciations for the year	<u>0</u>	<u>-144</u>
Depreciations 31 st December	<u>-144</u>	<u>-144</u>
Total leasehold improvements	<u>1,766</u>	<u>202</u>
9 Plant and machinery		
Cost 1 st January	9,717	9,011
Additions for the year	1,803	818
Disposals for the year	<u>0</u>	<u>-112</u>
Cost 31 st December	<u>11,520</u>	<u>9,717</u>
Depreciations 1 st January	-7,134	-6,758
Depreciations for the year	-586	-488
Depreciations on disposals	<u>0</u>	<u>112</u>
Depreciations 31 st December	<u>-7,720</u>	<u>-7,134</u>
Total plant and Machinery	<u>3,800</u>	<u>2,583</u>

Notes	2023 DKK '000	2022 DKK '000
10 Other fixtures and fittings, tools and equipment		
Cost 1 st January	7,996	11,192
Additions for the year	1,343	238
Disposals for the year	<u>-1,351</u>	<u>-3,434</u>
Cost 31 st December	<u>7,988</u>	<u>7,996</u>
Depreciations 1 st January	-6,581	-6,614
Depreciations for the year	-530	-711
Depreciations on disposals	<u>602</u>	<u>744</u>
Depreciations 31 st December	<u>-6,509</u>	<u>-6,581</u>
Total other fixtures and fittings, tools and equipment	<u>1,479</u>	<u>1,415</u>
11 Equity investments in subsidiaries		
Cost 1 st January	1,576	82
Additions for the year	<u>0</u>	<u>1,494</u>
Cost 31 st December	<u>1,576</u>	<u>1,576</u>
Value adjustments 1 st January	-355	-82
Profit or loss for the year	-1,687	-35
Currency rate adjustments	198	-70
Other Value adjustments	<u>268</u>	<u>-168</u>
Value adjustments 31 st December	<u>-1,576</u>	<u>-355</u>
Equity investments in subsidiaries total	<u>0</u>	<u>1,221</u>
Name	Place	Ownership
Sophion Bioscience Inc.	USA	100%
Sophion Bioscience K.K.	Japan	100%
Sophion Bioscience Co., Ltd.	China	100%

Notes	2023 DKK '000	2022 DKK '000
12 Deposits		
Cost 1 st January	693	648
Additions for the year	<u>2,269</u>	<u>45</u>
Cost 31 st December	<u>2,962</u>	<u>693</u>
Total Deposits	<u>2,962</u>	<u>693</u>
13 Deferred tax asset		
Deferred tax asset 1 st January	0	2,271
Recognized in this years profit	<u>0</u>	<u>-2,271</u>
Deferred tax asset 31st December	<u>0</u>	<u>0</u>
14 Prepayments		
Insurances	421	149
Rent	468	479
Licenses, patents and subscriptions	1,901	2,193
Leasing	<u>0</u>	<u>150</u>
Total prepayments	<u>2,790</u>	<u>2,971</u>
15 Share capital		
A shares 6.282.623 shares of nom. DKK 1 each	6,283	6,283
B share, 43.717.377 shares of nom. DKK 1 each	<u>43,717</u>	<u>43,717</u>
Total share capital	<u>50,000</u>	<u>50,000</u>

Notes	2023 DKK '000	2022 DKK '000
16	Deferred tax liability	
	4,980	0
	4,497	4,980
	9,477	4,980
17	Other provisions	
	672	624
	-96	48
	576	672
18	Contingent liabilities	
	The company is jointly and severally liable with the parent company Sapphire Bioscience Holding ApS and other group companies for Danish corporation tax and withholding taxes on dividends and royalties within joint taxation. Corporation tax and withholding taxes within the joint taxation circle are disclosed in the managing company's annual accounts.	
19	Contractual liabilities	
	The company has signed rentagreement, which is irrevocable until 2030. The liability of the period is 35,5 DKK million.	
20	Related parties and ownership	
	The following shareholders are recorded in the company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital: Sapphire Bioscience Holding ApS, Ballerup, ownership 100%	
	The parent company Sapphire Bioscience Holding ApS prepares consolidated accounts wherein this company is a subsidiary.	
	All related transactions are on market conditions, so the company and the group do not disclose these with reference to section 98c, act 7 of the Danish Financial Statements Act.	

Accounting principles

General

The Annual Report has been prepared in accordance with the provisions of the Danish Financial Statements Act as regards reporting class C-medium enterprises.

The financial statements have been prepared in accordance with the same accounting policies as last year.

Consolidated

According to section 112 of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The annual accounts of Sophion Bioscience A/S and subsidiaries are included in the consolidated financial statements of Sapphire Bioscience Holding ApS.

General about recognition and valuation

Assets are included in the balance sheet where it is likely that future financial benefits will accrue to the company and where the asset's value can be reliably valued.

Liabilities are included in the balance sheet where it is likely that future financial resources will be deducted from the company and where the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are valued at cost. Assets and liabilities are subsequently valued as described for each individual item below.

Certain financial assets and liabilities are measured at amortised cost where a constant effective interest is recognised over the maturity period. Amortised cost is stated as original cost less any principal payments plus or minus the cumulative amortisation of any difference between cost and nominal amount.

When recognising and valuing, consideration is given to foreseeable losses and risks that occur prior to submission of the Annual Report and that serve to confirm or refute conditions existing on the balance sheet date.

Income is recognised in the income statement as earned, including recognition of value adjustments of financial assets and liabilities measured at fair value or amortised cost. Costs incurred to achieve the earnings for the year are also recognised, including amortisation, and write-downs and provisions, as well as reversals resulting from changes to accounting estimates that were previously recognised in the income statement.

Translation of foreign currency

Transactions denominated in foreign currencies are translated during the course of the year at the exchange rates at the date of the transaction. Receivables, payables and other items denominated in foreign currency not settled on the balance sheet date are translated at the exchange rates at the balance sheet date.

Foreign subsidiaries are considered to be independent entities. Income statements are translated at an average exchange rate and the balance sheet items are translated at the balance sheet date exchange rates. Exchange differences arising from the translation of foreign subsidiaries' equity at the beginning of the year at the exchange rates at the balance sheet date and on translation of income statements from average exchange rates at the exchange rates at the balance sheet date are recognized directly in equity.

Accounting principles

Exchange rate adjustments of balances with independent foreign subsidiaries, which are considered to be part of the total investment in subsidiaries, are recognized directly in equity.

Realised and unrealised exchange gains and losses are recognised in the income statement as financial income or expenses.

No financial instruments are used to hedge the value in Danish kroner of balance sheet items in foreign currency or future transactions in foreign currency.

Business acquisition

When acquiring new companies in which the Group obtains controlling influence over the acquired enterprise, the acquirer's identifiable assets, liabilities and contingent liabilities are measured at fair value at acquisition date. The acquisition date is the time when the control of the company is actually taken over. If the cost of the acquired identifiable net assets exceeds the fair value of the net assets and the value of minority interests in the acquire, the excess amounts are recognized as goodwill in financial assets. If the fair value of the acquired identifiable net assets exceeds the cost of the net assets, the amount is recognized in the income statement at the acquisition date.

The cost of an enterprise consists of the fair value of the consideration paid, including acquisition costs for the acquired enterprise. Profit from subsidiaries acquired during the year is included in the parents income statement from the acquisition date.

Income statement

Revenue

Revenue is recognised in the income statement where delivery took place and the risk passed to the buyer prior to the end of the financial year. Revenue is recognised exclusive of VAT and after deduction of discounts given in connection with the sale.

Gross profit

Revenue less cost of sales and other external costs are included in the income statement as "Gross profit".

Income from investments in subsidiaries

Income from associates is recognized in the income statement with the relative share of the company's profit after adjusting internal profit or loss.

Financial income and expenses

Net financials include interest income and expenses, realised and unrealised exchange gains and losses relating to debt and transactions denominated in foreign currency, and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Accounting principles

Tax on profit for the year

The portion of the tax for the year, consisting of the current tax for the year and the change in deferred tax for the year, which can be attributed to the profit for the year is included in the income statement, and the portion that can be attributed to transactions taken to equity is included directly in equity.

The company is subject to the Danish rules on compulsory joint taxation of the parent company and the Danish subsidiaries.

The current Danish corporation tax is distributed by settling joint taxation contributions between the jointly taxed companies in proportion to their taxable income. In connection with this, companies with tax losses receive joint taxation contributions from companies that have been able to apply this deficit (full distribution).

Balance sheet

Intangible fixed assets

Intangible fixed assets are measured at cost less accumulated depreciation. Depreciation is distributed on a straight-line basis over the expected useful lives with a scrap value of 0%.

Expected useful lives include:

Development projects	2-8 years
Patents, licenses and similar rights	5-10 years
Other intangible fixed assets	10 years

Development projects include costs, including salaries, as well as depreciation, which are directly or indirectly attributable to the company's development activities and which meet the criteria for recognition. Development costs are measured at cost price. Capitalized development costs are amortized on a straight-line basis after completion of development work over the useful life.

Development projects relating to products and processes that are clearly defined and identified where the technical utilization rate, sufficient resources and potential future market or development opportunity in the company can be identified and where it intends to produce, market or use the product or process in question, recognized as intangible assets. Other development costs are recognized as expenses in the income statement when costs are incurred.

Indirect production costs in the form of indivisible attributable personnel costs and depreciation of intangible assets and property, plant and equipment used in the development process are recognized in the cost price based on the time consumed for each project.

Depreciation related to development costs is based on the expected useful lives and the contractually agreed entitlement periods.

Development costs that do not meet the criteria for recognition in the balance sheet are recognized in the income statement.

Accounting principles

An amount corresponding to the recognized development costs reduced by deferred tax is allocated to a special reserve under equity called "Reserve for development costs". The reserve cannot be used for dividends or coverage of losses. The reserve will be reduced or dissolved if the recognized development costs are amortised or are no longer part of the Company's operations by a transfer directly to the reserve under equity.

Profit or loss on disposal of intangible assets is calculated as the difference between the selling price less selling expenses and the carrying amount at the date of sale. Profits or losses are recognized in the income statement under other operating income or other operating expenses.

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation. Depreciation is applied using the straight-line method, based on an assessment of the expected useful life and residual value of the individual asset.

The basis for depreciation is cost less expected residual value when the asset ceases to be used. The cost includes the acquisition cost plus costs directly associated with the acquisition up to the time when the asset is ready to be taken into use.

The amortization period and the residual value are determined at the acquisition date and are reviewed annually. If the residual value exceeds the carrying amount of the asset, depreciation will cease. Changes in the amortization period or residual value include the effect of depreciation forward-looking as a change in accounting estimates.

Expected usage time is calculated as follows with a scrap value of 0%:

Leasehold improvements	10 years
Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-5 years

Gains or losses from the disposal of tangible fixed assets are calculated as the difference between the selling price less selling expenses and the carrying amount at the time of the sale. Gains or losses are recognized in the income statement under other operating income or other operating expenses.

Tangible fixed assets leased and meeting the terms of financial leasing are treated according to the same guidelines as owned assets.

Write-down on fixed assets

The balance sheet value of fixed assets are assessed annually for any indications of impairment, in addition to those expressed as depreciation.

If there are any indications of impairment, an impairment test are carried out for each individual asset or group of assets. Where an asset's recoverable value is lower than the carrying amount, the asset is written down to

Accounting principles

the recoverable value.

The recoverable value is the higher of the net selling price and the value in use. The value in use are calculated as the current value of the estimated net income from the use of the asset or group of assets

Financial assets

Investments in affiliated companies are recognized using the equity method. The equity method is used as a measurement method. Share of profit for the year is recognized in the income statement. In the balance sheet, the proportionate share of the book value is calculated in accordance with the parent company's accounting policies, adjusted for unrealized intra-group gains or losses.

Affiliated companies with negative net asset value are recognized at DKK 0 and an equivalent receivable from these companies is written down with the parent company's share of the negative net asset value to the extent that the receivable is deemed to be irreconcilable. If the negative net asset value exceeds receivables, the remaining part of the negative asset value is recognized under provisions to the extent that the parent company has a legal or actual obligation to cover the underlying balance of these companies.

Deposits are valued at acquisition cost.

Inventories

Inventories are measured at cost based on the FIFO method, or at realisable value, whichever is the lower. Any write-downs to net realisable value are recognized in the income statement.

The net realisable value of inventories is calculated as the selling price less completion costs and costs incurred to execute sale, and is fixed with due consideration to marketability, obsolescence and movements in expected selling prices.

The cost of goods for resale as well as raw materials and consumables comprises the acquisition cost plus any attributable delivery costs.

The cost of manufactured goods and manufactured goods includes cost of raw materials, consumables, direct pay and direct production costs. Indirect production costs include indirect materials and wages as well as maintenance and depreciation of the machinery, plant and equipment used in the production process, factory administration and management costs and capitalized development costs relating to the products.

Receivables

Receivables are measured at amortised cost, which usually corresponds to nominal value. The value is reduced by write-downs for bad debts based on an individual assessment of each receivable.

Prepayments

Prepayments recognised under 'Assets' comprise prepaid expenses regarding subsequent financial reporting years.

Accounting principles

Cash at hand and in bank

Includes deposits on bank accounts.

Dividend

Dividend, the management proposes paid for the year, is shown as a separate item under equity. Proposed dividend is recognized as a liability at the time of adoption at the general meeting.

Liabilities

Liabilities are measured at amortized cost equal to the nominal value.

Tax payable and deferred tax

Current tax payables and receivables are recognised in the balance sheet as the estimated tax charge in respect of the taxable income for the year, adjusted for tax on prior years' taxable income and tax paid in advance.

Provisions for deferred tax are calculated based on the balance sheet liability method of all temporary differences between the carrying amount and tax values of assets and liabilities. Deferred tax is measured based on the tax rules and tax rates that, according to the legislation in place on the balance sheet date, will apply when the deferred tax is expected to be converted to current tax. Any changes in deferred tax because of amendments to tax rates are recognised in the income statement.

Deferred tax assets, including the tax value of tax loss carry forwards, are measured at the value at which the asset is expected to be realized either by settlement in tax of future positive taxable income or by offsetting in deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realizable value.

Cash flow statement

With reference to section 86, act 4 of the Danish Financial Statements act, the company has chosen not to prepare cash flow statement, as it is included in the consolidated cash flow statement, which has been prepared in the annual report of Sapphire Bioscience Holding ApS.

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