Saniona A/S

Smedeland 26B

2600 Glostrup

Central Business Registration No 34049610

Annual Report 2022

The Annual General Meeting adopted the annual report on 25.05.2023

Chairman of the General Meeting

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Name: Anders Rubinstein

Contents

Entity details

Saniona A/S

Smedeland 26B

2600 Glostrup

Central Business Registration No: 34049610

Registered in: Albertslund

Financial year: 01.01.2022 – 31.12.2022

Board of Directors

Jørgen Drejer, Chairman

Karl Johan Bertil Sundberg

Anna Helena Constance Ljung

Executive Board

Thomas Feldthus, CEO

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

2300 Copenhagen S

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Saniona A/S for the financial year 01.01.2022 - 31.12.2022.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2022 and of the results of its operations for the financial year 01.01.2022 - 31.12.2022.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Glostrup, 25.05.2023

Executive Board

Thomas Feldthus

CEO

Board of Directors

Jørgen Drejer	Anna Helena Constance Ljung	Karl Johan Bertil Sundberg
Chairman		

Independent auditor's report

To the shareholders of Saniona A/S

Opinion

We have audited the financial statements of Saniona A/S for the financial year 01.01.2022 - 31.12.2022, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2022 and of the results of its operations for the financial year 01.01.2022 - 31.12.2022 in accordance with 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 financial statements" section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw your attention to note 1 in the financial statements stating that the Company's ability to continue as a going concern depends on the Saniona Group to secure funding through e.g., partnership agreements or raising of additional capital etc. As stated in note 1 to the financial statements, a material uncertainty exists that may cast considerable doubts about the Company's ability to continue as a going concern. We have not modified our opinion in this respect.

Emphasis of matter

As mentioned in note 14 of the financial statements, material uncertainty is related to the measurement of the receivables from group enterprise Saniona AB recognized at DKK 33.9 million, given that the measurement of the value recognized is greatly dependent on Saniona AB's and the Group as a whole ability to continue as a going concern, cf. note 1 to the financial statements.

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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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 exits. 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.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity'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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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 the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial statements Act.

Based on the work we have performed, we conclude that the management commentary 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 commentary.

Copenhagen, 25.05.2023

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No: 33963556

Henrik Wolff Mikkelsen

State Authorised Public Accountant

Identification number (MNE) mne33747

Management commentary

Letter from the CEO

2022 was a very unusual year for the biotech industry, as for Saniona. Challenging global developments and markets have impacted the company and our peers. Nevertheless, Saniona has continued to deliver in these volatile times, even though we found it necessary to close our Tesomet Phase 2b study and U.S. operations.

I was honored to be offered the position as CEO in April 2022. My first short-term goal was to secure a solid financial runway, independent of dilutive funding. The restructuring of the Group and the renegotiation of the maturity date for an outstanding loan were important components of saving and optimizing the use of the Groups cash position. The Group has thereby reached our target of reducing operating expenses by about 75% and extending the runway by about 18 months. This means that the current cash position is expected to fund the planned activities until the end of January 2024, when the loan becomes payable.

We have refocused our efforts on partnering to secure non-dilutive funding, while building long term value from our leading ion channel platform and pipeline. Saniona is a leader in the discovery of highly specific ion channel modulators. Several members of the company's scientific team have been pioneers in the field for more than 20 years, and we see significant potential in the pipeline and development prospects.

I am pleased to report that apart from Tesomet, we have reached all the set milestones and important inflection points for 2022 on our pipeline programs. The Phase 1 clinical trial of SAN711 was successfully completed, SAN903 is ready to enter clinical development and we advanced the preclinical GABAA α2/α3 activator and Kv7 ion channel epilepsy programs.

With this solid progress in our pipeline, we see significant potential for multiple value-creating milestones in 2023 including the establishment of partnerships around our programs. This may generate funding for the partnered programs and for internal development programs, while avoiding the need for dilutive financing and dependence on financial markets.

We are exploring partnering opportunities on several of our clinical stage and preclinical assets as well as our platform and have had numerous non-confidential and confidential meetings. Many biopharmaceutical companies have entered our program data rooms and we are engaged in constructive discussions about deal structure and financial terms with several potential partners, some of whom are interested in the same program. As a result of these concrete discussions, our current objective is to establishing at least two new partnerships this year, with the aim of concluding at least one by the end of H1.

Our short-term objectives from our partnering efforts are to further solidify our balance sheet and finance our internal development programs, thereby enabling us to deliver new valuable breakthrough medicine from our advanced programs in the longer term. We have developed plans for our clinical stage assets and initiated activities to ensure that these programs can be advanced as quickly as possible, as and when we have the resources to develop them internally.

Saniona has a broad pipeline of products, a highly motivated and professional team and significant experience with partnering. I am confident that our business development efforts will enable us to move our pipeline forwards, both with external partners and internally, and provide the foundation for delivering valuable new breakthrough medicines.

I am proud of what our team has accomplished, and the progress made following the restructuring in 2022. I'm also grateful for the support of our shareholders. We look forward to keeping you updated on our exciting journey in the coming year.

Thomas Feldthus

CEO

Group relations

The company became part of a group on 30 January 2014, where the parent company, Saniona AB, acquired 100 % of the shares in the company. The group is listed on Nasdaq Stockholm Small Cap. The group's share is traded under the ISIN code SE0005794617.

Saniona A/S established the subsidiary Saniona Inc in January 2020 and owned 100% of the shares in the company. The business in the subsidiary Saniona Inc was closed in April 2022, and the entity was closed in December 2022.

About Saniona

Saniona is a clinical-stage biopharmaceutical company focused on the discovery and development of medicines modulating ion channels. Saniona's most advanced candidate, tesofensine, has progressed towards regulatory approval for obesity by Saniona's partner Medix. Saniona is advancing four product candidates including Tesomet™ and three ion channel modulators SAN711, SAN903 and SAN2219. Tesomet™ has progressed to mid-stage clinical trials for rare eating disorders. SAN711 has completed Phase 1 for neuropathic pain conditions. SAN903 is ready for Phase 1 for inflammatory and fibrotic disorders. SAN2219 is in preclinical development for epilepsy. Saniona has research and development partnerships with Boehringer Ingelheim GmbH, Productos Medix, S.A de S.V and Cephagenix ApS. Saniona is based in Copenhagen, and listed on Nasdaq Stockholm Small Cap (OMX: SANION). Read more at www.saniona.com.

Development in activities and finances

In 2022, the company reported revenues and other operating income of DKK 12,557 thousand in total and net loss before tax of DKK 153,027 thousand. The company had positive equity of DKK 115,373 thousand at the end of 2022.

The company is financed through loans from the parent company and collaboration agreements. As stated in note 1 to the financial statements the Group is pursuing partnering activities with biopharmaceutical companies on its pipeline programs. The management is in advanced discussions with several companies and believes that it will be able to close at least two partnership agreements in 2023. Proceeds received from such new agreements would provide the Group with additional liquidity.

In relation hereof the repayment of the Company's receivable from Saniona AB amounting to DKK 33.9 million at 31 December 2022 depends on Saniona AB's and the Group as a whole ability to continue as a going concern and therefore material uncertainty related to the measurement of the receivable exists.

Events after the balance sheet date

On January 17, 2023, Saniona announced successful preclinical in vivo validation for treatment of migraine in the Cephagenix joint venture program.

On February 25, 2023, Saniona announced that its partner Medix received favorable opinion for tesofensine for the treatment of obesity and weight management in Mexico.

Income statement for 2022

DKK	Note	2022	2021
Revenue		9,931,778	19,987,709
Other operating income		2,625,705	1,590,585
Costs of raw materials and consumables		-9,999,397	-10,273,923
Other external expenses		-40,418,037	-26,145,181
Gross profit/loss		**-37,859,951**	**-14,840,810**
Staff costs	2	-27,178,868	-34,574,687
Depreciation, amortization and impairment losses		-4,547,129	-4,528,795
Operating profit/loss		**-69,585,948**	**-53,944,292**
Other financial income	3	9,840,726	303,900
Income/expenses from other investments	4	-7,814,818	2,951,027
Income/expenses from associates	5	-1,466,170	—
Reduction of carrying value of investment in subsidiary		-74,167,873	-188,255,000
Other financial expenses	6	-9,832,687	-12,611,216
Profit/loss before tax		**-153,026,770**	**-251,555,582**
Tax on profit/loss for the year	7	4,681,442	5,500,000
Profit/loss for the year		**-148,345,328**	**-246,055,582**
Proposed distribution of profit/loss			
Retained earnings		-148,345,328	-246,055,582
		-148,345,328	**-246,055,582**

Balance sheet

DKK	Notes	2022	2021
Acquired intangible assets	8	4,500,000	4,500,000
Intangible assets		**4,500,000**	**4,500,000**
Other fixtures and fittings, tools and equipment	9	4,661,252	5,425,932
Leasehold improvements	9	1,480,634	2,003,537
Land and buildings	9	4,345,807	6,953,292
Tangible assets		10,487,693	14,382,761
Investment in subsidiaries	10	—	167,926,212
Investment in associates	5	553,830	750,000
Other financial assets	11	1,769,039	1,671,290
Other investments	12	160,942	13,298,886
Financial assets		2,463,811	183,646,388
Other assets	13	—	150,000
Non-current assets		**17,451,504**	**202,679,149**
Trade receivables		3,091,089	2,628,499
Receivables from group companies	14	33,925,629	46,343,229
Current tax assets		5,500,000	5,500,000
Other assets		1,856,061	3,181,081
Current receivables		**44,372,779**	**57,652,809**
Cash		**73,127,414**	**33,208,772**
Current assets		**117,500,193**	**90,861,581**
Total assets		**134,951,697**	**293,540,730**

Balance sheet

DKK	Notes	2022	2021
Share capital		504,000	504,000
Retained earnings		114,868,809	261,237,125
Equity		**115,372,809**	**261,741,125**
Lease liabilities	15	3,381,631	7,270,404
Other liabilities	16	1,596,916	—
Non-current liabilities		**4,978,547**	**7,270,404**
Current portion of lease liabilities	15	3,888,774	4,056,724
Trade payables		8,861,679	15,961,187
Current tax liabilities		818,558	—
Other financial liabilities		967,521	2,557,437
Other liabilities		63,809	1,953,853
Current liabilities		**14,600,341**	**24,529,201**
Total liabilities		**19,578,888**	**31,799,605**
Total equity and liabilities		**134,951,697**	**293,540,730**
Going concern	1		
Related parties with controlling interest	17		

Statement of changes in equity for 2022

DKK	Share capital	Retained earnings	Shareholders' equity
Equity beginning of year	504,000	261,237,125	261,741,125
Profit/loss of the year	—	-148,345,329	-148,345,329
Increase of capital	—	—	—
Share-based compensation expenses	—	1,977,013	1,977,013
Equity end of year	**504,000**	**114,868,809**	**115,372,809**

Notes

Not 1 Going concern

The financial statements have been prepared on a going concern basis.

As of December 31, 2022, Saniona A/S's current assets exceed its current liabilities by DKK 102.9 million. Current assets include among others receivables from group companies, cash and cash equivalents of DKK 117.5 million.

Due to the company and the Groups current activities which as present time has a negative cashflow from its operations the Group is continuously dependent of securing funding through e.g. partnership agreements or raising of additional capital etc. and where it for Saniona A/S under its current circumstances can be necessary to extend loans to it's parent company Saniona AB.

The group is pursuing partnering activities with biopharmaceutical companies on its pipeline programs. The management is in advanced discussions with several companies and believes that it will be able to close at least two partnership agreements in 2023. Proceeds received from such new agreements would provide the company with additional liquidity. Furthermore, the company may receive additional liquidity under existing collaboration agreements including milestone payments and royalties in relation to the potential approval and launch of tesofensine in Mexico.

There is a risk that the Group will not be able to retain or obtain additional partnerships, raise additional capital or obtain other co-financing on acceptable terms or at all. This could result in a temporary halt to the Group's development programs or that the Group is forced to run operations at a lower rate than desired, which could adversely affect the Group's operations. Based on the above-described factors, the Board has a reasonable expectation that the Group has and will have adequate resources to continue in operation existence during the financial year 2023.

Note 2 Staff costs

DKK	2022	2021
Wages and salaries	23,890,648	29,149,124
Pension costs	1,524,697	1,368,810
Share-based payment	1,977,013	3,748,299
Other social security costs	-597,941	-34,133
Other staff costs	384,451	342,587
	27,178,868	**34,574,687**
Average number of employees	**25**	**24**

Share based payments

A detailed description of the warrant program for 2017, 2018, 2019 and 2020 can be found in the annual report for 2021.

On August 18, 2022, the extraordinary shareholders' meeting voted in favor of establishing an Employee Option Program. On August 26, 2022, the Group allotted a total of 2,129,821 options under the Options Program 2022. The Employee Option Program 2022 comprises up to 2,129,821 employee options. Each employee option entitles the holders a right to acquire one new share in the company against cash consideration at an exercise price amounting to 130 per cent of the volume weighted average share price of the company's share on Nasdaq Stockholm during the 10 trading days immediately prior to the extraordinary general meeting on August 18, 2022. Allotment of 2,129,821 options took place August 25, 2022. The allotted employee options will vest with 1/3 each on the date that falls 12, 24 and 36 months, respectively, following the date of allotment. Allotted and vested employee options can be exercised during the period starting on the date that falls 3 years after the allotment date and ending on December 31, 2028. The board of directors has the right to limit the number of occasions during the exercise period when the employee options can be exercised.

Share-based compensation expenses for the years ended December 31, 2022, and 2021 totaled DKK 2.0 million and DKK 3.7 million, respectively. The fair value of the service that entitles an employee to allotment of options under the Option Programs is recognized as a personnel cost with a corresponding increase in equity. Such compensation expenses represent the fair market values of options granted and do not represent actual cash expenditures.

Saniona uses the Black-Scholes-Merton model to determine the grant date fair value of its options granted. The estimated life has been based on the average of the end of the vesting period and the contractual life of the respective instruments, absent sufficient Saniona-specific information about employees exercising options. Expected volatility has been based on an evaluation of the historical volatility of the Parent Company's share price, particularly over the historical period commensurate with the estimated life.

Note 3 Other financial income

DKK	2022	2021
Financial income from group enterprises	5,279,316	40,330
Other financial income	416,877	942
Foreign exchange gain	4,144,533	262,628
Total	**9,840,726**	**303,900**

Note 4 Income/expenses from other investments

DKK	2022	2021
Other investments	-7,814,818	2,951,027
Total	**-7,814,818**	**2,951,027**

Note 5 Investments in associates

Associates	Share of equity	Share of voting power	Carrying amount in Parent Company DKK
Cephagenix ApS Smedeland 26B 2600 Glostrup	23.5%	23.5%	553,830

DKK	2022	2021
Cost on January 1	750,000	—
Additions	1,250,000	750,000
Cost on December 31	**2,000,000**	**750,000**
Write-down on January 1	—	—
Write-down	1,446,170	—
Write-down on December 31	**1,446,170**	**0**
Carrying amount December 31	**553,830**	**750,000**

Note 6 Other financial expenses

DKK	2022	2021
Financial expenses from group enterprises	-8,454,001	-11,233,075
Interest expense	-238,973	-176,497
Other financial expenses	-1,139,713	-1,201,644
Total	**-9,832,687**	**-12,611,249**

Note 7 Tax on profit/loss for the year

DKK	2022	2021
Tax on current year taxable income	4,681,442	5,500,000
Total	**4,681,442**	**5,500,000**

Note 8 Intangible assets

DKK	Acquired intangible assets
Cost on January 1	5,500,000
Additions	—
Cost on December 31	**5,500,000**
Depreciation on January 1	1,000,000
Depreciation	—
Depreciation on December 31	**1,000,000**
Carrying amount December 31	**4,500,000**

Note 9 Property, plant and equipment

DKK	Other fixtures and fittings, tools and equipment	Leasehold improve-ments	Land & building	Total
Cost on January 1	9,538,677	2,578,386	10,429,938	22,547,001
Additions	653,635	—	—	653,635
Disposals	-14,034	—	—	-14,034
Cost on December 31	**10,178,278**	**2,578,386**	**10,429,938**	**23,186,602**
Depreciation on January 1	4,112,745	574,849	3,476,646	8,164,240
Depreciation	1,416,741	522,903	2,607,485	4,547,129
Disposals	-12,460	—	—	-12,060
Depreciation on December 31	**5,517,026**	**1,097,752**	**6,084,131**	**12,698,909**
Carrying amount December 31	**4,661,252**	**1,480,634**	**4,345,807**	**10,487,693**
Recognised assets not owned by the entity	**2,332,304**	—	**4,345,807**	—

Note 10 Investments in subsidiaries

Direct subsidiary	Share of equity	Share of voting power	Carrying amount in Parent Company DKK
Saniona Inc, 500 Totten Pond Road, Suite 620, Waltham, MA 02451, USA*	100%	100%	—

* Saniona, Inc. was established as a subsidiary of Saniona A/S in January 2020, and closed in December 2022.

DKK	2022	2021
Cost on January 1	356,181,212	356,181,212
Disposals	-356,181,212	—
Carrying amount December 31	**0**	**356,181,212**
Write-down January 1	188,255,000	—
Write-down	—	188,255,000
Disposals	-188,255,000	—
Write-down December 31	**0**	**188,255,000**
Carrying amount December 31	**0**	**167,926,212**

Note 11 Other financial assets

DKK	2022	2021
Cost of January 1	1,671,290	1,278,284
Additions	97,749	393,006
Disposals	—	—
Cost on December 31	1,769,039	1,671,290

Note 12 Other investments

DKK	2022	2021
Cost of January 1	13,298,886	27,658,985
Fair value adjustment	—	2,951,027
Payment received	-5,323,126	-17,311,126
Cost on December 31	**7,975,760**	**13,298,886**
Depreciation on January 1	—	—
Depreciation	-7,814,818	—
Depreciation on December 31	**-7,814,818**	**0**
Carrying amount December 31	**160,942**	**13,298,886**

Note 13 Other assets

DKK	2022	2021
Cost of January 1	150,000	150,000
Additional	—	—
Disposals	-150,000	-—
Cost on December 31	**0**	**150,000**
Depreciation on January 1	—	—
Depreciation	—	—
Depreciation on December 31	**0**	**0**
Carrying amount December 31	**0**	**150,000**

14. Receivables from group companies

Receivables from group companies of DKK 33.9 million are receivables from the parent company Saniona AB.

In note *1 Going concern* the company describe an uncertainty regarding going concern for the Group (Saniona A/S and Saniona AB), and therefore there is a significant uncertainty associated with the measurement of the receivables from Saniona AB. DKK 33.9 million have been measured at carrying amount.

15. Lease liabilities

DKK	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	4,501,252	499,978	4,001,274
Between one and five years	3,440,229	171,098	3,269,131
Total	**7,941,481**	**671,076**	**7,270,405**

16. Other liabilities

DKK	2022	2021
Cost of January 1	—	—
Additions	1,596,916	—
Cost on December 31	**1,596,916**	**0**
Depreciation on January 1	—	—
Depreciation	—	—
Depreciation on December 31	**0**	**0**
Carrying amount December 31	**1,596,916**	

17. Related parties with controlling interest

The Company has registered the following shareholder to have the controlling interest of the company:
Saniona AB, Smedeland 26B, 2600 Glostrup, 100 %.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied to these financial statements are consistent with those applied last year.

Recognition and measurement

Assets are recognized in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognized in the income statement when earned, whereas costs are recognized by the amounts attributable to this financial year.

Leases

A lease asset (right-of-use asset) and a similar lease liability are recognised for all leases for which the Entity is a lessee. However, this policy does not apply to short-term leases (i.e. leases with a lease term ending within 12 months) and contracts to lease assets of low value. For such leases, lease payments are recognised as an expense on a straight-line basis over the lease term.

If the lease contains non-lease components (e.g. a service agreement on the lease assets), such components are recognised separately.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognized in the income statement as financial income or financial expenses.

Income statement

Revenue

i. General

Saniona generates revenue from out-licensing of intellectual property and from providing research and development services, either in combination with an out-licensing arrangement, or standalone. For all contracts with customers, Saniona (1) identifies the performance obligations in the contract, (2) determines the transaction price, (3) allocates the transaction price to the performance obligations in the contract, and (4) recognizes revenue when or as Saniona satisfies a performance obligation.

ii. Out-licensing arrangements

For out-licensing arrangements that include promises in addition to the promised license, Saniona determines if the license is ‘distinct’ by assessing whether the customer can benefit from the license on its own or together with other resources that are readily available, and whether the license is separately identifiable from other goods or services in the contract. If the license is not distinct, then Saniona recognizes revenue for the single performance obligation when or as the combined goods or services are transferred to the customer.

If the license is distinct, Saniona determines the nature of the license. If the nature of the promise is to provide the customer with a right to access the Saniona’s intellectual property (‘IP’) throughout the license period, then Saniona recognizes revenue over time, because the customer simultaneously consumes and receives benefit from Saniona’s performance of providing access to its IP as that performance occurs. A promise to provide the customer with a right to use Saniona’s IP is satisfied at a point in time.

iii. Service revenue

Revenue from providing R&D services is recognized when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised services to the customer.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc. for entity staff.

Share-based incentive programmes

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The fair value of the equity instruments is calculated using the Black-Scholes formula including the parameters defined in note 1.

Depreciation, amortization and impairment losses

Amortization, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortization, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Income from investments in group enterprises

Income from investments in group enterprises includes dividends etc. received from the individual businesses in the financial year and depreciations due to reductions in carrying value.

Income from associates

Income from investments in associates comprises pro rata share of the individual enterprises' profit/loss after proportionate elimination of internal profit or losses.

Income from other investments

Income from other financial assets includes returns by way of fair value adjustments etc. of financial assets that are not investments in group enterprises or associates.

Other financial income

Other financial income comprises dividends etc. received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortization of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortization of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognized in the income statement by the portion attributable to the profit for the year and recognized directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Property, plant and equipment

Land and buildings, other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Land and buildings (lease assets)	3-5 years
Other fixtures and fittings, tools and equipment	1-10 years
Leasehold improvements	5 years

For leasehold improvements, the depreciation period cannot exceed the contract period.

Expected useful lives and residual values are reassessed annually.

Items of plant and equipment are written down to the lower of recoverable amount and carrying amount.

Lease assets

On initial recognition, lease assets are measured at the amount of the initial measurement of the lease liabilities, any lease payments made before the commencement date less any lease incentives received, and any initial direct costs incurred by the lessee.

An estimate of costs to be incurred by the lessee in dismantling and removing the lease as-sets, or restoring the underlying assets, are recognised as a separate provision. The costs are added to the cost of the lease assets. Subsequently, lease assets are measured at cost less accumulated depreciation and impairment losses.

Lease assets are depreciated over the lower of the lease term and the useful life of the under-lying assets. If the lease transfers the ownership of the lease assets by the end of the lease term or if the exercise of a purchase option is expected, the lease assets are depreciated over their useful life. Depreciation begins at the commencement date.

Lease assets are written down to the lower of recoverable amount and carrying amount

Lease assets are adjusted upon remeasurement of the lease liabilities; see below in the lease liability section.

Lease assets are recognised as fixed assets within the asset item in which the underlying as-sets of the lease would be recognised if the Entity owned them.

Investments in group enterprises

Investments in subsidiaries are measured at cost. The investment is written down to the lower of the recoverable amount and the carrying amount.

Investments in associates

Investments in associates are recognized and measured according to the equity method. This means that investments are measured at the pro rate share of the enterprises' equity value plus unamortized goodwill and plus or minus unrealized internal profits and losses.

Investments in associates are written down to the lower of recoverable amount and carrying amount.

Other investments

Other securities and investments include unlisted securities, which are measured at fair value at the balance sheet date.

Receivables

Receivables are measured at amortized cost, usually equaling nominal value less write-downs for bad and doubtful debts.

Deferred tax

Deferred tax is recognized on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognized in the balance sheet at their estimated realizable value, either as a set-off against deferred tax liabilities or as net tax assets.

Income tax payable or receivable

Current tax payable or receivable is recognized in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Lease liabilities
On initial recognition, lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Entity's incremental borrowing rate shall be used.

Lease payments included in the measurement of the lease liability comprise the following payments:

Fixed payments less any lease incentives provided by the lessor to the lessee.

Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

Amounts expected to be payable under residual value guarantees.

The exercise price of a purchase option if it is reasonably certain to exercise that option.

Payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that depend on an index or a rate are recognised in the income statement as "Other external expenses" in the period in which the event or the circumstance triggering the payments in question takes place.

On subsequent measurement, lease liabilities are adjusted for accrued interest and repayments made, calculated by the effective interest rate method.

Lease liabilities are remeasured and the corresponding lease assets are similarly adjusted when:

There is a change in the lease term, e.g. as a result of a change in the assessment of whether an option to extend or to purchase will be exercised. Remeasurement takes place by discounting the revised lease payments using a discount rate revised at the time of changing the lease.

There is a change in lease payments resulting from a change in an index or a rate, or in the amounts expected to be payable under a residual value guarantee. Remeasurement takes place by discounting the revised lease payments using the original discount rate. However, a revised discount rate is used if the change reflects a change in the floating interest rate.

There is a lease modification that is not accounted for as a separate lease. Remeasurement takes place by discounting the revised lease payments using a revised discount rate.

If the remeasurement results in the reduction of a lease liability exceeding the carrying amount of the corresponding lease asset, the excess amount is recognised in the income statement.

Other financial liabilities

Other financial liabilities are measured at amortized cost, which usually corresponds to nominal value.