UNION therapeutics A/S

Tuborg Havnevej 18, 2900 Hellerup

CVR no. 33 96 37 50

Annual report 2019

Approved at the Company's annual general meeting on 25/6 2020

Chairman: Jan Bjerrum Bach

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Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of UNION therapeutics A/S for the financial year 1 January – 31 December 2019.

The annual report has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure 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 31 December 2019 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Parent Company's operations and financial matters and the results of the Group's and the Parent Company's operations and financial position.

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

Copenhagen, 25 June 2020
Executive Board:

DocuSigned by: Rasmus Toft-Kehler 6C4E5B683528415...	DocuSigned by: 659D41A1EFD0453...	DocuSigned by: Morten H. Boesen AF9C27EF9E5949E...
Rasmus Vendler Toft-Kehler (CEO)	Morten Otto Alexander Sommer (CSO)	Morten Højland Boesen (CFO)

Board of Directors:

DocuSigned by: B0F50BC80498419...	DocuSigned by: C082559F0DD54AA...	DocuSigned by: Andrew J. Oakley E9DC349DAC7F481...
Stig Løkke Pedersen (Chairman)	Jutta Monika Heim	Andrew John Oakley
DocuSigned by: 659D41A1EFD0453...	DocuSigned by: Rasmus Toft-Kehler 6C4E5B683528415...	
Morten Otto Alexander Sommer	Rasmus Vendler Toft-Kehler	

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 2019, which comprise statement of comprehensive income, statement of financial position, statement of changes in equity, cash flow statement 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 2019 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 2019 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' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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 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.

Independent auditor's report

- 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.

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 form of 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 the work we have performed, 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.

Copenhagen, 25 June 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Rasmus Bloch Jespersen
State Authorised
Public Accountant
mne35503

Management's review

Company details

Name	UNION therapeutics A/S
Address, zip code, city	Tuborg Havnevej 18, DK-2900 Hellerup
E-mail	info@uniontherapeutics.com
Telephone	+45 61 77 74 35
CVR no.	33 96 37 50
Registered office	Gentofte
Financial year	1 January – 31 December
Executive Board	Rasmus Vendler Toft-Kehler Morten Otto Alexander Sommer Morten Højland Boesen
Board of Directors	Stig Løkke Pedersen Jutta Monika Heim Andrew John Oakley Morten Otto Alexander Sommer Rasmus Vendler Toft-Kehler
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Dirch Passers Allé 36, P O Box 250, 2000 Frederiksberg, Denmark
Investor and media relations	UNION therapeutics Investor Relations Tuborg Havnevej 18 DK-2900 Hellerup E-mail: investor@uniontherapeutics.com
Bankers	Jyske Bank

Management's review

About

UNION therapeutics A/S is a privately held, clinical stage, pharmaceutical company dedicated to the development of novel treatments for inflammatory and infectious diseases.

The Company is working of a versatile new mode-of-action chemistry platform, including well-characterised compounds as well as new chemical entities.

The lead programme ATx201 represents a novel approach to the treatment of atopic dermatitis. Atopic dermatitis is a serious and multifaceted disease with a significant unmet medical need, affecting millions of patients, in particular children, with substantial negative impact on the quality of life of patients and their families.

Further to the lead candidate, UNION is advancing a pipeline of clinical and preclinical candidates for inflammatory as well as infectious diseases.

The leadership team of UNION has successfully developed multiple approved drugs on the market. UNION is headquartered in Copenhagen (Denmark) and managed by an experienced team across Europe and USA.

2019 in review

2019 offered significant progress and achievement of important milestones for UNION.

The Phase 2b dose ranging study of ATx201 in atopic dermatitis (“AD”) was initiated in Q4 2019, building on the results generated in exploratory Phase 2 studies completed in 2018. The Phase 2b trial will test ATx201’s potential as a novel and differentiated treatment of AD, where a significant medical need persists for an efficacious and safe topical treatment.

In 2019, Ceva Santé Animale gained positive data from a study testing UNI836 as a treatment for canine pyoderma. In addition to triggering related milestone payments to UNION, Management also considers the results confirmatory to the potential of the compound class as treatments of inflammatory and infectious diseases.

The Company’s medicinal chemistry program also achieved significant results, with several early novel compounds demonstrating promising results with potential relevance for a broad range of therapeutic applications.

2019 also saw significant activity with regards to creation and protection of intellectual property with several key patents being granted, and a number of new patent applications being filed during the year.

Financial review

The statement of comprehensive income for 2019 shows a consolidated comprehensive loss of DKK 12,861 thousand against a loss of DKK 50,131 thousand last year, and the statement of financial position at 31 December 2019 shows a consolidated equity of a negative DKK 38,308 thousand. At 31 December 2019, the Company had a consolidated cash position of DKK 46,466 thousand.

Financing and going concern assumption

The statement of financial position at 31 December 2019 shows a consolidated equity of a negative DKK 38,308 thousand and a consolidated cash position of DKK 46,466 thousand. Management consider the Company’s capital resources to be sufficient to cover the Company’s obligations for the ongoing activities as they mature at least through 31 December 2020. Furthermore, the Company expects to raise additional funds during 2020 to fund future and additional development activities and operations.

Accordingly, the Board of Directors and Management have concluded that there is no significant risk associated with going concern at the date of these financial statements. On this basis, Management has prepared the financial statements on a going concern assumption.

Management's review

Loss of subscribed share capital

As a result of the Company's financing strategy and utilization of the credit facility provided by the European Investment Bank, the Company has lost more than 50% of its subscribed share capital measured at book value. In accordance with section 119 of the Danish Companies Act, the Board of Directors plan for the capital to be re-established through future capital increases and/or income resulting from development activities.

Events after the balance sheet date

Capital increase

In May 2020, the Company completed an equity capital raise, receiving gross proceeds of DKK 44 million.

Acquired rights from LEO Pharma A/S

In June 2020, UNION therapeutics A/S acquired the rights to certain compounds and associated compound data, patent portfolio and materials from LEO Pharma A/S. The consideration for the acquired assets consisted of a cash payment, certain future milestone and contingent payments, and 12,044 shares in UNION therapeutics A/S.

Update Regarding Covid-19

The Company has experienced delays in clinical trial enrolment as a consequence of Covid-19. The effects have been addressed by Management and are not considered to have material impact. Management continues to monitor the Covid-19 pandemic as well as guidance from government and health authorities, and will ensure appropriate measures to keep employees, patients, business and clinical partners safe while maintaining business continuity.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of comprehensive income

		Group		Parent Company	
Note	DKK'000	2019	2018	2019	2018
4	Revenue	11,649	0	11,649	0
5	Research and development costs	-19,402	-48,459	-20,403	-48,638
5	Administrative expenses	-5,053	-5,491	-5,053	-5,491
	Operating loss	-12,806	-53,950	-13,807	-54,129
8	Other operating income	344	3,683	344	3,683
	Loss before net financials	-12,462	-50,267	-13,463	-50,446
9	Financial income	1,986	1,389	2,028	1,427
10	Financial expenses	-6,529	-6,764	-6,529	-6,764
	Loss before tax	-17,005	-55,642	-17,964	-55,783
11	Tax benefit for the year	4,143	5,497	4,148	5,502
	Loss after tax	-12,862	-50,145	-13,816	-50,281
	Other comprehensive income or loss				
	Items that may be reclassified to profit or loss in subsequent periods				
	Foreign currency translation	1	14	0	0
	Total comprehensive loss for the year	-12,861	-50,131	-13,816	-50,281

Total comprehensive loss for the year is attributable to the shareholders of the parent.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of financial position

		Group			Parent Company		
Note	DKK'000	2019	2018	2017	2019	2018	2017
	ASSETS						
	Non-current assets						
12	Tangible assets						
	Property, plant and equipment	30	60	48	30	60	48
	Right of use of assets	434	0	0	434	0	0
	Total tangible assets	464	60	48	464	60	48
	Other non-current assets						
13	Investments in subsidiaries	0	0	0	47	7	0
	Deposits	112	109	107	112	109	107
	Total other non-current assets	112	109	107	159	116	107
	Total non-current assets	576	169	155	623	176	155
	Current assets						
11	Tax receivables	4,142	5,497	5,506	4,148	5,502	5,506
	Receivables from group entities	0	0	0	159	488	1,268
14	Other receivables and prepayments	1,109	1,181	3,325	1,064	1,171	3,447
	Cash	46,466	21,775	14,017	45,827	20,869	13,252
	Total current assets	51,717	28,453	22,848	51,198	28,030	23,473
	TOTAL ASSETS	52,293	28,622	23,003	51,821	28,206	23,628

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of financial position

		Group			Parent		
Note	DKK'000	2019	2018	2017	2019	2018	2017
	EQUITY AND LIABILITIES						
	Equity						
15	Share capital	515	500	500	515	500	500
	Other reserves	-38,823	-35,919	11,523	-39,309	-35,450	12,142
	Total equity	-38,308	-35,419	12,023	-38,794	-34,950	12,642
	Non-current liabilities						
15, 20	Long-term debt	79,560	49,866	0	79,560	49,866	0
7	Cash-settled warrant obligation	1,443	2,496	2,488	1,443	2,496	2,488
	Lease liabilities	217	0	0	217	0	0
	Total non-current liabilities	81,220	52,362	2,488	81,220	52,362	2,488
	Current liabilities						
	Lease liabilities	234	0	0	234	0	0
	Trade payables	1,189	1,777	4,739	1,203	1,769	4,745
15, 22	Warrant and put option	6,006	6,479	0	6,006	6,479	0
17	Other payables	1,952	3,423	3,753	1,952	2,546	3,753
	Total current liabilities	9,381	11,679	8,492	9,395	10,794	8,498
	Total liabilities	90,601	64,041	10,980	90,615	63,156	10,986
	TOTAL EQUITY AND LIABILITIES	52,293	28,622	23,003	51,821	28,206	23,628

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of changes in equity

		Group			
			Other reserves		
DKK'000	Note	Share capital	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2018		500	0	11,523	12,023
Total comprehensive income		0	14	-50,145	-50,131
Share-based compensation expenses		0	0	2,689	2,689
Balance at 31 December 2018		500	14	-35,933	-35,419
Total comprehensive income		0	1	-12,862	-12,861
Transactions with owners					
Increase of share capital		15	0	8,235	8,250
Share-based compensation expenses		0	0	1,722	1,722
Balance at 31 December 2019		515	15	-38,838	-38,308

Statement of changes in equity

		Parent			
			Other reserves		
DKK'000	Note	Share capital	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2018		500	0	12,142	12,642
Total comprehensive income		0	0	-50,281	-50,281
Share-based costs		0	0	2,689	2,689
Balance at 31 December 2018		500	0	-35,450	-34,950
Total comprehensive income		0	0	-13,816	-13,816
Transactions with owners:					
Increase of share capital		15	0	8,235	8,250
Share-based costs		0	0	1,722	1,722
Balance at 31 December 2019		515	0	-39,309	-38,794

Consolidated financial statements and parent company financial statements 1 January – 31 December

Cash flow statement

		Group		Parent Company	
Note	DKK'000	2019	2018	2019	2018
	Comprehensive loss for the year	-12,861	-50,131	-13,816	-50,281
	Adjustment for non-cash items	1,097	2,590	1,050	2,597
	Changes in net working capital	-2,129	-1,966	-923	-1,972
	Changes in non-current financial assets	-3	-2	-3	-2
	Interest received	93	119	92	105
	Interest paid	-76	-83	-76	-83
	Income taxes received, net	5,500	5,500	5,500	5,500
	Cash flows from operating activities	-8,379	-43,973	-8,176	-44,156
12	Investment in property, plant and equipment	0	-35	0	-35
	Cash flows from investing activities	0	-35	0	-35
	Proceeds from capital increase	8,250	0	8,250	0
20	Proceeds from issuance of loans	24,763	52,023	24,763	52,023
	Lease instalments	-230	0	-230	0
	Cash flows from financing activities	32,783	52,023	32,783	52,023
	Net cash flows	24,404	8,015	24,607	7,832
	Cash at the beginning of the period	21,775	14,017	20,869	13,252
	Exchange rate adjustments of cash	287	-257	351	-215
	Cash at the end of the period	46,466	21,775	45,827	20,869

Consolidated financial statements and parent company financial statements 1 January – 31 December

Note summary

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

Corporate information

The financial statements of UNION therapeutics A/S for the year ended 31 December 2019 comprise both the consolidated financial statements of UNION therapeutics A/S and its subsidiaries UNION therapeutics North America Inc. and UNION therapeutic Research Services ApS (the Group) and the separate parent company financial statements of UNION therapeutics A/S. The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 25 June 2020. UNION therapeutics A/S is a public limited company incorporated and domiciled in Denmark with privately held shares. The registered office is located at Tuborg Havnevej 18, 2900 Hellerup, Denmark.

Basis for preparation

The consolidated financial statements of UNION therapeutics A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU at 31 December 2019 and additional disclosure requirements of the Danish Financial Statements Act for reporting class B enterprises. All approved, mandatory standards and bases for conclusion effective at 31 December 2019 have been applied in the financial year.

Changes in the accounting policies and disclosures

Changes in the presentation currency

Effective from 1 January 2018, the Group and the Parent Company changed the currency in which it presents its financial statements from USD to DKK to align with the functional currency used in the Group and the Parent Company. A change in presentation currency is a change in the accounting policy for the Group and the Parent Company. The change in accounting policy impacts all financial statement items whereby amounts previously reported in USD have been restated in DKK by using the procedures outlined below:

- Assets and liabilities denominated in non-Danish kroner currency were translated into Danish kroner at the closing rates of exchange at the relevant balance sheet date;
- Non-Danish kroner income and expenses were translated at the average rates of exchange prevailing for the relevant period.
- Share capital, share premium and the other reserves were translated at the historic rates prevailing at 1 January 2019 and subsequent rates prevailing at the date of each transaction.

Changes in classification

Reclassification has been made in the financial statements to correctly present the Company's warrant and put option. The comparative figures have been restated to reflect the changes in classification in the statements of financial position where 'current liabilities' of DKK 6,479 thousand at 31 December 2018 previously were presented under 'non-current liabilities. The classification did not impact total liabilities.

New accounting policies and disclosures in 2019

The Company has, with effect from 1 January 2019, implemented the amendments to IFRS 9, IAS 19, IAS 28, IFRIC 23 and annual improvements to IFRSs 2015-2017. The implementation of these standards has not had a material impact on the Company in the current reporting period.

The Company has, with effect from 1 January 2019, implemented IFRS 16. The impact of the adoption of the standard is described below.

IFRS 16 Leases

Right-of-use assets

The Company leases its office premises in Copenhagen. The property lease contract was effective from 21 August 2017 and is non-cancellable in the period from 21 August 2017 to 30 June 2021. Hereafter, the option to terminate is six months for both lessor and lessee. 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. The Company allocates the consideration in the contract to the lease and non-lease components according to the specific pricing of the services in the agreements.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

The lease agreement is recognised as a right-of-use asset and corresponding liability in accordance with IFRS 16 *Leases*.

Assets and liabilities arising from a lease are initially measured at a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Short-term and low-value leases are not recognised as right-of-use assets.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period to ensure a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease payments are discounted using the interest rate implicit in the lease. As that rate cannot be readily determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The Company applied a weighted average incremental borrowing rate of 5%.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs and restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis (3 years).

New accounting policies and disclosures effective in 2020 or later

The IASB has issued, and the EU has endorsed, a number of new standards, and updated some existing standards, the majority of which are effective for accounting periods beginning on January 1, 2020 or later. Therefore, they are not incorporated in the financial statements. UNION Therapeutics A/S expects to adopt these standards, updates and interpretations when they become mandatory. There are no standards that are not yet effective and that would be expected to have a material impact on UNION Therapeutics A/S in the current or future reporting periods and on foreseeable future transactions.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, UNION therapeutics A/S (the Company), and two subsidiaries controlled by UNION therapeutics A/S.

The Group controls an entity if the Group is exposed to or is entitled to variable returns due to its interest in the entity and can impact these returns through its controlling interest in the entity.

In the assessment as to whether the Group exercises control, allowance is made for de facto control and potential voting rights that are real and of substance at the reporting date.

The consolidated financial statements have been prepared as a consolidation of the Parent Company's and the individual subsidiaries' financial statements prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated.

In the consolidated financial statements, the items of subsidiaries are recognised in full.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment that best reflect 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 US subsidiary is USD.

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 recognised in profit or loss as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated to 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 recognised in the latest annual report is recognised in profit or loss as financial income or financial expenses.

In the consolidated financial statements, the statement of comprehensive income of foreign operations with a functional currency other than Danish kroner are translated at the exchange rate at the transaction date, and the statement of financial position items are translated at closing rates. An average exchange rate for each month is used as the exchange rate at the transaction date in so far as this does not significantly distort the presentation of the underlying transactions.

Foreign exchange differences arising on translation of the opening equity of such entities at closing rates and on translation of the statements of comprehensive income from the exchange rate at the transaction date to closing rates are recognised in other comprehensive income in a separate translation reserve under equity.

Translation from functional currency to presentation currency

In the income statement and the statement of comprehensive income of entities with a functional currency other than Danish kroner are translated at the exchange rates at the transaction date, and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for each month is used as the exchange rate at the transaction date to the extent that this does not significantly distort the presentation of the underlying transactions.

Foreign exchange differences arising on translation of the opening equity of such entities at the exchange rates at the balance sheet date and on translation of comprehensive income from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognised in other comprehensive income in a separate reserve for foreign currency translation adjustments under equity.

Statement of comprehensive income

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Milestone payments that are attributable to specific milestone events as a result of previous research and/or development activities, e.g. completion of specific development objectives, are recognised as revenue at a point in time when it is highly probable that the milestone has been met and the receipt of revenue is highly probable.

Non-refundable upfront payments attributable to previous research/ and or development activities are recognized as revenues at the time when its certain that the fee is earned.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Research and development costs

Research and development costs primarily comprise salary and related cost, license, patent and other intellectual property-related costs and external development costs, as well as depreciation and amortisation directly attributable to the Group's research activities. All research and development costs are recognised in the income statement as incurred.

Administrative costs

Administrative costs primarily comprise salary and related expenses and other external administrative costs.

Other operating income

Other operating income comprises items secondary to the principal activities of the entities, including gains and losses on ongoing disposal and replacement of items of property and plant and equipment. Gains and losses on disposal are made up as the sales price less selling costs and the carrying amount at the time of disposal.

Moreover, other income comprises government and privately funded grants. Grants are recognised at the time when a final and firm right to the grant has been obtained and to the extent that the entity has obtained reasonable assurance to comply with the conditions attached to the grants received. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Financial income and expenses

Finance income and expenses comprise interest income and expenses, exchange gains and losses on transactions denominated in foreign currencies. Furthermore, amortisation of financial assets and liabilities, including finance lease liabilities, as well as surcharges and allowances under the on-account tax scheme and changes in the fair value of financial assets and liabilities are designated upon initial recognition as fair value through profit or loss.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the statement of comprehensive income, whereas the portion that relates to transactions taken to equity is recognised in equity.

Tax for the year includes tax credit for costs incurred in connection with research and development activities under section 8X of the Danish Tax Assessment Act (Ligningslovens § 8X).

Property, plant and equipment

Property, plant and equipment include leasehold improvements and other fixtures and fittings, tools and equipment. Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

The depreciation basis, which is made up as the cost reduced by a residual value, if any, is distributed on a straight-line basis over the expected useful life of the assets, cf. below:

	Useful life	Residual value
Other fixtures and fittings, tools and equipment	2-5 years	0
Leasehold improvements	5 years	0

Right-of-use assets are depreciated over the shorter of the assets useful life and the lease term on a straight line basis.

Rental deposits

Rental deposits are measured at amortised cost.

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1 Accounting policies (continued)

Other receivables

Other receivables, which include VAT and grant receivables, are initially measured at fair value and subsequently measured at amortised cost, which usually corresponds to the nominal value. The value is reduced by impairment losses.

Prepayments

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

Cash

Cash comprise cash in bank.

Income tax and deferred tax

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 from 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.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation or "uncertainty" and establishes provisions where appropriate. To date, no provisions have been established for uncertain tax positions.

Tax for the year includes a tax credit for research and development at the applicable tax rate for the year in question if the Company is deemed to qualify for the tax credit under the Danish Corporate Income Tax Act.

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 recognised 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 utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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1 Accounting policies (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the profit or loss is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities of the same tax jurisdiction are offset if a legally enforceable right exists to set off.

Share-based payments

The Board of Directors, key personnel, and lenders (The European Investment Bank) of the Group receive remuneration in the form of share-based payments.

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 recognised 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). The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognised at the beginning and end of that 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 Group'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 recognised for the fair value of cash-settled awards. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

Financial liabilities

Financial liabilities measured at fair value through profit or loss (FVPL)

A financial liability is measured at FVPL if it meets the definition of held for trading. The Company includes in this category, warrant put options.

Consolidated financial statements and parent company financial statements 1 January – 31 December

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1 Accounting policies (continued)

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Company includes in this category loans and other short-term payables.

Loans are initially recognised at fair value, net of transaction costs incurred, if any. Loans are subsequently measured at amortised cost using the effective interest rate method, or EIR. Gains and losses are recognised in the statement of comprehensive income within financial items when liabilities are derecognised as well as when the EIR amortization process is used.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Compound financial instruments

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

The Company has issued a loan with an embedded put option feature pursuant to which the lender may require the Company to purchase all or part of the warrants held by the lender at the fair value of the warrants at the time of exercise.

When establishing the accounting treatment of these non-derivative instruments the Company 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.

The Company separately recognises 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 warrant put option component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component.

Other liabilities

Other financial liabilities are on initial recognition measured at the proceeds received net of transaction costs paid. On subsequent recognition, liabilities are measured at amortised cost corresponding to the nominal unpaid debt.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer 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 transfer 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.

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1 Accounting policies (continued)

Fair value (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising 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, the Company 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.

Subsequent events

If the Company receives information after the reporting period, but prior to the date of the Board of Directors' approval of the financial statements, about conditions that existed at the end of the reporting period, the Company assesses whether the information affects the amounts recognised in the financial statements. The Company will adjust the amounts recognised in the financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information.

For non-adjusting events after the reporting period, the Company will not change the amounts recognised in the financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

Cash flow statement

The cash flow statement shows the entity's net cash flows, broken down by operating, investing and financing activities, the year's changes in cash and cash equivalents and the entity'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 profit or loss for the year, adjusted for non-cash operating items, changes in working capital, paid net financials and paid 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 and cash equivalents comprise cash and short-term securities in respect of which the risk of changes in value is insignificant.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Parent company financial statements

The Parent Company has the same accounting policies for recognition and measurement as the Group. The Parent Company's accounting policies deviate from the Group's accounting policies as described below.

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 recognised in the income statement of the Parent Company

2 Accounting estimates and judgements

In preparing the 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 the Company 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 Company's accounting policies described in note 1, Management has exercised the following critical accounting judgements and estimates which significantly influence the amounts recognised in the financial statements:

Fair value measuring concerning share-based compensation and warrant put options

Determination of the fair value of equity-settled warrants at grant date and fair value of the net settlement obligation related to cash settled warrants and warrant put options at the balance sheet date are associated with estimation uncertainty due to the fact that the shares of the Company are not traded in an active market and with few capital increases to support share prices. Reference is made to note 7 and note 22.

Consolidated financial statements and parent company financial statements 1 January – 31 December

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3 Financing and going concern assumption

Management expects the Company's capital resources, to be sufficient to cover the Company's obligations as they mature at least through 31 December 2020.

Based on these measures, the Board of Directors and Management have prepared the financial statements on a going concern assumption.

The Company expects to raise additional funds during 2020 to finance future clinical development and operations.

	Group		Parent Company	
DKK'000	2019	2018	2019	2018
4 Revenue				
Payments from out-licensing agreements recognized at a point-in-time	11,649	0	11,649	0
	11,649	0	11,649	0

In January 2019, Union therapeutics entered into an out-license with external party. Under the terms of the agreement, Union therapeutics is eligible for milestone payments upon successful achievement of certain research and development and regulatory approval milestones, as well as royalties on sales. Upfront and milestone payments that are attributable to specific events as a result of previous events or research and/or development activities, e.g. completion of specific objectives, are recognised as revenue at a point in time when it is highly probable that the event has been met and the receipt of revenue is highly probable.

In 2019, Union therapeutics received an upfront payment of DKK 7 million and a milestone payment of DKK 4 million under the agreement.

Below, the key performance obligations with the collaboration agreement are summarized:

Performance obligation: Transfer of 'right to use' licenses and intellectual property.

When performance obligations are met: Revenue associated with the out-licensing agreement will be satisfied at a point in time at the time of transfer of the right to use the intellectual property rights. Sales-based royalties will be recognised as revenue only when the underlying sales occur as the royalty is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of Union therapeutics.

Nature of goods and services promised: Union therapeutics completed all performance obligations relating to the upfront and milestone payments received in 2019. Union therapeutics has no further remaining performance obligations under the contract.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

	DKK'000	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
5	Research and development costs				
	Employee benefit expenses	11,099	12,695	11,099	12,695
	Shared-based compensation expenses	-968	1,515	-968	1,515
	External costs	9,242	34,226	10,243	34,405
	Depreciation	29	23	29	23
		19,402	48,459	20,403	48,638
	Administrative expenses				
	Employee benefit expenses	1,761	1,892	1,761	1,892
	Shared-based compensation expenses	1,636	1,174	1,636	1,174
	External costs	1,439	2,425	1,439	2,425
	Depreciation	217	0	217	0
		5,053	5,491	5,053	5,491

	DKK'000	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
6	Staff costs				
	Wages and salaries	11,693	13,668	11,693	13,668
	Defined contribution plans	262	175	262	175
	Other social security costs	345	64	345	64
	Share-based compensation expense	668	2,689	668	2,689
	Other staff costs	560	680	560	680
		13,528	17,276	13,528	17,276

DKK'000	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Research and development costs	10,131	14,210	10,131	14,210
Administrative expenses	3,397	3,066	3,397	3,066
	13,528	17,276	13,528	17,276

DKK'000	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Average number of full-time employees	9	8	9	8

Staff costs include cost of consultants not included in the number for full time employees.

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Notes to the financial statements

Remuneration to the Executive Board and Board of Directors

DKK'000	2019 Executive Board	2019 Board of Directors	2018 Executive Board	2018 Board of Directors
Wages and salaries	4,704	150	4,222	90
Share-based compensation expense	1,725	683	910	264
Social security	9	0	6	0
	6,438	833	5,138	354

7 Share-based payment

The Company has issued warrants to certain members of the Board of Directors, key personnel and lenders.

The table below summarises share-based compensation expenses included in the statement of profit or loss:

	Group		Parent Company	
DKK'000	2019	2018	2019	2018
Research and development expenses	-968	1,515	-968	1,515
Administrative expenses	1,636	1,174	1,636	1,174
	668	2,689	668	2,689

The tables below summarise the grant activity related to warrants:

Number of warrants	Board of Directors	Executive Board	Key personnel	Total
Outstanding, 31 December 2017	4,608	0	9,678	14,286
Granted during the year	0	8,000	2,310	10,310
Outstanding, 31 December 2018	4,608	8,000	11,988	24,596
Granted during the year	2.500	0	5,000	7,500
Forfeited	0	0	-5,213	-5,213
Outstanding, 31 December 2019	7,108	8,000	11,775	26,883

Board of Directors: Warrants awarded to the Board of Directors' vest partly, gradually and partly cliff-based over a period of 4 years subject to continued employment.

Key personnel (including former employees): Warrants awarded to employees vest partly, gradually and partly cliff-based over a period of 3-4 years subject to continued employment.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

7 Share-based payment (continued)

The fair of shared based payment in determined value based on the Black-Scholes option pricing model. The key parameters used for determining the fair value are:

	2019	2018
Dividend yield	-	-
Volatility (%)	61-65	55-69
Annual risk-free interest rate	-0,04% - 0,73%	-0,04% - 0,23%
Market share price at year end	DKK 534	DKK 815
Excise price	DKK 96 - 815	DKK 96-815
Life of warrants granted	4-10 years	5-10 years
Fair value of granted equity-settled warrants at grant date	DKK 278	DKK 413-455
Fair value of cash-settled warrants at 31 December	DKK 323	DKK 559

Reconciliation of fair value of cash settled warrants:

DKK'000	Cash settled warrants
1 January 2018	2,488
Fair value adjustment through profit of loss	8
At 31 December 2018	2,496
Fair value adjustment through profit of loss	-1,053
At 31 December 2019	1,443

8 Other operating income

Other operating income consists of government grants (Innovation Fund Denmark and Train2Target). These grants provide compensation for a part of certain project-specific research and development expenses, including wages and salaries. In 2019, UNION therapeutics A/S recognized DKK 344 thousand as income from government grants (2018: DKK 3,683 thousand).

	Group		Parent Company	
DKK'000	2019	2018	2019	2018
9 Financial income				
Interest income	93	107	94	105
Interest income, group entities	0	0	41	40
Foreign exchange gains	63	0	63	0
Fair value adjustment, warrant and put option	1,830	1,282	1,830	1,282
Total financial income	1,986	1,389	2,028	1,427
10 Financial expenses				
Interest expenses	139	185	139	171
Interest expenses, lease liabilities	28	0	28	0
Interest expenses, EIB loan	6,362	6,479	6,362	6,479
Foreign exchange loss	0	100	0	114
Total financial expenses	6,529	6,764	6,529	6,764

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11 Income taxes

The major components of income tax benefit for the years ended 31 December 2019 and 2018 are:

	Group		Parent Company	
DKK'000	2019	2018	2019	2018
Income taxes in the statement of profit or loss				
Net result before tax	-17,005	-55,641	-17,964	-55,783
Corporate income tax rate	22%	22%	22%	22%
Computed corporate income tax (benefit)	-3,741	-12,241	-3,952	-12,272
Adjustment for non-deductible expenses	9	14	9	14
Adjustment for R&D super deduction	-62	-154	-62	-155
Adjustment for warrant	147	592	147	592
Change in deferred tax assets not recognized	-496	6,292	-290	6,319
Total income tax expense/benefit	-4,143	-5,497	-4,148	-5,502
Deferred tax in the statement of financial position				
Tax deductible losses	9,253	9,241	9,253	9,241
Other temporary differences	-350	-48	-350	-48
Deferred tax at 31 December	8,903	9,193	8,903	9,193
Deferred tax assets not recognised:				
Deferred tax assets not recognised	-8,903	-9,193	-8,903	-9,193
Deferred tax at 31 December	0	0	0	0

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12 Tangible assets

	Group and Parent Company		
DKK'000	Right-of-use of assets	Other equipment	Total
Cost			
At 1 January 2019	0	94	94
Additions	650	0	650
At 31 December 2019	650	94	744
Depreciation			
At 1 January 2019	0	35	35
Additions	216	29	245
At 31 December 2019	216	64	280
Net book value			
At 31 December 2019	434	30	464

	Group and Parent Company	
DKK'000	Other equipment	Total
Cost		
At 1 January 2018	59	59
Additions	35	35
At 31 December 2018	94	94
Depreciation		
At 1 January 2018	12	12
Additions	23	23
At 31 December 2018	35	35
Net book value		
At 31 December 2018	60	60

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	DKK'000	2019	2018
13	Investments in subsidiaries		
	Cost at 1 January	7	7
	Additions	40	0
	Cost at 31 December	47	7
	Carrying amount at 31 December	47	7

Name and registered office	Voting rights and ownership
UNION therapeutics North America Inc.	100%
UNION therapeutics Research Services ApS	100%

		Group		Parent Company	
	DKK'000	2019	2018	2019	2018
14	Other receivables and prepayments				
	VAT receivables	348	579	348	579
	Other receivables	707	479	662	469
	Prepayments	54	123	54	123
		1,109	1,181	1,064	1,171

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15 Capital management and share capital

Since its inception, the Company has financed its operations through capital increase as well as funding from loans and governmental grants. Management is when required seeking to obtain additional funding to fund the Company's research and development programs.

Loan facility and warrant and put option agreement with the European Investment Bank

In October 2017, the Company entered into a finance contract with the European Investment Bank ensuring a loan facility of EUR 20 million.

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, the Company called the first of the two tranches under the finance contract. The first tranche totalled EUR 7,000,000. The loan and accumulated interest fall due for payment in January 2023.

In December 2019, the Company called the second of the two tranches under the finance contract. The second tranche totalled EUR 3,320,000. The loan and accumulated interest fall due for payment in December 2024.

As consideration for the loan, the Company has granted 18,691 warrants to the European Investment Bank that vest relative to the drawdown on the loan in two tranches. Each warrant entitles EIB to subscribe for 1 share of nominal DKK 1 against payment of exercise price of 1 DKK. Vested warrants can be exercised in part of in full at any time at the discretion of EIB. Warrants not exercised after 20 years shall lapse.

Upon draw down of the first tranche in 2018, 8,722 warrants vested. Upon drawdown of the second tranche in 2019, 2,546 warrants vested, and 7,423 warrant were lapsed and became void. A number on 8,722 and 11,268 warrants were outstanding at 31 December 2019 and 2018, respectively.

The loan agreement further includes an embedded derivative in form of a put option, pursuant to which the European Investment Bank may require the Company 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. Reference is made to note 22.

As part of the loan agreement, the Company entered into a floating charge agreement pursuant to which a floating charge of EUR 2 million is pledged. Furthermore, the Company entered into a negative pledge preventing it to subsist any security over any of its assets. Reference is made to note 18.

Share capital

The share capital comprises of 515,448 shares of DKK 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 1 January 2019	500,000	500
Capital increase at 19 September 2019	14,044	14
Capital increase at 6 December 2019	1,404	1
Share capital at 31 December 2019	515,448	515
Share capital at 31 December 2018	500,000	500

Reference is made to note 21.

Loss of subscribed share capital

As a result of the Company's financing strategy and utilization of the credit facility provided by the European Investment Bank, the Company has lost more than 50% of its subscribed share capital measured at book value. In accordance with section 119 of the Danish Companies Act, the Board of Directors plan for the capital to be re-established through future capital increases and/or income resulting from development activities.

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16 Related party disclosures

Group and Parent Company

Related parties comprise UNION therapeutics North America, Inc., UNION therapeutics Research Services ApS and UNION therapeutic A/S' Executive Management and Board of Directors.

No single shareholder has significant influence or control over the Company.

Besides paying the usual salary and share-based payment to the Executive Management and Board of Directors as further described in notes 6 and 7, the Company did not carry through any transactions with its related parties besides the below-mentioned transactions.

	Year	Sales	Purchases	Receivables	Payables
Transactions with other related parties:					
Associates:					
Clinical-Microbiomics A/S	2019	0	0	0	0
	2018	92	104	0	0
UNION therapeutics North America, Inc.	2019	0	1,178	1,515	1,305
	2018	0	3,291	480	0

Holding companies

The Company is jointly controlled by the holding companies Vendler ApS and Manjin ApS, which are owned by members of the Executive Board. There were no transactions between UNION therapeutics A/S and the holding companies in 2019 and 2018.

Associated parties

Clinical-Microbiomics A/S

UNION therapeutics A/S renders contract research services to and from Clinical-Microbiomics A/S. Clinical-Microbiomics A/S is partly owned by the holding companies to UNION therapeutics A/S, and members of the Executive Board of UNION therapeutics A/S are appointed to the Board of Directors of Clinical-Microbiomics A/S.

UNION therapeutics North America, Inc.

UNION therapeutics North America, Inc. renders contract research services from UNION therapeutics A/S. Moreover, UNION therapeutics A/S has provided a loan to UNION therapeutics North America, Inc. UNION therapeutics North America, Inc. is a wholly-owned subsidiary of UNION therapeutics A/S.

UNION therapeutics Research Services ApS.

UNION therapeutics Research Services ApS was founded on 24 September 2019 and is a wholly owned subsidiary of Union therapeutics A/S. The company has been without activity in 2019.

Board of Directors

Reference is made to notes 6 and 7.

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Terms and conditions of transactions with related parties

Outstanding balances at year end are unsecured and interest free and settlement occurs in cash. No guarantees were provided or received for any related party receivables or payables.

		Group		Parent Company	
	DKK'000	2019	2018	2019	2018
17	Other payables				
	Salary related payables	531	1,122	531	1,122
	Other liabilities	1,421	2,301	1,421	1,424
		1,952	3,423	1,952	2,546

18 Contingent liabilities, contractual obligations and pledges

Group and Parent Company

The Company has entered into a floating charge agreement with the European Investment Bank pursuant to which a floating charge of EUR 2 million (2018: EUR 2 million) is pledged. Furthermore, the Company 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.

19 Financial risks

The Company's financial risks are managed by the Executive Board. The Company has identified financial risks, but 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 Board monitors its risk of a shortage of funds using a liquidity planning tool.

The Company's objective and policy are to maintain a balance between continuity of funding and flexibility through the use of bank credits, grants, collaboration agreements and hire purchase contracts.

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19 Financial risks (continued)

The table below summarises the category and maturity profile of the Company's financial liabilities:

Group

DKK'000	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total
2019				
Financial liabilities measured at fair value (level 3)				
Warrant and put option	6,006	0	0	6,006
Cash-settled share-based compensation	0	1,443	0	1,443
Total non-current liabilities	6,006	1,443	0	7,449
Financial liabilities measured at amortised cost				
Long-term debt	0	79,560	0	79,560
Trade payables	1,189	0	0	1,189
Other payables	1,952	0	0	1,952
Lease liabilities	234	217		451
Total current liabilities	3,375	79,777	0	83,152
2018				
Financial liabilities measured at fair value (level 3)				
Warrant and put option	6,479	0	0	6,479
Cash-settled share-based compensation	0	2,496	0	2,496
Total non-current liabilities	6,479	2,496	0	8,975
Financial liabilities measured at amortised cost				
Long-term debt	0	49,866	0	49,866
Trade payables	1,776	0	0	1,776
Other payables	3,423	0	0	3,423
Total current liabilities	5,199	49,866	0	55,065

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19 Financial risks - continued

Parent Company

DKK'000	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total
2019				
Financial liabilities measured at fair value (level 3)				
Warrant and put option	6,006	0	0	6,006
Cash-settled share-based compensation	0	1,443	0	1,443
Total non-current liabilities	6,006	1,443	0	7,449
Financial liabilities measured at amortised cost				
Long-term debt	0	79,560	0	79,560
Trade payables	1,203	0	0	1,203
Other payables	1,952	0	0	1,952
Lease liabilities	234	217	0	451
Total current liabilities	3,389	79,777	0	83,166
2018				
Financial liabilities measured at fair value (level 3)				
Warrant and put option	6,479	0	0	6,479
Cash-settled share-based compensation	0	2,496	0	2,496
Total non-current liabilities	6,479	2,496	0	8,975
Financial liabilities measured at amortised cost				
Long-term debt	0	49,866	0	49,866
Trade payables	1,769	0	0	1,769
Other payables	2,546	0	0	2,546
Total current liabilities	4,315	49,866	0	54,181

19 Financial risks (continued)

Group and Parent Company

The Company is exposed to multiple financial risks due to its operations. The financial risks primarily include foreign currency and liquidity risk.

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. UNION therapeutics A/S' exposure to the risk of changes in foreign exchange rates primarily relates to the Company's operating activities when revenue or expense transactions are denominated in a foreign currency.

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20 Changes in liabilities arising from financing activities

Group and Parent Company
DKK'000

2019			Non-cash changes				
	2018	Cash flows	Reclass. to warrant put option	Adoption of IFRS 16	Interest	Amortisation	2019
Debt facility	49,866	24,763	-1,357	0	6,122	164	79,560
Leasing	0	-229	0	650	28	0	449
Total	49,866	24,534	-1,357	650	6,150	164	80,009

2018			Non-cash changes				
	2017	Cash flows	Reclass. to warrant put option	Interest	Amortisation	Currency adj.	2018
Debt facility	0	52,023	-7,354	5,043	153	0	49,866
Total	0	52,023	-7,354	5,043	153	0	49,866

21 Events after the balance sheet date

Group and Parent Company

Capital increase

In May 2020, the Company carried out a cash capital increase receiving a gross proceed of DKK 44 million.

Acquired rights from LEO Pharma A/S

In June 2020, UNION therapeutics A/S acquired the rights to certain compounds and associated compound data, patent portfolio and materials from LEO Pharma A/S. The consideration for the acquired assets consisted of a cash payment, certain future milestone and contingent payments, and 12,044 shares in UNION therapeutics A/S.

Update regarding Covid-19

The Company has experienced delays in clinical trial enrolment as a consequence of Covid-19. The effects have been addressed by Management and are not considered to have material impact. Management continues to monitor the Covid-19 pandemic as well as guidance from government and health authorities, and will ensure appropriate measures to keep employees, patients, business and clinical partners safe while maintaining business continuity.

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22 Fair value measurement

The Company measures derivatives at fair value as at each reporting date. When estimating the fair value of financial instruments, management applies the following fair value measurement hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments measured on level 3

The Company has entered into a finance contract with an embedded warrant and put option. Management has estimated the fair value of the embedded warrant and put option using valuation techniques in the form of valuation models.

Valuation models and assumptions

Management assessed that cash, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following key methods and assumptions were used to estimate the fair values of level 3 financial instruments:

The fair value of the warrant and put option (refer to note 15) is estimated using the Black-Scholes Valuation model. This valuation method requires Management to make certain assumptions 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.

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

	2019	2018
Dividend yield	-	-
Volatility (%)	61	68
Annual risk-free interest rate	-0,40%	-0,23%
Market share-price at year-end	DKK 534	DKK 815
Excise price	DKK 1	DKK 1
Life of option	3-5 years	4 years

Sensitivity

At 31 December 2018 and 31 December 2019, other things being equal, a 1% increase in the share price will result in a 1% increase 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%.

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22 Fair value measurement (continued)

Reconciliation of fair value measurement under Level 3 hierarchy:

DKK'000	Warrant and put option
1 January 2018	0
Addition, fair value at drawn down	6,531
Fair value adjustment through profit of loss	-52
At 31 December 2018	6,479
Addition, fair value at 2nd drawn down	1,357
Fair value adjustment through profit of loss	-1,830
At 31 December 2019	6,006

23 Change in presentation currency

Group

DKK'000	Share capital	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2018 in USD'000	78	-378	2,244	1,944
Balance at 1 January 2018 in DKK'000	500	-2,342	13,865	12,023
Reclassification of currency translation	0	2,342	-2,342	0
Balance at 1 January 2018 in DKK'000	500	0	11,523	12,023

Parent

DKK'000	Share capital	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2018 in USD'000	78	-378	2,338	2,038
Balance at 1 January 2018 in DKK'000	500	-2.342	14,484	12,642
Reclassification of currency translation	0	2,342	-2,342	0
Balance at 1 January 2018 in DKK'000	500	0	12,142	12,642