CELON PHARMA

CELON PHARMA S.A.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021
TOGETHER WITH THE INDEPENDENT
STATUTORY AUDITOR'S REPORT

Kiełpin, 27 April 2022

CELON PHARMA

CONTENTS:

(in PLN thousand)

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2021

	Notes	year ended 31 December 2021	year ended 31 December 2020 *restated data*
Continuing operations	-	-	-
Revenues	**4, 5.1**	**199 109**	**159 992**
Revenues from sales of drugs		168 816	129 058
Revenues from grants		26 528	21 874
Other revenues		3 022	2 638
Revenues from sales of licences		743	6 422
Operating costs	**4**	**207 739**	**163 860**
Depreciation and amortisation		41 342	34 540
Raw materials usage		61 715	36 643
External services		37 384	44 129
Employment costs	5.6	52 730	39 306
Other costs		14 568	9 242
Profit/(loss) from sales		**-8 630**	**-3 868**
Other operating income	5.3	162	719
Other operating costs	5.3	1 985	524
Operating profit/(loss)		**-10 453**	**-3 673**
Financial income	5.4	88	142
Financial costs	5.5	4 722	2 056
Profit/(loss) before tax		**-15 087**	**-5 588**
Income tax	6	-3 480	-4 671
Net profit/loss from continuing operations		**-11 607**	**-917**
Discontinued operations			
Net profit/(loss) from discontinued operations		-	-
Net profit/(loss) for the financial year		-11 607	-917
Other comprehensive income			
Items not subject to the reclassification to the profit/(loss) in subsequent reporting periods			
Actuarial gains/(losses) on defined benefit schemes		0	0
Net profit/(loss) on equity instruments at fair value through other comprehensive income		25 031	-34 895
Income tax on other comprehensive income	5	-4 756	6 630
Other net comprehensive income not subject to the reclassification to the profit/(loss) in subsequent reporting periods		**20 275**	**-28 265**
Other net comprehensive income		**20 275**	**-28 265**
COMPREHENSIVE INCOME FOR THE YEAR		**8 668**	**-29 181**
Profit/loss per share		-0,25	-0,02
- basic profit for the financial year		-0,25	-0,02
- basic profit from continuing operations for the financial year		-0,25	-0,02
- diluted profit for the financial year		-0,25	-0,02
- diluted profit from continuing operations for the financial year		-0,25	-0,02

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2021

	Notes	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	11	303 665	314 587
Right-of-use assets	12	25 543	16 826
Intangible assets	13	29 171	41 097
Investments in other entities	14	37 903	12 872
Other financial assets		218	93
Deferred tax asset	6	31 937	27 171
		428 437	**412 646**
Current assets			
Inventories	16	23 376	29 760
Trade receivables	17	24 674	32 528
Income tax receivables		0	1 536
Other receivables	17	2 571	7 957
Other non-financial assets	18	529	3 470
Other financial assets (ST)	19	79 755	13
Cash and cash equivalents	**20**	147 796	43 978
		278 701	**119 242**
TOTAL ASSETS		**707 138**	**531 888**
EQUITY AND LIABILITIES			
Equity			
Share capital	21.1	5 100	4 500
Supplementary capital	21.2	613 510	393 124
Revaluation reserve	21.4	25 757	5 482
Retained earnings/ Uncovered losses		-80 068	-57 657
Reserve capital from valuation of share options	21.5	1 309	0
Net profit/loss for the current period	9	-11 606	-917
		554 002	**344 532**
Non-current liabilities			
Deferred tax provision	6	6 042	0
Lease liabilities	22, 23	8 354	9 158
Other liabilities (including investment liabilities)	25	22 526	24 380
Accruals and deferred income from grants	24	29 851	39 672
		66 773	**73 210**
Short-term liabilities			
Trade liabilities	25	12 681	20 480
Liabilities due to loans and borrowings	23	0	12 838
Lease liabilities (ST)	22, 23	6 563	3 485
Other liabilities (including investment liabilities) (ST)	25	6 285	25 633
Liabilities due to employment costs	25	2 305	4 709
Other non-financial liabilities (ST)	25	1 256	1 226
Provisions (ST)		1 446	0
Accruals and deferred income from grants (ST)	24	55 827	45 775
		86 363	**114 146**
Total liabilities		**153 136**	**187 356**
EQUITY AND LIABILITIES		**707 138**	**531 888**

Accounting principles (policies) and additional explanatory notes on pages 35-45 constitute an integral part of the financial statements.

(in PLN thousand)

STATEMENT OF CASH FLOW
for the year ended 31 December 2021

	Notes	year ended 31 December 2021	year ended 31 December 2020
Cash flows from operating activities			
Profit/(loss) before tax		**-15 086**	**-5 588**
Adjusted for:		**59 038**	**77 327**
Depreciation and amortisation		41 342	31 767
Foreign exchange gains/losses		2 288	0
(Gains)/losses on investing activities		-132	324
(Increase)/decrease in trade receivables and other receivables		13 242	2 419
(Increase)/decrease in inventories		6 384	302
(Increase)/decrease in other non-financial assets		2 941	-2 426
Increase/(decrease) in liabilities, except for loans and borrowings		-10 174	14 489
Interest income/costs		1 469	443
Change in prepayments, accruals and deferred income due to grants		232	28 934
Change in provisions		1 446	-200
Income tax paid		0	1 275
Net cash flows from operating activities		**43 952**	**71 739**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		171	631
Purchase of property, plant and equipment and intangible assets		-41 352	-99 477
Sales of shares in other entities		0	13
Purchase of shares in other entities		0	0
Sales of other financial assets		0	45 424
Purchase of other financial assets		-79 867	0
Interest received		0	142
Other		0	0
Net cash flows from investing activities		**-121 048**	**-53 268**
Cash flows from financing activities			
Inflows from issue of shares	9	216 000	0
Outflows due to costs of issue of shares	9	-13 358	0
Dividends paid	10, 21.6	-3 150	-3 600
Inflows due to loans/borrowings incurred		0	12 838
Repayment of loans/borrowings		-12 838	0
Repayment of lease liabilities		-4 798	-4 401
Interest on lease liabilities		-637	-276
Interest on loans/borrowings		-305	-310
Other interest		0	0
Other		0	0
Net cash flows from financing activities		**180 914**	**4 251**
		103 818	**22 722**
Net cash flows		**43 978**	**21 256**
Cash at the beginning of the period		**147 796**	**43 978**

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity	Share capital	Supplementary capital	Revaluation reserve	Retained earnings/ uncovered losses	Net profit/loss	Reserve capital from valuation of share options	Total equity
Opening balance as at 1 January 2021	**4 500**	**393 124**	**5 482**	**(58 573)**	**-**	**-**	**344 533**
Net profit/(loss) for the year	-	-	-	-	(11 607)	-	(11 607)
Other net comprehensive income for the year	-	-	20 275	-	-	-	20 275
						-	
Comprehensive income for the year	-	-	20 275	-	(11 607)	-	8 668
- issue of shares	600	215 400	-	-	-	-	216 000
- costs of issue of shares	-	(13 358)	-	-	-	-	(13 358)
- valuation of share options						1 309	1 309
- dividends paid	-	-	-	(3 150)	-	-	(3 150)
- transfers/reclassifications	-	18 345	-	(18 345)	-	-	-
Closing balance as at 31 December 2021	**5 100**	**613 511**	**25 757**	**(80 068)**	**(11 607)**	**1 309**	**554 002**

Statement of changes in equity	Share capital	Supplementary capital	Revaluation reserve	Retained earnings/ uncovered losses	Net profit/loss	Total equity
Opening balance as at 1 January 2020	**4 500**	**384 789**	**33 747**	**(45 722)**	**-**	**377 314**
Net profit/(loss) for the year	-	-	-	-	(917)	(917)
Other net comprehensive income for the year	-	-	(28 265)	-	-	(28 265)
	-	-	-	-	-	-
Comprehensive income for the year	-	-	(28 265)	-	(917)	(29 182)
- issue of shares	-	-	-	-	-	-
- costs of issue of shares	-	-	-	-	-	-
- dividends paid	-	-	-	(3 600)	-	(3 600)
- transfers/reclassifications	-	8 335	-	(8 335)	-	-
Closing balance as at 31 December 2020	**4 500**	**393 124**	**5 482**	**(57 657)**	**(917)**	**344 532**

Accounting principles (policies) and additional explanatory notes
on pages 35-45 constitute an integral part of the financial statements.

ACCOUNTING PRINCIPLES (POLICIES) AND ADDITIONAL EXPLANATORY NOTES

1. General information

The financial statements of Celon Pharma S.A. cover the year ended 31 December 2021 and include comparative data for the year ended 31 December 2020. These financial statements were approved for publication by the Management Board on 27 April 2022.

Celon Pharma Spółka Akcyjna, hereinafter also referred to as the "Company," with its registered office in Kiełpin, ul. Ogrodowa 2A, was established on 25 October 2012, as a result of the transformation of the company under the name of Celon Pharma Sp. z o.o., with its registered office in Kiełpin. Celon Pharma S.A. was entered into the Register of Entrepreneurs in the National Court Register, kept by the District Court in Warsaw, 14th Business Department of the National Court Register, under KRS number: 0000437778, on 25 October 2012. Celon Pharma Sp. z o.o. was entered into the Register of Entrepreneurs in the National Court Register, on 20 June 2002, under KRS number: 117523, and was removed therefrom by operation of law, on the date of the company's transformation into a joint-stock company.

The term of the Company is unlimited.

The core business – manufacture of pharmaceutical products and pharmaceutical preparations, PKD 2120Z.

2. Composition of corporate authorities of the Company

The composition of the Management Board as at the balance sheet date:

- Maciej Wieczorek – President of the Management Board,
- Jacek Glinka – Vice President of the Management Board,
- Dorota Zwolińska – Member of the Management Board.

The composition of the Supervisory Board as at the balance sheet date:

- Robert Rzemiński – Chairman of the Supervisory Board,
- Krzysztof Kaczmarczyk – Member of the Supervisory Board,
- Urszula Wieczorek – Member of the Supervisory Board,
- Bogusław Galewski – Member of the Supervisory Board,
- Artur Wieczorek – Member of the Supervisory Board.

The composition of the Company's Management Board changed in the second half of 2021. On 30 November 2021, the Management Board received the information about resignation of Mrs. Iwona Giedronowicz from the position of the member of the Company's Management Board. Mrs. Iwona Giedronowicz was the member of the Company's Management Board and the Finance Director since 2014.

On 30 November 2021, the Supervisory Board of the Company passed a resolution on appointing, as of 15 December 2021, Mrs. Dorota Zwolińska to the Management Board, entrusting her the position of the Member of the Management Board and Finance Director.

On 11 February 2021, Mr. Michał Kowalczewski, member of the Supervisory Board, notified the Company of his resignation from the Supervisory Board as of the opening of the next General Meeting of Shareholders, i.e. 16 February 2021.

On 16 February 2021, the Extraordinary General Meeting of Shareholders appointed Mr. Bogusław Galewski to the Supervisory Board.

As at the date of publication of these financial statements, the composition of the Supervisory Board was as followed:

- Robert Rzemiński – Chairman of the Supervisory Board,
- Krzysztof Kaczmarczyk – Member of the Supervisory Board,
- Urszula Wieczorek – Member of the Supervisory Board,
- Bogusław Galewski – Member of the Supervisory Board,
- Artur Wieczorek – Member of the Supervisory Board.

3. Basis for the preparation of the financial statements

These financial statements have been prepared on a historical cost basis, except for equity instruments.
The financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of these financial statements, there are no circumstances indicating any threats to the Company continuing in operation.

The current situation related to the Covid-19 pandemics and the Russia and Ukraine conflict, as described in note 31, does not materially affect the Company's operations and financial position. However, the current economic situation is characterised by high uncertainty while the volatility of events makes it difficult to predict. The Company's Management Board is conducting an ongoing analysis of risks and threats of a financial and operational nature that could adversely affect the Company's ability to continue as a going concern, and that result from the domestic and global epidemic and political situation. The assessment of the current situation of the Company and its economic environment, together with the forecast analysis of financial ratios and other legal, economic and social factors, does not indicate a threat to the Company continuing as a going concern in the 12 months following the report publication date.

3.1. Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU ("EU IFRS"). EU IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB").

The scope of the financial statements complies with the Regulation of the Minister of Finance of 29 March 2019 on current and periodic information submitted by issuers of securities and the conditions for recognizing information required by law of a non-member state as equivalent information (Journal of Laws of 2018, item 757) ("Regulation"), and covers the annual reporting period from 1 January to 31 December 2021, and the comparative period from 1 January to 31 December 2020.
The presented financial statements in a reliable way show the Company's financial and economic position as at 31 December 2021, results of its operations and cash flows for the year ended 31 December 2021.

3.2. Functional currency and currency of the financial statements

The functional currency of the Company and the reporting currency of these financial statements is Polish zloty (PLN).
Data in the financial statements are presented in thousands of Polish zloty, unless specified otherwise.

4. Operating segments

For management purposes, the Company has been divided into parts based on manufactured products and services provided.

Consequently, the following operating segments exist:

- The generic drug segment that comprises all operating activities as a result of which the Company manufactures and sells drugs already registered and authorised for marketing.
- The innovative segment involving all activities aimed at developing the documentation on the basis of which a drug could be registered or commercialised at the stage prior to drug registration.

The Management Board monitors the operating results of the segments separately, in order to make decisions regarding the allocation of resources, assess the effects of this allocation and the results of operations. Results of operations are evaluated based on the operating profit or loss that, to some extent, as explained in the table below, are measured differently from the operating profit or loss in the financial statements. Financing of the Company (including financial costs and income) and income tax are monitored at the level of the Company and they are not allocated to segments.
There are no transactions between the segments.

(in PLN thousand)

	Generic drug segment		Innovative segment		Total	
			rok zakończony			
	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Revenues from sales of drugs	168 816	129 058	0	0	168 816	129 058
Other revenues	3 022	2 639	0	0	3 022	2 639
Revenues from grants	0	0	26 528	21 874	26 528	21 874
Revenues from sales of licences	743	6 422	0	0	743	6 422
Total revenues of the segment	**172 581**	**138 118**	**26 528**	**21 874**	**199 109**	**159 992**
including:						
domestic	*92 614*	*94 109*	*26 528*	*21 874*	*119 142*	*115 983*
Export	*79 968*	*44 008*	*0*	*0*	*79 968*	*44 008*
Total operating costs by type*	**145 221**	**111 323**	**62 518**	**52 538**	**207 739**	**163 861**
including:						
Depreciation and amortisation	29 083	28 593	12 258	5 947	41 341	34 540
Raw materials usage	48 968	32 011	12 748	4 632	61 716	36 643
External services	12 571	10 285	24 813	33 844	37 384	44 129
Employment costs	40 072	31 529	12 658	7 777	52 730	39 306
Other costs	14 527	8 905	41	338	14 568	9 243
Profit/loss of the segment	**27 360**	**26 795**	**-35 990**	**-30 664**	**-8 630**	**-3 869**
Other operating income	162	719	0	0	162	719
Other operating costs	1 985	524	0	0	1 985	524
Operating profit/loss (EBIT)	**25 537**	**26 990**	**-35 990**	**-30 664**	**-10 453**	**-3 674**
Operating profit/loss adjusted for depreciation and amortisation (EBITDA)	**54 620**	**55 583**	**-23 732**	**-24 717**	**30 888**	**30 866**
Financial income					88	142
Financial costs	-	-	-	-	4 722	2 056
Profit/loss before tax	**-**	**-**	**-**	**-**	**-15 087**	**-5 588**
Income tax, of which:					-3 480	-4 671
- current income tax					*0*	*0*
- deferred income tax	-	-	-	-	*-3 480*	*-4 671*
Net profit/loss	**-**	**-**	**-**	**-**	**-11 607**	**-917**

* In the statement of comprehensive income being a part of the financial statements for the years ended 31 December 2020, 31 December 2019 and 31 December 2018, prepared in accordance with International Financial Reporting Standards, published on 7 April 2021, the Company presented R&D costs (innovative segment costs) as a separate sub-ledger item of operating costs. Starting 1 January 2021, R&D costs are not presented separately in the statement of comprehensive income.

Operating costs	year ended 31 December 2020 *audited*	Adjustments	year ended 31 December 2020 *restated data*
Depreciation and amortisation	31 767	2 773	34 540
Raw materials usage	32 011	4 632	36 643
External services	10 285	33 844	44 129
Employment costs	31 529	7 777	39 306
Other costs	8 905	337	9 242
R&D costs	49 363	-49 363	0
Total	**163 860**	**0**	**163 860**

The aforementioned changes in R&D costs presentation were introduced based on the best market practices.
In addition to that, energy and fuel costs were allocated in 2021 between the two segments, whereas in 2020 they were fully allocated to the generic drug segment.

(in PLN thousand)

Revenues from contracts with clients (excluding revenues from grants) amounted to:

- *in the year ended 31 December 2020 – PLN 138,118 thousand;*
- *in the year ended 31 December 2021 – PLN 172,638 thousand.*

The Company has no assets and liabilities due to contracts with clients.
The Company's business is not seasonal.

COMMENTS ON THE RESULTS OF SEGMENTS

In 2021 revenues of the Company increased by 24,4% compared to 2020 and reached the value of PLN 199,1 million. The growth was mainly attributable to export sales of Salmex in France and Italy. Export sales totalled to PLN 80 million in 2021 which was translated into an increase in export sales contribution ratio from 27.5% in 2020 to 40.2% in 2021.

At the same time revenues from grants increased from PLN 21.9 million in 2020 to PLN 26.5 million in 2021 which was aligned with intensification of R&D projects. In 2021 the Company conducted 19 R&D projects actively, no project was discontinued in 2021.

Sales expansion in the generic drug segment in 2021 supported operating profit adjusted for the depreciation and amortisation (EBITDA) to remain at the stable level of PLN 31m both in 2021 and 2020, despite the increase in operating costs driven both by intensification of R&D projects (costs of innovative segment increased by PLN 9.7m , i.e. 18,4%) and by inflation, market wage pressure and market energy costs increase. EBITDA of the generic drug segment amounts to PLN 54,6 million in 2021 and PLN 55,5 million in 2020, whereas EBITDA of the innovative segment is negative and amounts to PLN 23.7 million in 2021 and PLN 24.7 million in 2020.

The aforementioned increase in operating costs relates to the following types of costs: depreciation and amortization, raw materials and employment costs, particularly.

In 2021 depreciation and amortization costs grew by PLN 6.8 million which is linked to the finalization of the vast majority of the R&D Centre investment (CAPEX of PLN 118m handed over for use in December 2020), as well as to intensification of CAPEX purchases for R&D projects.

Year-on-year increase in raw materials usage amounts to PLN 25.5 million in 2021 which is attributable both to the generics drugs sales expansion (increase by PLN 17 million) and to more advanced works performed withing R&D projects (increase by PLN 8.1 million). Sales expansion in 2021 took place at rising costs of energy, gas and raw materials.

Year-on-year increase in employment costs totals to PLN 13.4 million in 2021 and is attributable both to the increase in the average number of employees (innovative segment in particular) and to the increase in average remuneration. Average salaries grew in 2021 due to market wage pressure and to hiring highly qualified employees in the innovative segment.

CONCENTRATION RISK

Pursuant to Article 72 of the Act – Pharmaceutical Law (Journal of Laws 2021.0.1977), in Poland, wholesale trade in medicinal products can be carried out solely by registered pharmaceutical wholesale stores. There are about 300 of them, but the Company concludes commercial transaction with a dozen or so entities. Export sales are also pursued through wholesalers who perform their operations based on specific licenses and concessions. These revenues are recorded under the generic segment.

Sales concentration: revenues from sales of drugs	Year ended 31 December 2021	Year ended 31 December 2020
Client A	35 620	14 426
Client B	33 657	14 708
Client C	26 735	28 276
Client D	23 860	20 194
Client E	13 802	16 572

(in PLN thousand)

Sales concentration: trade receivables	31 December 2021	31 December 2020
Client A	3 587	953
Client B	3 731	7 739
Client C	5 725	10 386
Client D	1 357	1 512
Client E	3 621	5 386

5. Revenues and costs

5.1. Other revenues

Other revenues	Year ended 31 December 2021	Year ended 31 December 2020
Profit sharing	2 982	2 542
Other	40	97
Total	**3 022**	**2 639**

5.2. Other operating income

Other operating income	Year ended 31 December 2021	Year ended 31 December 2020
Gains on disposal of non-financial non-current assets	132	427
Other	30	292
Total	**162**	**719**

5.3. Other operating costs

Other operating costs	Year ended 31 December 2021	Year ended 31 December 2020
Donations	-	13
Other	1 985	511
Total	**1 985**	**524**

Pozostałe koszty operacyjne w roku 2021 uwzględniają koszty zaniechania inwestycji w wysokości 207 tysięcy złotych oraz odpisy na zapasy w kwocie 561 tysięcy złotych.

5.4. Financial income

Financial income	Year ended 31 December 2021	Year ended 31 December 2020
Interest	84	142
Other	4	-
Total	**88**	**142**

(in PLN thousand)

5.5. Financial costs

Financial costs	Year ended 31 December 2021	Year ended 31 December 2020
Interest on leases	637	276
Bank interests and fees	661	310
Other interest	255	81
Exchange losses	3 169	638
Other financial costs	-	751
Total	**4 722**	**2 056**

5.6. Employment costs

Employment costs	Year ended 31 December 2021	Year ended 31 December 2020
Payroll	41 915	32 109
Costs of social insurance	7 763	5 890
Costs of payments to the Employee Capital Plan (PPK)	105	78
Other costs of employee benefits	2 947	1 229
Total	**52 730**	**39 306**

The increase in payroll in 2021 in comparison to 2020 is due both to an increase in average employment, especially in the innovative segment, and to an increase in the average remuneration at the Company. The increase in the average remuneration is related to salary pressure and to hiring highly qualified employees in the innovative segment.

Other costs of employee benefits for 2021 include benefits of PLN 1,309 thousand due to the employee incentive programmes.

6. Income tax

6.1. Tax expense

Key components of the tax expense for the year ended 31 December 2021 and 31 December 2020 were as follows:

Income tax	Year ended 31 December 2021	Year ended 31 December 2020
Current income tax	-	-
Deferred income tax	(3 479)	(4 671)
Income tax recognised in profit or loss	**(3 479)**	**(4 671)**
Deferred income tax, of which:	(4 756)	6 630
Tax on net profit/(loss) on equity instruments at fair value through other comprehensive income	(4 756)	6 630
Income tax on other comprehensive income	**(4 756)**	**6 630**

(in PLN thousand)

6.2. Reconciliation of the effective tax rate

The reconciliation of the income tax on profit/(loss) before tax at the statutory tax rate to the income tax calculated at the Company's effective tax rate for the year ended 31 December 2021 and 31 December 2020 is as follows:

Reconciliation of the effective tax rate	Year ended 31 December 2021	Year ended 31 December 2020
Gross profit/(loss) from continuing operations before tax	*(15 086)*	*(5 588)*
Profit/(loss) from discontinued operations before tax		-
Profit/(loss) before tax - total	**-15 086**	**-5 588**
Tax at the statutory rate of 19% (2021: 19%) in Poland	-2 866	-1 062
Adjustment to current income tax from previous periods	-	-
Unrecorded tax losses	-	-
Tax investment allowances for R&D projects	3 349	4 137
Utilisation of previously unrecognised tax losses	0	0
Permanent non-deductible costs	2 736	528
Permanent revenues that are not included in the tax base	0	0
Unused tax assets written off	0	0
Other	0	0
Income tax (expense) included in the profit or loss	**(3 479)**	**(4 671)**
Effective tax rate – current period	**23%**	**84%**

6.3. Deferred income tax

Deferred income tax has resulted from the following items:

	Statement of financial position		Statement of comprehensive income for the year ended	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Provision for deferred income tax				
Leased property, plant and equipment	25 668	16 826	8 842	10 154
Fixed assets depreciation temporary differences	2 458	0	2 458	0
Valuation of financial investments	0	0	0	-436
Valuation of shares in Mabion	31 799	6 768	25 031	-34 894
Profit sharing	843	2 541	-1 698	2 541
Total deferred income tax provision	**11 546**	**4 966**	**6 580**	**-4 301**
Deferred tax assets				
Financial lease liabilities	15 109	12 513	2 596	7 888
Accruals and deferred income	3 050	2 263	786	119
Provisions for employment costs	2 364	2 303	61	813
Other valuations	261	0	261	0
R&D projects except for salaries	116 172	116 172	0	-7 860
Tax loss	60 098	35 887	24 211	35 887
Total deferred income tax assets	**37 440**	**32 136**	**5 304**	**7 001**
Deferred income tax expense			**-1 277**	**11 302**
Change charged to equity (valuation of Mabion S.A.)			**-4 756**	**6 630**
Change charged to profit or loss			**3 479**	**4 672**

* The amount reflects costs of R&D projects except for salaries, that were incurred by the Company in years 2016-2019 and were capitalised in accordance with the applicable tax policy. The Company is entitled to charge these costs to the taxable profit/loss in a relevant part of CIT-8 returns until 2025.

(in PLN thousand)

As at 31 December 2021, the Company had PLN 60m of unused tax losses relating to 2020 and 2021. This loss is available for use over five (5) consecutive years, that is for the year 2026 inclusive – however, it cannot be more than 50% in each tax year. The value of recognised deferred tax asset due to existence of unused tax loss for 2020 and 2021 amounts to PLN 11.4m. As at 31 December 2021, there are not any unrecognised tax loss assets and possibly other deductible temporary differences.

The Company carried out an analysis of the recoverability of the tax loss asset based on its assumptions, taking into account the possible occurrence of non-recurring events in the form of commercialisation of ongoing innovative projects, including their potential sale to external partners upon completion of a specific phase of clinical trials.

The analysis was based on the guidelines arising from para. 35 and 36 and 82 IAS12, as well as ESMA guidance32-63-743 of 15 July 2019. Consideration was given to the significant increases in sales revenue already achieved (mainly export) and the possibility of commercialising certain innovation projects in the near future. The analysis was prepared using best estimates in the most likely expected variant.

The performed analysis is sensitive (in particular) to changes in the expected amount of revenues and tax costs generated by operating activities, including settlements due to the so-called R&D relief.

According to the assessment of the Management Board of the Company, the occurrence of the above-mentioned event is highly probable in the period in which the tax loss may be settled in time; however, the Board is not able to provide precise amounts to be deducted in subsequent tax years.

At the same time, it should be pointed out that the Company's operating activities in the generic segment are highly profitable. The possible abandonment or slowing down of the pace of clinical trials in the innovative segment (or completion of these projects with the successful launch of new medications on the market), will generate significant tax income allowing for the settlement of the tax loss for 2020 and 2021 recognised under deferred tax assets as at 31 December 2021.

7. Non-current assets classified as held for sale

The Company has not identified any assets held for sales.

8. Social assets and liabilities of the Company's Social Benefits Fund

The Act of 4 March 1994 on company's social benefits fund stipulates that the Company's Social Benefits Fund should be established by employers with employment more than 50 FTE. The Company has established such a fund and makes periodic write offs in the basic amount. The purpose of the Fund is to finance social activities, loans granted to its employees as well as other social costs.

9. Profit per share

Basic profit per share is calculated by dividing net profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares issued, for the period.

Diluted profit per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of issued ordinary shares remaining for the period adjusted by the weighted average number of ordinary shares that would be issued upon conversion into ordinary shares from all diluting equity instruments, e.g. adjusted for the impact of diluting options or diluting redeemable preference shares convertible to ordinary shares.

Data pertaining to the profit and shares, used to calculate basic and diluted profit per share, are presented below:

Basic profit/loss per share	Year ended 31 December 2021	Year ended 31 December 2020
Profit/loss used to calculate basic profit/loss per share	-11 607	-917
Weighted average number of ordinary shares during the period	46 676 712	45 000 000
Basic profit/loss per share (PLN)	**-0.25**	**-0.02**

(in PLN thousand)

Diluted profit/loss per share	Year ended 31 December 2021	Year ended 31 December 2020
Profit/loss used to calculate diluted profit/loss per share	-11 607	-917
Weighted average number of ordinary shares during the period	46 684 288	45 000 000
Diluted profit/loss per share (PLN)	**-0.25**	**-0.02**

Issue of D-series shares

On 16 February 2021, the Extraordinary General Meeting of Shareholders passed several resolutions including, inter alia, on amending the Company's Articles of Association (the amendment was recorded by the competent district court on 12 April 2021) and authorisation to the Company's Management Board to increase the share capital up to the authorised capital with an option to exclude, by the Management Board, the right to subscribe for shares issued up to the authorised capital in whole or in part, with the consent of the Supervisory Board; the Management Board of the Company informs about passing the resolution on the issue of no more than 15,000,000 D-series ordinary bearer shares within the framework of the aforementioned increase of the share capital up to the authorised capital. This resolution was recorded by the competent registry court on 5 May 2021.

On 15 September 2021, the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A., "GPW") passed a resolution concerning the admission and introduction of the Company's D-series ordinary bearer shares to stock exchange trading on the GPW Main Market. On 22 September 2021, the Company received information about the publication of an announcement by Krajowy Depozyt Papierów Wartościowych S.A. (Central Securities Depository of Poland). 6,000,000 D-series ordinary bearer shares of the Company were registered in the securities depository under code ISIN PLCLNPH00015 on 22 September 2021. Consequently, the condition for the introduction of the aforementioned shares to stock exchange trading on the primary market of the Warsaw Stock Exchange was met as of 22 September 2021.

During the period from the balance sheet date to the date of the preparation of these financial statements there were no transactions on ordinary shares or potential ordinary shares.

10. Dividends paid and declared for payment

The dividend on ordinary shares for 2020, paid on 3 August 2021, was PLN 3,150,000.

The value of the dividend per ordinary share, paid for 2020, was PLN 0.07.

The Management Board of Celon Pharma S.A. recommends payment of dividend of PLN 14,5 million (PLN 0.28 per share). The amount of the recommended dividend will be paid from the part of the supplementary capital created from retained earnings, and is consistent with requirements of Article 348 of the Code of Commercial Companies.

11. Property, plant and equipment

Property, plant and equipment Year ended 31 December 2021	Land	Buildings, premises	- of which leased real property	Technical equipment and machinery	- of which leased equipment	Vehicles	- of which leased vehicles	Other fixed assets	- of which leased equipment	Constructions in progress	Advances	Total
Gross value												
1. Opening balance	6 352	**177 488**	3 986	**158 738**	5 871	**15 103**	3 632	**43 146**	11 699	**31 497**	**17 609**	**449 934**
2. Increase	0	0	0	12 700	0	428	249	35 081	7 651	21 130	2 046	**71 385**
a) purchase	0	0	0	1 565	0	428	249	18 792	7 651	21 130	2 046	**43 962**
b) transfers	0	0	0	11 135	0	0	0	16 289	0	0	0	**27 424**
3. Decrease	0	27 424	0	0	0	425	550	0	0	1 994	6 811	**36 654**
a) sale and liquidation	0	0	0	0	0	425	425	0	0	0	0	**425**
b) transfers	0	27 424	0	0	0	0	125	0	0	1 994	6 811	**36 229**
4. Closing balance	**6 352**	**150 065**	**3 986**	**171 438**	**5 871**	**15 105**	**3 331**	**78 227**	**19 350**	**50 633**	**12 844**	**484 665**
Accumulated depreciation												
1. Opening balance	0	15 216	1 712	81 717	691	8 281	3 453	13 307	576	0	0	118 521
2. Increase	0	5 887	571	16 187	105	2 442	128	12 638	147	0	0	37 154
a) depreciation for the period	0	5 887	571	16 187	105	2 442	128	12 638	147	0	0	37 154

(in PLN thousand)

Property, plant and equipment Year ended 31 December 2021	Land	Buildings, premises	- of which leased real property	Technical equipment and machinery	- of which leased equipment	Vehicles	- of which leased vehicles	Other fixed assets	- of which leased equipment	Constructions in progress	Advances	Total
b) other	0	0	0	0	0	0	0	0	0	0	0	**0**
3. Decrease	0	0	0	0	0	425	386	0	0	0	0	**425**
a) sale and liquidation	0	0	0	0	0	425	386	0	0	0	0	**425**
4. Closing balance	**0**	**21 102**	**2 283**	**97 904**	**796**	**10 298**	**3 195**	**25 945**	**722**	**0**	**0**	**155 249**
Revaluation write-downs												
1. Opening balance	0	0	0	0	0	0	0	0	0	0	0	**0**
a) increase	0	0	0	0	0	0	0	0	0	0	207	**207**
2. Closing balance	0	0	0	0	0	0	0	0	0	0	207	**207**
Net value opening balance	**6 352**	**162 273**	**2 274**	**77 021**	**5 180**	**6 821**	**179**	**29 839**	**11 123**	**31 497**	**17 609**	**331 413**
Net value closing balance	**6 352**	**128 962**	**1 704**	**73 534**	**5 075**	**4 808**	**136**	**52 281**	**18 628**	**50 633**	**12 637**	**329 208**

Property, plant and equipment Year ended 31 December 2020	Land	Buildings, premises	- of which leased real property	Technical equipment and machinery	- of which leased equipment	Vehicles	- of which leased vehicles	Other fixed assets	- of which leased equipment	Constructions in progress	Advances	Total
Gross value												
1. Opening balance	**6 352**	**58 927**	3 986	**131 998**	3 490	**16 307**	5 265	**18 285**	0	**95 395**	**12 708**	**339 972**
2. Increase	0	118 561	0	27 071	2 380	624	0	24 861	11 699	79 363	18 663	**269 143**
a) purchase	0	0	0	15 432	0	624	0	11 800	0	79 363	18 663	**125 882**
3. Decrease	0	0	0	331	0	1 828	1 633	0	0	143 261	13 761	**159 181**
a) sale and liquidation	0	0	0	331	0	1 828	0	0	0	0	0	**2 159**
b) transfer	0	0	0	0	0	0	0	0	0	143 261	13 761	**157 022**
4. Closing balance	**6 352**	**177 488**	**3 986**	**158 738**	**5 870**	**15 103**	**3 632**	**43 146**	**11 699**	**31 497**	**17 610**	**449 934**
Accumulated depreciation												
1. Opening balance	0	**12 499**	1 141	**66 420**	1 983	**7 506**	4 747	**7 916**	0	**0**	**0**	**94 341**
2. Increase	0	2 716	571	15 628	639	2 603	243	5 391	576	0	0	**26 338**
a) depreciation for the period	0	2 716	571	15 628	639	2 603	243	5 391	576	0	0	**26 338**
b) other	0	0	0	0	0	0	0	0	0	0	0	**0**
3. Decrease	0	0	0	331	0	1 828	1 537	0	0	0	0	**2 159**
a) sale and liquidation	0	0	0	331	0	1 828	1 537	0	0	0	0	**331**
4. Closing balance	0	**15 215**	1 712	**81 717**	**2 622**	**8 281**	**3 453**	**13 307**	**576**	0	0	**118 520**
Revaluation write-downs												
1. Opening balance	0	0	0	0	0	0	0	0	0	0	0	**0**
a) increase	0	0	0	0	0	0	0	0	0	0	0	**0**
2. Closing balance	0	0	0	0	0	0	0	0	0	0	0	**0**
Net value opening balance	**6 352**	**46 428**	**2 845**	**65 578**	**1 507**	**8 801**	**518**	**10 369**	**0**	**95 395**	**12 708**	**245 631**
Net value closing balance	**6 352**	**162 273**	**2 274**	**77 021**	**3 248**	**6 822**	**179**	**29 839**	**11 123**	**31 497**	**17 610**	**331 414**

(in PLN thousand)

12. Right-of-use assets

The Company has concluded leases for the production machines, laboratory equipment and vehicles. The lease period is 36 months. As at 31 December 2021, the Company leased space in three real properties, under lease agreements with a three-year notice period. On 22 December 2021, the Company terminated lease agreements in two locations, as a result of which the lease periods for these real properties were reduced to 24 and 30 months starting from January 2022.

Right-of-use assets – net value	31 December 2021	31 December 2020
Real property	1 704	2 274
Technical equipment and machinery	5 075	3 249
Vehicles	136	179
Other fixed assets	18 628	11 124
Total	**25 543**	**16 826**

13. Intangible assets

Intangible assets – net value	31 December 2021	31 December 2020
Costs of completed development projects	1 360	2 720
Concessions, patents, licences and similar assets, of which:	27 811	38 376
- computer software	*751*	*538*
Total	**29 171**	**41 096**

Intangible assets Year ended 31 December 2021	Costs of completed development projects	Concessions, patents, licences	- of which software	Other	Advances	Razem
Gross value						
1. Opening balance	5 440	8 242	4 273	44 677	0	**58 359**
2. Increase	0	976	816	0	0	**976**
a) purchase	0	976	816	0	0	**976**
b) development projects	0	0	0	0	0	**0**
3. Decrease	0	0	0	2 155	0	**2 155**
4. Closing balance	5 440	9 217	5 089	42 523	0	**57 180**
Accumulated amortisation						
1. Opening balance	2 720	7 145	3 735	7 398	0	**17 262**
2. Increase	1 360	1 162	603	8 224	0	**10 746**
a) amortisation for the period	1 360	1 162	603	8 224	0	**10 746**
3. Decrease	0	0	0	0	0	**0**
4. Closing balance	4 080	8 307	4 338	15 622	0	**28 008**
Revaluation write-downs						
1. Opening balance	0	0	0	0	0	**0**
a) created	0	0	0	0	0	**0**
b) released	0	0	0	0	0	**0**
c) utilised	0	0	0	0	0	**0**
2. Closing balance	0	0	0	0	0	**0**
Net value opening balance	**2 720**	**1 096**	**538**	**37 280**	**0**	41 096
Net value closing balance	**1 360**	**910**	**751**	**26 901**	**0**	29 171

(in PLN thousand)

Intangible assets Year ended 31 December 2020	Costs of completed development projects	Concessions, patents, licences	- of which software	Other	Advances	Razem
Gross value						
1. Opening balance	5 440	7 853	3 884	0	0	**13 293**
2. Increase	0	45 066	388	0	0	**45 066**
a) purchase	0	45 066	388	0	0	**45 066**
b) development projects	0	0	0	0	0	**0**
3. Decrease	0	0	0	0	0	**0**
4. Closing balance	5 440	52 919	4 272	0	0	**58 359**
Accumulated amortisation						
1. Opening balance	1 360	5 771	2 918	0	0	**7 131**
2. Increase	1 360	8 772	816	0	0	**10 132**
a) amortisation for the period	1 360	8 772	816	0	0	**10 132**
3. Decrease	0	0	0	0	0	**0**
4. Closing balance	2 720	14 543	3 734	0	0	**17 263**
Revaluation write-downs						
1. Opening balance	0	0	0	0	0	**0**
a) created	0	0	0	0	0	**0**
b) released	0	0	0	0	0	**0**
c) utilised	0	0	0	0	0	**0**
2. Closing balance	0	0	0	0	0	**0**
Net value opening balance	**4 080**	**2 082**	**966**	**0**	**0**	**6 162**
Net value closing balance	**2 720**	**38 376**	**538**	**0**	**0**	**41 096**

14. Investments in other entities

The Company does not have any investments in subsidiaries, associated companies or joint projects. The long-term investment in Mabion S.A. was classified as the investment at fair value through other comprehensive income.

The Company is one of the historical four founders of Mabion S.A., i.e. it has held this investment since the establishment of Mabion S.A. During this period, no shares were sold, which confirms that the capital commitment in Mabion S.A. is not of a short-term nature. Mabion S.A. operates in the same industry as the Company.

Moreover, the Company – in line with the nature of its core business – does not have any other equity investments. The intention of the Company is to keep the shares in the company for a longer period, rather than to profit from the change in the value of shares, therefore the investment in Mabion has been classified as measured at fair value through other comprehensive income.

As at 31 December 2021 and 31 December 2020, the Company's percentage share in the capital and the number of votes were as follows:

Entity	*Registered office*	*Core business*	*Number of shares*	*Percentage share of the Company in the capital*	*Percentage share of the Company in the number of votes*
Mabion S.A.	Konstantynów Łódzki	Manufacture of pharmaceutical products and pharmaceutical preparations	620 350	3.84%	6.28%

Shares were diluted as a result of the increase in the capital of Mabion in 2021. Celon Pharma did not acquire shares of the new issue, as a consequence of which its share in the capital and voting rights decreased.

In accordance with current report no. 1/2022 of 3 January 2022, Mabion S.A. will publish its annual report for the year ended 31 December 2021 on 14 April 2022.

15. Employee benefits

15.1. Pension benefits and other post-employment benefits

The Company pays retirement benefits in the amount specified by the Labour Code to retiring employees. Accordingly, the Company recognises, based on its own valuation, the provision for the present value of the retirement benefits due within 12 months of the balance sheet date.

15.2. Termination benefits

The Company does not recognise a provision for termination benefits.

15.3. Employee incentive programmes

The Company has the Incentive Programme for Members of the Management Board and Incentive Programmes for the Management ("Incentive Programmes").

On 16 February 2021, the Extraordinary General Meeting of Shareholders passed the resolution on the introduction of Incentive Programmes for Members of the Management Board and other persons of key importance to the Company, for the financial years 2021-2030. Under Incentive Programmes, eligible persons will be able to acquire the right to take up subscription warrants entitling to subscribe for the Company's shares issued as part of a conditional increase of the share capital. Subscription warrants will be taken up by eligible persons identified and in the number specified in the resolution of the Supervisory Board (in case of the Incentive Programme for Members of the Management Board) or by the President of the Management Board (in case of the Incentive Programme for the Management), subject to provisions of the rules of the aforementioned Programmes. Persons, who are shareholders holding – directly or indirectly – more than 33% of votes at the Company and members of their families will not have the right to take up subscription warrants. At the same time, the Supervisory Board or the President of the Management Board, respectively, will specify the maximum number of subscription warrants allocated to each of eligible persons in each year of the Incentive Programme, and will verify whether eligible persons met management board or management targets in the particular financial year. Incentive Programmes will be implemented by issuing and allocating to eligible persons no more than 2,000,000 A-series subscription warrants entitling to take up no more than 2,000,000 shares in the Company, whereas the total number of A-series subscription warrants offered during the particular financial year within the framework of both Incentive Programmes will not exceed 200,000 (in especially justified situation, the Supervisory Board may decide to increase the number, but to no more than 400,000 warrants). In order to exercise rights under A-series subscription warrants and take up C-series shares, the eligible person will have to make a declaration on undertaking not to dispose of the C-series shares for 1 year.

Taking into account the above, on 16 February 2021, the Extraordinary General Meeting of Shareholders passed the resolution on issuing up to 2,000,000 A-series registered subscription warrants with an exclusion of the subscription right of existing shareholders, entitling to take up 1 C-series share each, and on the conditional increase of the share capital by no more than PLN 200,000 by the issue of C-series ordinary bearer shares with an exclusion of the subscription right of existing shareholders, as well as on the related amendment to the Company's Articles of Association. Subscription warrants will be issued free of charge. It will be possible to exercise rights under A-series subscription warrants until 16 February 2031. The issue price of C-series shares will be determined by the Management Board (and in case of C-series shares taken up by Members of the Management Board – by the Supervisory Board), whereas the issue price for holders of A-series subscription warrants will be at least PLN 0.10 per C-series share. The application will be filed for the admission and introduction of the C-series shares to stock exchange trading on the regulated market of the Warsaw Stock Exchange. The aforementioned resolution was recorded in the National Court Register on 12 April 2021.

On 15 October 2021, the Supervisory Board and the Management Board of the Company passed resolutions on adopting Rules of Incentive Programmes for Members of the Management Board and the Management, respectively, and on the launch of the aforementioned Incentive Programmes. The Rules were adopted based on the authorisation granted to the Supervisory Board and the Management Board of the Company by the Extraordinary General Meeting of Shareholders of Celon Pharma S.A. by resolution no. 6 of 16 February 2021. The content of the Rules of Incentive Programmes was announced by the Company in current report no. 44/2021 of 15 October 2021.

At the same time, on 15 October 2021, the Supervisory Board and the Management Board of the Company set up lists of eligible persons entitled to take up A-series subscription warrants for 2021 as part of the implementation of the Incentive Programmes for Members of the Management Board and the Management, respectively, as well as determined the targets for the aforementioned persons for 2021. In accordance with the resolutions passed, the aforementioned persons will be entitled to take up 30,000 A-series subscription warrants for 2021 in total, subject to meeting management board/management targets.

(in PLN thousand)

Subsequently, on 15 October 2021, the Supervisory Board and the Management Board of the Company approved meeting a part of management board/management targets by some of the eligible persons, as a result of which, on 2 November 2021, the Supervisory Board and the Management Board of the Company allocated to eligible persons, who had filed the relevant declaration, 30,000 A-series subscription warrants authorising to take up 1 C-series share each, at the issue price of PLN 0.10. As a result of the allocation, 5,000 subscription warrants were taken up by Mr. Jacek Glinka, Vice President of the Management Board.

On 31 March 2021, the Management Board of the Company authorized meeting management goals by remaining eligible participants of the Incentive Programmes for 2021, based on which, on 15 April 2022, these participants filed the relevant declarations to take up 5.000 of A-series subscription warrants authorising to take up 1 C-series share each, at the issue price of PLN 0.10.

As at 31 December 2021, the Company recorded the Incentive Programmes in the balance sheet under reserve capital from valuation of share options of PLN 1,309 thousand with a contra-entry under employment costs. This capital was calculated based on the number of warrants taken up as part of the implementation of the Incentive Programme in 2021 and the price of the Company's shares as at the warrant allocation date, i.e. 15 October 2021.

The Incentive Programmes will be pursued in the Company until 2030. Based on the Rules of the Incentive Programmes, a separate list of eligible participants and a separate scheme for management goals will be set every year, hence each year will be treated as a separate Incentive Programme. Management goals are non-market, i.e. are not linked to the Company's listed share price and their main feature is to contribute to the Company's growth and strategy implementation.

16. Inventories

Inventories	31 December 2021	31 December 2020
Materials	15 178	15 513
Semi-finished products and work in progress	3 397	3 164
Finished products	4 798	9 136
Goods	0	0
Advances for deliveries and services	3	1 947
Total inventories – net value	23 376	29 760
Including impairment write-down	*(262)*	*(200)*
Total inventories – gross value	*23 638*	*29 960*

No inventory category was used as collateral for loans or borrowings in the year ended 31 December 2021 and 31 December 2020.

17. Trade receivables and other receivables

Trade receivables and other receivables	31 December 2021	31 December 2020
Trade receivables	24 673	32 528
Other receivables from third parties	2 570	7 957
of which		
refundable VAT	2 273	3 801
Other	297	4 156
Total net receivables	**27 243**	**40 485**
Write-off for expected losses	-	-
Gross receivables	*27 243*	*40 485*

18. Other non-financial assets

Prepayments, especially related to insurance, are disclosed under short-term other non-financial assets.

(in PLN thousand)

19. Other financial assets

Under short-term other financial assets, the Company disclosed:
•As at 31 December 2021 – participation units in open investment funds investing in corporate bonds of Polish companies, in the amount of PLN 79,755 thousand;
•As at 31 December 2020, the Company had no cash deposits with a bank or participation units in open investment funds.
As at 31 December 2021 and 31 December 2020, under long-term other financial assets, the Company recognised deposits for real property lease.

20. Cash and cash equivalents

Cash at bank bears interest at variable interest rates depending on the interest rate paid on overnight bank deposits. Short-term deposits are made for various periods ranging from one day to one month, depending on the Company's current cash requirements, and bear interest at the relevant interest rates. As at 31 December 2021 and 31 December 2020, the fair value of cash and cash equivalents was equal to their book value, and amounted to PLN 147 796 thousand and PLN 43,978 thousand, respectively.

It should be noted that a part of cash comprises advances from the National Centre for Research and Development that can be used only for the purposes of financing the projects co-financed by this institution. The balance of this cash was PLN 50,241 thousand as at 31 December 2021 and PLN 42 666 thousand as at 31 December 2020.

21. Share capital and supplementary capital/reserve capital

21.1. Share capital

21.1.1 Nominal value of shares

All issued shares have a nominal value of PLN 5,100,000, and have been fully paid up.

21.1.2 Rights of shareholders

A1-seriues shares are preference shares carrying two votes per share. A2-series, B-series and D-series shares carry one vote per share. Shares of all series have equal preference as to dividends and return on capital.

21.1.3 Significant shareholders as at 31 December 2021

Shareholder	Number of shares	Percentage in the share capital	Number of votes	Percentage in the total number of votes
Maciej Wieczorek indirectly through Glatton Sp. z o.o.*	30 027 531	58.88%	45 027 531	68.22%
Other shareholders	20 972 469	41.12%	20 972 469	31.78%
Total	**51 000 000**	**100%**	**66 000 000**	**100%**

* Glatton Sp. z o.o. holds 15,000,000 registered shares preferred as to the number of votes.

On 16 February 2021, the Extraordinary General Meeting of Shareholders passed several resolutions including, inter alia, on amending the Company's Articles of Association (the amendment was recorded by the competent district court on 12 April 2021) and authorisation to the Company's Management Board to increase the share capital up to the authorised capital with an option to exclude, by the Management Board, the right to subscribe for shares issued up to the authorised capital in whole or in part, with the consent of the Supervisory Board; the Management Board of the Company passed the resolution on the issue of no more than 15,000,000 D-series ordinary bearer shares within the framework of the aforementioned increase of the share capital. This resolution was recorded by the competent registry court on 5 May 2021.

On 15 September 2021, the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A., "GPW") passed a resolution concerning the admission and introduction of the Company's D-series ordinary bearer shares to stock exchange trading on the GPW Main Market. On 22 September 2021, the Company received information about the publication of an announcement by Krajowy Depozyt Papierów Wartościowych S.A. (Central Securities Depository of Poland). 6,000,000 D-series ordinary bearer shares of the Company were registered in the securities depository under code ISIN PLCLNPH00015 on 22 September 2021. Consequently, the condition for the introduction of the aforementioned shares to stock exchange trading on the primary market of the Warsaw Stock Exchange, as of 22 September 2021, was met.

(in PLN thousand)

21.2. Supplementary capital

The supplementary capital was created from the share premium of PLN 458,850,000 less costs of the issue of shares recognised as a reduction of the supplementary capital, and – in the remaining part – from the distribution of the profit remaining after the dividend payment.

21.3. Revaluation reserve

The Company has recognised a revaluation reserve in relation to the recognition of investments in equity instruments at fair value through other comprehensive income. Under this item, changes in fair value of Mabion S.A. shares vs. the price listed on the Warsaw Stock Exchange are recognised.

21.4. Other reserve capitals

The Company does not create other reserve capitals.

21.5. Retained earnings/(uncovered losses) and restrictions regarding dividend payment

In accordance with the requirements of the Code of Commercial Companies, the Company is required to create the supplementary capital to cover losses. At least 8% of the profit for a given financial year, as shown in the Company's financial statements, shall be transferred to this capital until it reaches at least one-third of the share capital. The decision to use the supplementary and reserve capital shall be taken by the General Meeting of Shareholders; however, a portion of the supplemen¬tary capital equivalent to one-third of the share capital may only be used to cover the loss disclosed in the financial statements and shall not be distributed for other purposes.

As at 31 December 2021, there were no other restrictions regarding dividend payment.

21.6. Reserve capital from valuation of share options

As at 31 December 2021, the reserve capital from valuation of share options was recognised as a result of incentive programmes for employees introduced in 2021, as described in note 15.3. The reserve capital is measured based on the options taken up and the price of the Company's shares on the option award date.

22. Lease liabilities and other financial liabilities

Lease liabilities and other financial liabilities	31 December 2021	31 December 2020
Lease liabilities	14 917	12 643
of which:		
- leases of technical equipment and machinery	12 926	10 214
- real property leases	1 825	2 419
- vehicle leases	166	10
Total	**14 917**	**12 643**
- short-term	6 563	3 485
- long-term	8 354	9 158

(in PLN thousand)

23. Loans and borrowings

Loans and borrowings	*Effective rate, %*	31 December 2021	31 December 2020
Short-term		**6 563**	**16 323**
Lease liabilities	*5.1%*	6 563	3 485
Overdrafts on the current account	*2.5%*	-	12 838
Long-term		**8 354**	**9 158**
Lease liabilities	*5.1%*	8 354	9 158

As at 31 December 2021, the Company had a revolving one-year credit facility in the form of an overdraft on the current account of PLN 20 million. The agreement on this facility was signed in June 2020. The variable interest rate for the facility was 2.47% p.a. as at 31 December 2021 and 1.61%p.a. as at 31 December 2020.

24. Accruals and deferred income from grants

Accruals and deferred income from grants	31 December 2021	31 December 2020
Short-term	**55 827**	**45 775**
advances received for projects financed from the grants	49 416	42 666
grants received for property, plant and equipment	6 411	3 109
Long-term	**29 851**	**39 672**
grants received for property, plant and equipment	29 851	39 672

25. Trade liabilities, other liabilities and accruals

Trade liabilities and non-financial liabilities	31 December 2021	31 December 2020
Trade liabilities	12 681	20 480
- of which accruals	809	2 063
Other liabilities (including investment liabilities)	28 810	50 013
Employee benefit liabilities	2 305	4 709
- of which liabilities due to unused leaves	2 132	2 302
Other non-financial liabilities (public and legal settlements)	1 255	1 226
Income tax liabilities	-	0
Total	**45 051**	**76 428**
- short-term	22 525	52 048
- long-term	22 526	24 380

25.1. Trade liabilities and other non-financial liabilities

Other liabilities (including investment liabilities) of PLN 28,424 thousand as at 31 December 2021 and PLN 24,380 thousand as at 31 December 2020 include annual payments to be made until the end of September 2025 due to licences recognised under intangible assets, purchased in 2020.

25.2. Off-balance sheet liabilities

As at 31 December 2021 and 31 December 2020, the Company had no off-balance sheet liabilities.

26. Contingent liabilities

26.1. Litigations

On 29 June 2021, Polfarmex S.A. filed a case against Celon Pharma S.A. to the District Court in Warsaw, for adjudicating the amount of PLN 659,000 (together with interest due) as the remuneration for the implementation by the Parties of the Agreement on the joint project of 28 September 2010 and Annex no. 1 of 17 June 2014 to the aforementioned Agreement. In response to the aforementioned statement of claim, the Company requested dismissing the claim as unjustified. The Company does not deny the existence of the aforementioned Agreement on the joint project and the annexes thereto, the main purpose of which was to start the cooperation aimed at the supply, on a joint and several basis, of the medicinal product – Salmex (Fluticasoni propionas + Salmeterolum) to the French market, but the Company does not accept the claims of Polfarmex S.A. that interprets the agreement between the Parties in an unilateral and highly subjective way, using an unclear methodology for calculating the profit resulting from the implementation of the agreement.

As at 31 December 2021, there were no material proceedings, other than those presented above, pending before a court or another authority competent for arbitration proceedings or a public administration body, which would involve the Company's liabilities or debt claims.

26.2. Tax settlements

Tax settlements as well as other regulated areas of activity (e.g. customs or foreign exchange) may be subject to inspection by the relevant administrative authorities, which are authorised to impose high penalties and other sanctions. As there is no body of practices relying on long established legal regulations in Poland, ambiguities and inconsistencies in the regulations in force are experienced as a result. Frequent differences in opinions as to the legal interpretation of tax regulations both within government bodies and between government bodies and businesses have created areas of uncertainty and conflict. These phenomena may contribute to the fact that tax risk in Poland seems to be significantly higher than in the countries with enjoy more refined tax systems.

Tax settlements may be audited for a period of five years, starting from the end of the year in which the tax was paid. As a result of such inspections, the Company's existing tax settlements could be increased by additional tax liabilities. In the opinion of the Company's Management Board, as at 31 December 2020, no provision was required to allow for the recognition of any quantifiable tax risk.

On 7 February 2022, the First Mazovian Tax Office in Warsaw instituted the inspection of the correctness of settlements with the state budget due to corporate income tax for the period from 1 January 2018 to 31 December 2018. As at the date of publishing these statements, the Company has not received the inspection report.

26.3. Obligations to incur outlays and other planned outlays to be incurred in the future

As at 31 December 2021, the Company disclosed investment liabilities of PLN 27,991 thousand (including licenses fees acquired in 2020 and accounts payable du to construction works). Outlays for property plant and equipment planned to be incurred in the future are PLN 25 million.

27. Information on related entities

27.1. Dominant entity

As at 31 December 2021, Glatton Sp. z o.o. was the owner of 58.88% of shares (as at 31 December 2020: 66.67%).

As at 31 December 2021 and 31 December 2020, there were no transactions on terms other than arm's length. Additionally, none of the joint projects of the Company is of a strategic nature for the Company.

27.2. Associated entity

Not applicable.

27.3. Joint venture in which the Company is a partner

Not applicable.

27.4. Joint projects

Not applicable.

(in PLN thousand)

27.5. Terms and conditions of related-party transactions

In the years 2020-2021, the Company did not conclude related-party transactions on terms other than arm's length.

Name of the entity	31 December 2021	31 December 2020
Glatton Sp. z o.o.		
- loans granted	-	350
- receivables	-	-
- liabilities	-	-
- sales	-	-
- purchases	-	-
- dividend	3 150	3 600
Neitec Sp. z o.o.		
- loans granted	-	-
- receivables	-	-
- liabilities	-	-
- sales	-	-
- purchases	-	-
Urszula Wieczorek		
- loans granted	-	-
- receivables	-	-
- lease liabilities	108	216
- sales	-	-
- office space lease	108	108

27.6. Loan granted to a member of the Management Board

Not applicable.

27.7. Other transactions with members of the Management Board

Not applicable.

27.8. Remuneration of the Company's management

	31 December 2021	31 December 2020
Management Board: contract of employment and fulfilment of the function	1 027	846
Management Board: other	1 256	441
Management Board: share options	174	0
	2 457	**1 287**
Supervisory Board: fulfilment of the function	142	174
Supervisory Board: other	286	247
	428	**421**

27.8.1 Remuneration paid or due to members of the Management Board and members of the Supervisory Board of the Company

On 16 February 2021, the Extraordinary General Meeting of Shareholders passed the resolution on adopting a new "Policy of remuneration of members of the Management Board and the Supervisory Board of Celon Pharma S.A.," replacing the Policy binding previously, adopted by the resolution of the Annual General Meeting of Shareholders of the Company of 19 May 2020. In 2021, Mr. Jacek Glinka, Vice President of the Management Board was covered by the Incentive Programme for Members of the Management Board, under which he took up 5,00 share options entitling to take up 5,000 C-series shares. These shares were admitted to trading on 5 April 2022. More information about this incentive programme is included in note 15.3.

(in PLN thousand)

28. Objectives and principles of financial risk management

In relation to its ongoing activities, the Company is exposed to various financial risks: foreign exchange risk, interest rate risk, price risk, credit risk and liquidity risk. The Management Board reviews and establishes policies for managing each of the aforementioned risks.

Foreign exchange risk related to fluctuations in currency exchange rates

The Company pays for most of its machinery and equipment, laboratory equipment, active substances necessary for production as well as reagents necessary in research work, in foreign currencies, primarily in EUR and USD. Adverse changes in exchange rates (weakening of PLN in relation to foreign currencies) may be detrimental to the level of the Company's investment outlays and result in an increase of the costs of research and development works, which in turn may contribute to the deterioration of the Company's financial results. However, due to the fact that the Company intends to significantly increase sales of its medicinal products on foreign markets (sales denominated mainly in EUR and USD), the future risk related to exchange rate fluctuations will be limited.

The sensitivity analysis of the Company's results to EUR/PLN and USD/PLN exchange rate changes by +/-10% p.p. is presented below.

Foreign exchange risk	Exchange rate increase/decrease	Impact on the profit or loss before tax	Impact on total income
31 December 2021 – EUR	+10%	4 607	3 732
	-10%	-4 607	-3 732
31 December 2021 – USD	+10%	-1 608	-1 302
	-10%	1 608	1 302
31 December 2020 – EUR	+10%	-491	-398
	-10%	491	398
31 December 2020 – USD	+10%	-1 655	-1 341
	-10%	1 655	1 341

Interest rate risk

Interest rate risk arises primarily from the Company's cash and lease liabilities incurred by the Company, based on variable interest rates, which may expose the Company to the risk of changes in cash flows resulting from rising interest rates. The Company monitors market conditions and interest rate levels on an ongoing basis. In the opinion of the Management Board, the current indebtedness level is low, due to which the risk of adverse cash flow changes due to interest rate growth is immaterial.

Price risk/risk related to medicine reimbursement policies

As at the date publication of these statements, all medicinal products (except for Lazivir), included in the Company's portfolio, are on the list of reimbursed medicines, published by the Ministry of Health. In Poland, the market for medicines, including reimbursed medicines, is subject to detailed legal regulations. These regulations determine the list of reimbursed medicines, the scope of reimbursement, including the price, price caps and the level of reimbursement. Adverse changes to these regulations (e.g. removal of the Company's products from the list of reimbursed medicines) may be detrimental the Company's business, financial performance or its prospects.

Credit risk

The financial institutions that the Company cooperates with, within the framework of transactions concluded on the money market, are of high credibility, at no risk of significant concentration of credit. At the same time, the Company applies a policy of limiting its credit exposure to individual financial institutions.

The value of receivables disclosed in the balance sheet arises as a result of the sales of the Company's finished products to the largest pharmaceutical wholesalers in Poland. Although it customarily allows for longer payment periods in relations with wholesalers, at the level of 45-60 days, the risk connected with crediting wholesalers has been deemed as insignificant thanks to their good financial standing. At the same time, the Company pursues an active policy of collecting receivables from the customers with overdue payments.

(in PLN thousand)

Moreover, the Company analysis the risk of concentration of sales and receivables, as presented in note 4.

Liquidity risk

In order to mitigate the liquidity risk, the Company maintains an adequate amount of cash. The Company uses its own funds to finance investment purchases, ensuring the required sustainability of the financing structure for this type of assets. In order to finance research expenditures within the innovation segment, the Company has obtained grants from the National Centre for Research and Development (NCRD), which co-finance the conducted projects.

The Company's research, development and implementation projects have been and currently are co-financed by domestic and Community public funds, such as the Innovative Economy Operational Programme as well as programmes implemented and managed by the NCRD. As regards projects in progress, the Company makes every effort to ensure that they are carried out in accordance with the terms and conditions stipulated in the funding agreements, in particular to the extent arising from the material and financial schedules. To the best of the Company's knowledge, there are no circumstances which could result in an obligation to return the aid received for the implementation of projects carried out with public funds. However, the risk resulting from the powers of relevant national and Community authorities and institutions to control the Company in terms of ensuring the correctness of project implementation, as well as the project objectives realisation and utilisation of the public aid received in accordance with its purpose cannot be excluded, and in the case of identifying potential irregularities, the Company would be required to repay the grants received, in part or in whole, together with interest. The aforementioned powers are subject to a ten-year limitation period starting the date of providing the aid, i.e. conclusion of relevant co-financing agreements. Investors should note that a possible order for repayment in whole or in part could act detrimentally on the Company's business, financial performance or prospects.

The Company's liquidity risk was significantly limited in 2021 by the issue of D-series shares that was recorded on 22 September 2022, as a result of which the Company obtained cash of PLN 202.6 million (inflows from the issue less issue costs).

	Liabilities due:				
	within 3 months	from 3 to 12 months	from 1 to 3 years	over 3 years	Total
Trade liabilities	12 681	-	-	-	12 681
Bank loans	-	-	-	-	-
Leases	590	6 164	8 354	-	15 108
Other liabilities (including investment liabilities)	6 843	-	14 787	7 164	28 794
Other non-financial liabilities	1 256	-	-	-	1 256
Total	**21 370**	**6 164**	**23 141**	**7 164**	**57 839**

(in PLN thousand)

29. Fair values of the Company's assets and liabilities

The table below presents particular classes of financial assets and liabilities by fair value hierarchy, as at 31 December 2021.

31 December 2021	Quoted prices at active markets *(Level 1)*	Observable inputs *(Level 2)*	Unobservable inputs *(Level 3)*
Financial assets at fair value:			
Quoted debt instruments			
Unquoted equity instruments			
Quoted equity instruments	37 903		
Financial assets for which fair value is disclosed:			
Trade receivables and other receivables		24 673	
Loans granted			
Other financial assets		79 973	
Cash and cash equivalents		147 796	
Other receivables		2 571	
Financial assets at fair value:			
Financial liabilities for which fair value is disclosed:			
Trade liabilities		12 681	
Interest-bearing loans and borrowings		0	
Investment liabilities		27 991	

The table below presents particular classes of financial assets and liabilities by fair value hierarchy, as at 31 December 2020.

31 December 2020	Quoted prices at active markets *(Level 1)*	Observable inputs *(Level 2)*	Unobservable inputs *(Level 3)*
Financial assets at fair value:			
Quoted debt instruments			
Unquoted equity instruments			
Quoted equity instruments	12 872		
Financial assets for which fair value is disclosed:			
Trade receivables and other receivables		32 528	
Loans granted			
Other financial assets		13	
Cash and cash equivalents		43 978	
Other receivables		7 957	
Financial assets at fair value:			
Financial liabilities for which fair value is disclosed:			
Trade liabilities		20 480	
Interest-bearing loans and borrowings		12 838	
Investment liabilities		48 870	

The Company classifies financial instruments (financial assets and financial liabilities) as:

1) measured at amortised cost;
2) measured at fair value through profit or loss;
3) measured at fair value through comprehensive income.

(in PLN thousand)

The Company classified the following financial liabilities as measured at amortised cost:

1) lease liabilities;
2) liabilities due to loans and borrowings, as well as trade liabilities.

29.1. Fair values of particular classes of financial instruments

In principle, the carrying amount of financial instruments held by the Company approximates their fair value.

30. Capital management

The main objective of the Company's capital management is to maintain a good credit rating and safe capital ratios that would support the Company's operations and maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.
The Company monitors its capital position using the leverage ratio, which is calculated as net debt divided by total equity plus net debt.

For analysis of the selected capital management ratios, please refer to the Management Board Report for 2021, "Key financial and non-financial indicators".

31. Employment structure

The table below presents the information about the average employment in the Company (by professional group) in 2021 and 2020, by nominal number of employees:

	Year ended 31 December 2021	Year ended 31 December 2020
Management Board	1	1
White-collar workers	357	363
Blue-collar workers	130	103
Total employment	**488**	**467**

People performing work for the Company are employed based on contracts of employment. Employment based on personal service contracts or specific task contracts is used by the Company in periods of increased demand for specialist services in regard with specific projects.

The Company's President, Maciej Wieczorek, is not employed by the Company under an employment contract.

The Company's Vice-President, Jacek Glinka, is not employed by the Company under an employment contract.

The Company's Management Board's Member, Dorota Zwolińska, is employed by the Company under an employment contract.

32. Material events

Risk related to the SARS-COV-2 epidemiological situation

In view of the existing pandemic situation, bearing in mind the need to ensure continuity of all operational and business processes, as well as safety of employees, co-workers and business partners of Celon Pharma Company, the Management Board of the Company has taken appropriate preventive measures sufficiently in advance. As of the day of the publication of the financial statements, all operational activities are being carried out by the Company with no interruption. The Management Board of the Company has expressed full readiness to implement all the guidelines of the state authorities, in particular the sanitary supervision authorities, in the operations of Celon Pharma S.A.

In 2021, the Company carried out various educational and information campaigns targeted at employees, aimed at promoting SARS-COV2 vaccinations. Additionally, the Company ensured access to diagnostic tests for its employees.

Special internal procedures have been introduced on the Company's premises, prepared in consultation with the competent local sanitary supervision authorities. Additional procedures for employee self-control by supervisors have been introduced in the manufacturing, development and quality areas. These are additional measures to the current system of work under the Good Manufacturing Practice (GMP) regime. The purpose of these measures is to minimise the risk to the manufacturing area from the epidemic negative impact. In addition, the Company cancelled the participation of employees in conferences abroad and cancelled business trips which could involve the increased risk of spreading the virus. Internal and external meetings between the Company's representatives and guests, colleagues and partners are now mostly held in the form of teleconferences and video conferences. Research and development work is carried out without interruption.

Employees, where possible taking into account the nature of their duties, have been enabled to use work-from-home solutions. Each of the Company's premises have been equipped with additional stands with personal disinfection materials while the employees who are the first line of contact with the public have been additionally trained.

The Company's Management Board performed a multi-factor analysis of the impact of current and anticipated risks related to the current, as well as the anticipated epidemiological situation, in Poland and worldwide.

In the opinion of the Management Board, the impact of the COVID19 epidemiological effect on the risk in raw materials provision is considered marginal and is neutral for the current activities of the Company, without any financial consequences.

Additionally, the Company has had a long-standing policy of minimising the supply risk through authorising at least two independent alternative suppliers for the key components, which significantly reduces the risk of supply interruptions.

Climate change issues

In the Company's opinion, non-financial ratios, including ESG area, climate issues in particular, or social issues, do not have a material impact on the assessment of the Company's financial situation and business perspectives.

33. Post-balance sheet events

Commencing a Phase II clinical trial of CPL'280 in the treatment of type 2 diabetes

On 21 January 2022, the Management Board obtained information about the inclusion of the first patient in the Phase II clinical trial of CPL'280, a second-generation GPR40 receptor agonist.

This study is aimed at assessing the effectiveness of the compound as a glucose-lowering antidiabetic drug in a group of approximately 90 patients. Patient recruitment for the study will take 4-5 months.

CPL'280 is a representative of the latest generation of GPR40 agonists used in diabetes and metabolic diseases. The compound has previously demonstrated an exceptionally favourable safety profile in preclinical and phase I trials, which distinguishes it from other drugs in its class.

Clinical development of CPL'280 is carried out as part of the GATE project, for which the Company received funding from the National Centre for Research and Development (POIR), in the amount of PLN 24.7 million.

Conclusion of a licence purchase agreement

On 20 February 2022, the Management Board obtained information about concluding the agreement on the purchase of the licence for the patent package (ang. Non-Exclusive Patent Licence Agreement, hereinafter: "Agreement") for treatment of metabolic disorders, with Salk Institute for Biological Studies ("Salk"). Under the Agreement, Salk granted the Company a non-exclusive, transferable (on the terms of the Agreement) licence for the commercial use or commercial sale of a licensed product for the treatment of diabetes and other metabolic diseases in humans.

The transaction will enable the Company to continue clinical work on the FGF1 protein analogue in the treatment of type 2 diabetes, and to extend development works to include other metabolic clinical indications. The research carried out by the Company so far has confirmed that the M43 candidate for an innovative anti-diabetic drug, developed under the FAIND project, based on the FGF1 protein analogue, may constitute a new, alternative and safe therapy for patients suffering from type 2 diabetes. It has shown a strong antidiabetic effect, and thanks to new, selective mutations in the FGF1 protein, it is free from carcinogenic effects. M43 is in the final stage of preclinical research, and in 2021 the Company filed a patent application for new FGF1 analogues, including M43. The current purchase is an important closing element towards the possession of full, unlimited commercialization rights for M43.

The FAIND project ("New diabetes therapy using an analogue of the FGF1 protein") led by Celon Pharma SA, as a leader, in cooperation with the University of Wrocław, received funding from the National Centre for Research and Development in 2016 – the cost of the project was set at PLN 13.4 million, while the maximum amount of expenditure eligible for support for industrial research is PLN 9.9 million (see the Directors' Report on the Activities of CELON PHARMA SA for 2016). The project implementation deadline is now extended to 2023 and includes the early stages of clinical trials.

Risk related to the war between Russia and Ukraine

The current conflict does not affect current business operations of the Company in the manufacturing, logistics or scientific and research area. Medicinal products are supplied to the Polish market and foreign markets without any disturbances; there are no signals from suppliers of materials and services in the scientific and research area that would indicate delays of works ordered by the Company as part of the projects carried out. The Company has no branches or local offices in areas of the war. The Company does not carry out active business operations in these regions. However, taking into account the high dynamics of events, the Company cannot exclude the possibility of the occurrence of factors that will adversely affect the financial result of the Company in the subsequent periods, especially due to the possible negative impact on the economic situation in the country, including the weakening of PLN and an increase in interest rates (see disclosures on exposure to foreign exchange risk and interest rate risk in note 28 above).

Issue of C-series shares in relation to employee incentive programmes

On 5 April 2022, the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A., "GPW") adopted a resolution, in which the Management Board of the Warsaw Stock Exchange stated that pursuant to § 19.1 and § 19.2 of the GPW Rules, 30,000 C-series ordinary bearer shares of Celon Pharma S.A. with a nominal value of PLN 0.10 each, registered by the National Depository of Securities (Krajowy Depozyt Papierów Wartościowych S.A., "KDPW") under code PLCLNPH00080, were admitted to trading on the primary market. These shares were admitted to trading on 11 April 2022.

Submission of the applications to FDA for the Falkieri Project

On 20 April 2022, the Company released information on two milestones for the Falkieri Project, of which the first one relates to the submission of the application to the Food and Drug Administration ("FDA") on commencement of clinical trials for the Falkieri (Celon DPI esketamine) in treatment of treatment-resistant bipolar disorder through the Investigational New Drug (IND) procedure. The second milestone refers to the submisison of the application to FDA on granting the Breakthrough Desigantion status for the Falkieri (Celon DPI esketamine).

34. Significant accounting policies

34.1. Fair value measurement

Financial instruments, such as long-term financial assets, are measured at fair value at each balance sheet date.

Fair value is defined as the price that would be received for a sale of an asset or paid to transfer a liability in a transaction conducted between market participants at the measurement date under current and normal market conditions.

Fair value measurements are based on the assumption that a transaction to sell an asset or transfer a liability occurs either:

- in the principal market for the asset or liability,
- in the most advantageous market for the asset or liability if no principal market exists.

Both the principal and the most favourable market must be available to the Company.

The fair value of an asset or liability is measured under the assumption that market participants are acting in their best economic interest while determining the price of an asset or liability.

The fair value measurement of a non-financial asset takes into account the ability of a market participant to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant who would provide the highest and best use of the asset.

In order to measure fair value, the Company uses valuation techniques that are appropriate to the circumstances and for which sufficient data is available, while maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(in PLN thousand)

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are categorized in the fair value hierarchy as described below, based on the lowest level input that is significant to the fair value measurement taken 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 assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between the levels in the hierarchy by re-assessing the categorisation, based on the lowest level input that is significant to the fair value measurement as a whole at the end of each reporting period.

Significant accounting policies relating to fair value measurements – summary

The Board determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operations.

34.2. Translation of items denominated in foreign currency

Transactions denominated in currencies other than PLN are converted into PLN using the exchange rate applicable on the transaction date.

Monetary assets and liabilities denominated in currencies other than PLN are translated into the Polish zloty at the average exchange rate for a given currency set by the National Bank of Poland and applicable at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss or, as specified in the accounting rules (policy), capitalised at the value of the assets. Non-monetary items that are measured in a foreign currency in terms of historical cost are translated using the exchange rates at the dates of the initial transactions. Non-monetary items in a foreign currency, measured at fair value, are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income (OCI), or profit or loss are also recognised in OCI or profit or loss, respectively).

Average PLN/EUR exchange rates in the periods covered by the financial statements and comparable data

	31.12.2020	31.12.2019	31.12.2018	01.01.2018
EUR/PLN rate	4.6148	4.2585	4.3000	4.1709
USD/PLN rate	3.7584	3.7977	3.7597	3.4813
EUR average rate	4.4742	4.3018	4.2669	4.4244
EURO rate lowest in the period	4.3010	4.2520	4.1488	4.1709
EURO rate highest in the period	4.6188	4.3844	4.3616	4.4157

34.3. Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation and impairment losses. The initial cost of property, plant and equipment comprises its purchase price plus all costs directly attributable to the purchase and transforming the asset to a usable condition. Cost also includes the cost of replacing components of plant and equipment at the date of replacement if the recognition criteria are met. Costs incurred after the date an asset is placed in service, such as maintenance and repair costs, are charged to profit or loss as incurred.

The purchase price of property, plant and equipment donated by customers is determined at their fair value at the date the control over an item in question is acquired.

At the time of acquisition, property plant and equipment assets are divided into components, which are items of significant value for which a separate useful life can be attributed. General overhaul costs are also a component part.
Depreciation is calculated on a straight-line basis over the estimated useful life of the asset:

Category	Period in years
Buildings and structures	40
Machinery and equipment	5-10
Office equipment	3-10
Motor vehicles	4-6
Computers	4
Investments in third-party tangible assets	5-15

The residual value, useful life and depreciation method of assets are reviewed annually.

An item of property, plant and equipment may be derecognised upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the item) is recognised in profit or loss for the period in which derecognition takes place.

Construction in progress relates to non-current assets under construction or assembly and is stated at cost, less any impairment losses. Assets under construction are not depreciated until construction is completed and the asset is placed in service.

34.3.1 Non-current assets held for sale

Non-current assets and their disposal groups are considered to be held for sale when their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition can only be met if a sale transaction is highly probable and the asset is available for immediate sale in its present condition. Classification of an asset as held for sale reflects the intention of the Company's management to complete a sale transaction within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of either: the carrying amount or fair value less the cost of sale.

34.4. Intangible assets

Intangible assets acquired in a separate transaction or manufactured (if they meet the criteria for recognition as development costs) are measured at initial recognition at acquisition price or manufacturing cost, respectively. The purchase price of intangible assets acquired in a business combination is equivalent to their fair value as at the acquisition date. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Expenditure incurred on internally generated intangible assets, except for capitalised product development expenditure, is not capitalised and is recognised as an expense in the period in which it is incurred.

The useful life of intangible assets is determined as either finite or indefinite by the Company. Intangible assets with finite useful lives are amortised over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible asset. Intangible assets with indefinite useful lives and those that are not in use are not amortised, but are tested for impairment annually, either individually or at the cash-generating segment level.

The assessment of definite or indefinite life is reviewed annually.

Research and development costs

Research costs are recognised in profit or loss as incurred. Expenditure incurred in product development work performed as part of a project is carried forward if it can be assumed that it will be recovered in the future. Following initial recognition of the product development expenditure, the historical cost model is applied, while the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Its capitalised expenditure is amortised over the expected period of generating sales revenue from the project.

A summary of the policies applied to the Company's intangible assets, as follows:

	Patents and licences	Development costs	Software	Other
Useful lives	For patents and licences used under a fixed-term contract, this period is recognised, including any additional periods for which the use may be renewed	5-10 years	2-5 years	2-10 years
Amortisation method used	Amortised on a straight line basis over the period of the patent	5-10 years on a straight line basis	2-5 years on a straight line basis	2-10 years on a straight line basis
Internally generated or acquired	Acquired	Internally generated	Acquired	Acquired
Impairment test	Annual assessment of whether there are indications of impairment	Annual assessment for components not yet placed in service and where there is an indication of impairment.	Annual assessment of whether there are indications of impairment.	Annual assessment of whether there are indications of impairment

Gains or losses arising from de-recognition of intangible assets are calculated as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

34.5. Leases

It is assessed whether an agreement is or contains a lease when the Company sign a lease contract. An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a specified period in return for consideration.

The Company applies a uniform approach to the recognition and measurement of all leases, except for short-term leases and leases of low-value assets. When the lease is secured, the Company recognises a right-of-use asset and a lease liability.

Right-of-use-assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date that the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses, adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets comprises the amount of the recognised lease commitments, initial direct costs incurred and any lease payments made on or before the commencement date, less any lease enhancement. Unless the Company is reasonably certain to obtain title to the leased asset at the end of the lease term, the recognised right-of-use assets are amortised on a straight-line basis over the shorter of the estimated useful life or the lease term. Right-of-use assets are subject to tests for impairment.

Lease liabilities

On the date the lease becomes effective, the lease obligations are measured at the present value of the lease payments outstanding at that date. Lease payments include fixed payments (including the fixed lease payments) less any lease enhancement payable, variable payments that depend on an index or rate and amounts expected to be paid under the guaranteed residual value. Lease payments also include the exercise price of a call option, if the exercise by the Company can be assumed with reasonable certainty, and payments of lease termination penalties, if the terms of the lease permit the Company's to terminate the lease. Variable lease payments that do not depend on an index or rate are recognised as an expense in the period in which the event or condition giving rise to the payment occurs.

While calculating the present value of lease payments, the Company uses the lessee's incremental borrowing rate at the commencement of the lease if the lease rate cannot be readily determined. After the commencement date, the amount of the lease liability is increased to reflect interest and decreased by lease payments already made. In addition, the carrying amount of lease liabilities is re-measured if there is a change in the lease term, a change in the initially fixed lease payments or a change in judgement regarding the purchase of the underlying asset.

Short-term leases and leases of low value assets
Not applicable.

34.5.1 Company as a lessor

The Company is not a party as a lessor.

34.6. Impairment of non-financial non-current assets

The assessment of whether there is any indication that a non-financial non-current asset, including a right-of-use asset, may be impaired is conducted at the reporting date. If any such indication exists, or if an annual impairment test is required, the recoverable amount of the asset or the cash-generating unit to which the asset belongs are estimated.
The recoverable value of an asset or a cash generating unit the is the higher of its fair value less costs of disposal or its value in use unless the asset does not generate cash inflows that are largely independent of those generated by other assets or groups of assets. The recoverable amount is determined for each individual asset. If the carrying amount of an asset is greater than its recoverable amount, an impairment loss occurs and a write-down of the determined recoverable amount is made. While assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specifically attributable to the asset. Impairment losses on assets used in continuing operations are recognised in those expense categories that correspond to the function of the asset that is impaired.

At the reporting date, the Company assesses whether there is any indication that an impairment loss recognised in prior periods in respect of an asset is no longer required or should be reduced. If such indications exist, the Company estimates the recoverable amount of the asset. A previously recognised impairment loss is reversed only and only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss had been recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset should not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss for an asset should be recognised immediately as income. Following a reversal of an impairment loss, the depreciation charge for the asset is adjusted in future periods to reflect the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

34.7. External borrowing costs

Borrowing costs are capitalised as part of the cost of property, plant and equipment. Borrowing costs comprise interest calculated using the effective interest rate method, finance charges under finance leases and foreign exchange differences arising on borrowing to the extent of any adjustment to the interest expense.

34.8. Shares in subsidiaries, associates and joint ventures

The Company does not hold shares in subsidiaries, associates and joint ventures.
However, any such interest and shares in subsidiaries, associates and joint ventures are stated at historical cost, net of impairment losses.

Subsidiaries are those entities over which the Company holds control.

Control is exercised by the Company when it:

- has control over the entity in question,
- is exposed to variable returns or has rights to variable returns from its involvement with the entity,
- has the ability to use its power to affect the level of returns it generates.

The Company reassesses its control over other entities if a situation indicating a change in one or more of the aforementioned control conditions occurs.

When the Company holds fewer than half of the voting rights in an entity, but the voting rights it holds are sufficient to unilaterally control the significant activities of that entity, the Company maintains the control over that entity. When assessing whether the voting rights in an entity are sufficient to exercise control, the Company considers all the relevant circumstances, including:

- the size of the voting rights holding compared to the size of the shareholding and the dispersion of voting rights held by other shareholders;

- potential voting rights held by the Company, other shareholders or other parties;
- rights under other contractual arrangements; and
- additional circumstances that may demonstrate that the Company does or does not have the ability to exert significant influence at the time of decision-making, including voting patterns observed at prior General Meetings of Shareholders or Shareholders' Meetings.

Associates are defined as those entities over which the Company exercises significant influence, which are not subsidiaries or interests in joint ventures of the Company. Significant influence is defined as the power to participate in the financial and operating policy decisions regarding the entity's economic activity; it does not, however, involve control or joint control over those policies.

Joint ventures are contractual arrangements whereby two or more parties perform economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties with joint control.

34.9. Financial assets

Financial assets are classified at initial recognition and subsequently measured by the following measurement methods:

- measured at amortised cost,
- measured at fair value through profit or loss,
- measured at fair value through other comprehensive income.

A financial asset is classified by an entity on the basis of the entity's business model for managing financial assets and the contractual cash flow attribute of the financial asset (the 'solely payments of principal and interest (SPPI) criterion'). Investments are reclassified into debt instruments only if the management model for those assets changes.

Measurement at initial recognition

Except for certain trade receivables, on initial recognition, a financial asset is measured by an entity at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs, directly attributable to the acquisition of those financial assets.

De-recognition

Financial assets are derecognised when:

- the rights to receive cash flows from the financial assets have expired or,
- the rights to receive cash flows from the financial assets have been transferred and the Company has substantially transferred all risks and rewards tied to their ownership.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- debt instruments at amortised cost,
- debt instruments at fair value through OCI
- equity instruments designated at fair value through OCI
- financial assets at fair value through profit or loss

Debt instruments – financial assets measured at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held according to a business model that has the objective of holding the financial asset to collectthe contractual cash flows; and
(b) the financial asset is held according to a business model that relies on the financial asset to generate contractual cashflows; and
(c) the contractual terms of the financial asset generate cash flows on specified dates that are solely payments of principaland interest on the principal outstanding.

Financial instruments classified into the category of instruments at amortised cost include:

- trade receivables,
- loans granted, which, in accordance with the business model, are recognised as cash generating
- cash and cash equivalents.

Interest income is calculated using the effective interest method and is recognised in the statement of comprehensive income under "Interest income".

Debt instruments at fair value through OCI

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held according to a business model that is designed to both receive contractual cash flows and sellfinancial assets; and
(b) the contractual terms of the financial asset allow for generating cash flows on specified dates that are solely paymentsof principal and interest on the principal outstanding.

Interest income, foreign exchange revaluation and impairment losses are recognised in the statement of profit or loss and computed in the same manner as in the case of financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon de-recognition, the cumulative fair value change recognised in OCI is reclassified from equity to profit or loss.

Interest income is calculated using the effective interest method and is recognised in the statement of comprehensive income under "Interest income".

The Company's debt instruments category, measured at fair value through other comprehensive income, are classified as: quoted debt instruments.

Equity instruments – financial assets designated at fair value through other comprehensive income

Upon initial recognition, the Group can elect to irrevocably classify in other comprehensive income the subsequent changes to the fair value of the investment in the equity instrument that is neither held for trading nor is a contingent consideration, recognised by the acquirer in a business combination to which IFRS 3 applies. Such an choice is made separately for each equity instrument. Accumulated gains or losses previously recognised in other comprehensive income are not reclassified to profit or loss. Dividends are recognised in the statement of comprehensive income when the entity's right to receive the dividend arises, unless the dividends clearly represent a partial recovery of the cost of the investment.
The Company classifies equity instruments listed on the EU regulated markets into the category of equity instruments at fair value through other comprehensive income.

Financial assets at fair value through profit or loss

Financial assets that are not measured at amortised cost or fair value through OCI are measured at fair value through profit or loss.

The category of financial assets measured at fair value through OCI includes derivative instruments which the Company had not irrevocably elected to classify at fair value through OCI.

The gain or loss from measuring these assets at fair value is recognised in profit or loss.

34.10. Offsetting of financial assets and liabilities

In circumstances where the Company:

- has a legally enforceable right to set off the recognised amounts and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, the financial asset and the financial liability are offset while the net amount is reported in the statement of financial position.

34.11. Impairment of financial assets

The Company recognises a provision for expected credit losses (ECLs) associated with debt instruments measured at amortised cost and fair value through other comprehensive income, regardless of whether there is any indication of impairment.

In the case of trade receivables, the Company uses a simplified provision matrix for calculating expected credit losses at an amount based on lifetime ECLs. The provision matrix is based on an entity's historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

For other financial assets, the Company estimates the provision for expected credit losses in an amount equal to 12 months of expected credit losses. For credit exposures for which there has been a significant increase in credit risk since initial recognition, the Company estimates the provision for expected credit losses on the financial instrument in an amount equal to credit losses expected over the remaining life of the exposure.

The credit risk of a financial instrument is assessed by the Company as to have increased significantly since initial recognition if a delay in repayment exceeds 45 days.

At the same time, the Company assumes that a debtor's default occurs if the delay in repayment exceeds 90 days.

34.12. Inventories

Inventories are valued at the lower of cost and net realisable value.
Costs of each item of inventory include all costs of purchase, costs of processing and other costs incurred in bringing the inventory to its present location and condition – both for the current and previous year – and is accounted for as follows:

Raw materials
- evaluated at actual prices, that is, the purchase cost on a first-in/first-out basis

Finished goods and work in progress
- cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

The net realisable sale price is the estimated selling price in the ordinary course of business, less estimated costs of transaction completion and the estimated costs necessary to make the sale.

34.13. Trade and other receivables

Trade receivables are recognised and stated at the amounts originally invoiced, including provisions for expected credit losses over their lifetime.

Where the effect of the time value of money is material, the value of receivables is determined by discounting the projected future cash flows to the present value while using a discount rate that reflects the current market assessments of the time value of money. Where the discounting method is used, the increase in receivables due to the passage of time is recognised as finance income.

Other receivables include, in particular, advances made for future purchases of property, plant and equipment, intangible assets and inventories. Advances are recognised according to the nature of the assets to which they relate – as non-current or current assets respectively. As non-monetary assets, advances are not discounted.

Statutory (budgetary) receivables are presented within other non-financial assets, with the exception of corporate income tax receivables, which represent a separate item.

34.14. Cash and cash equivalents

Cash and cash equivalents, shown in the statement of cash flows, include cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less.

The balance of cash and cash equivalents, shown in the statement of cash flows, consists of cash and cash equivalents as defined above, less outstanding overdrafts.

34.15. Interest-bearing bank loans, borrowings and debt securities

Upon initial recognition, all bank loans, borrowings and debt securities are recognised at fair value less costs incurred while obtaining the loan.

After initial recognition, interest-bearing loans, borrowings and debt securities are measured at amortised cost using the effective interest method.

The costs incurred while obtaining a loan or borrowing, or receipts of discounts or premiums accompanying the liability are applied while determining the amortised cost.

Income and expenses are entered into profit or loss when the liability is derecognized or settled with the use of the effective interest rate method.

34.16. Trade payables and other liabilities

Current trade payables are recognised at the amount payable.

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities initially classified as measured at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of being sold in the near future. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are considered to be effective hedging instruments.

As at 31 December 2019 and 31 December 2018, no financial liabilities were classified as measured at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value, taking into account their market value at the balance sheet date net of transaction costs to sell. Any changes in the fair value of these instruments are recognised in profit or loss as financial expenses or income, except for the changes in own credit risk referring to the financial liabilities which had been originally classified as at fair value through profit or loss, and which are recognised in other comprehensive income.

Other financial liabilities that are not financial instruments at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

The Company removes a financial liability from its balance sheet when the obligation expires – that is, when the obligation specified in the contract has been fulfilled, exercised or has expired.

Other non-financial liabilities include, in particular, liabilities due to the tax office in respect of value added tax and liabilities in respect of advances received which will be settled by the delivery of goods, services or non-current assets. Other nonfinancial liabilities are recognised at the amount due.

34.17. Modification in liabilities and changes in expected cash flows from financial liabilities

Cash flows relating to a financial liability may change as a result of changes in contractual terms or expectations regarding the Company's estimated cash flows to measure the financial liability at amortised cost.

A) Change in contractual terms

When there is a change in the contractual terms of a financial liability, the Company analyses whether the cash flow modification was substantial or not. The Company uses both quantitative and qualitative criteria to identify a significant modification that might lead to deerecognition of an existing financial liability.

The Company considers a modification to be substantial if it incurs a change in the discounted present value of the cash flows resulting from the new terms, including any payments made, less payments received and discounted, calculated with the use of the original effective interest rate, provided it is no less than 10% from the discounted present value of the remaining cash flows of the original financial liability.

Irrespective of the quantitative criterion, a modification is considered substantial in the following cases:

(a) currency conversion of a financial obligation, unless this provision has been specified in advance in the terms of the contract, (b) a change of a lender,
(c) a significant extension of the financing period compared to the original financing period,
(d) a change of interest rate from floating to fixed and vice versa,
(e) a change in the legal form/type of a financial instrument.

A significant modification of a financial liability is recognised by the Company as an expiry of the original financial liability and a recognition of a new financial liability.

Where there is a modification to the contractual terms of a financial liability that does not result in the existing liability no longer being recognised, a gain or loss is recognised immediately in profit or loss. The gain or loss is calculated as the difference between the present value of the modified and original cash flows, discounted at the original effective interest rate of the liability.

B) Change in expected cash flows

In the case of financial liabilities at a floating rate, periodic re-estimation of cash flows, performed in order to reflect changes in market interest rates, results in a change in the effective interest rate.

When the Company modifies its estimates of payments under a financial liability (excluding those relating to modifications of contractual cash flows), the carrying amount of the financial liability is adjusted to reflect the actual and revised estimated contractual cash flows. The Company determines the carrying amount of a financial liability at amortised cost as the present value of the estimated future contractual cash flows, which are discounted at the financial instrument's original effective interest rate. The difference in measurement is recognised as income or expense in profit or loss.

34.18. Provisions

Provisions are recognised when the Company has a current obligation (legal or constructive) which results from a past event, and when it is probable that, in order to settle the obligation, it will be necessary to expedite economic benefits, while a reliable estimate can be made of the amount of the obligation. Where the Company expects that the costs covered by a provision will be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when it is practically certain that the reimbursement will actually occur. The expense relating to the provision is shown in the statement of comprehensive income net of any reimbursement.

Where the effect of the time value of money is material, the amount of a provision is determined by discounting the estimated future cash flows to the present value, using a discount rate that reflects current market assessments of the time value of money as well as the risks, if any, which are specific to the liability. Where the discounting method is used, the increase in the provision due to the passage of time is recognised as a finance cost.

34.19. Employee benefits

Following the Company's remuneration systems, the Company's employees are entitled to retirement benefits. Retirement benefits are paid once, in the amount of one month's salary, upon retirement. The Company recognises a provision for future obligations in respect of severance payments and years of service awards in order to allocate costs to the corresponding periods.

The Company incurs costs associated with the operation of Employee Capital Plans ("ECPs", Pracownicze Plany Kapitałowe. PPK) by making contributions to an investment fund. These represent post-employment benefits in the form of a specified contribution plan. The Company recognises the costs of payments into the ECPs as the same cost item as the salary costs on which they are accrued are recognised. ECP liabilities are presented within other non-financial liabilities.

34.20. Income

34.20.1 Revenue from contracts with customers

The Company applies IFRS 15 *Revenue from Contracts with Customers* to all contracts with customers, except for leases which fall under IFRS 16 *Leases, financial instruments and other contractual rights or obligations*, which fall under IFRS 9 Financial Instruments, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Contractual Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, respectively.

The fundamental principle of IFRS 15 is to recognise revenue when goods and services are transferred to the customer, at a value that reflects the price expected by the entity in exchange for the transfer of those goods and services. These principles are applied using a five-step model:

- the contract with the customer is identified,
- the performance obligations under the contract with the customer are identified,
- the transaction price is determined,
- the transaction price is allocated to the individual performance obligations,
- revenue is recognised when the performance obligation under the contract is met.

Recognition of the contract with the customer

The Company recognises a contract with a customer only when all the following criteria are met:

- the parties to the contract have entered into an agreement (whether in writing, orally or in accordance with other customary commercial practices) and are obliged to perform their obligations;
- the Company is able to identify the rights of each party in regard to the goods or services to be transferred;
- the contract has economic substance (i.e., the risk, timing or amount of the entity's future cash flows can be expected to change as a result of the contract); and
- it is probable that the Company will receive the consideration to which it is entitled in exchange for the goods or services transferred to the customer.

While assessing whether it is probable that an amount of consideration will be received, the Company considers only the customer's ability and intention to pay the amount of consideration in a timely manner. The amount of consideration to which the Company will be entitled may be less than the contract price if the consideration is variable since a price discount may be offered to the customer.

Recognition of performance obligation

Any promise to transfer to the customer a good or service (or a bundle of goods or services) that is separable or a group of separate goods or services that are substantially the same and for which the transfer to the customer is of the same nature is identified as a performance obligation at the time a contract is entered into.

The good or service promised to the customer is considered as distinct if both of the following conditions are met:

- the customer can benefit from the good or service either directly or through a link to other resources that are readily available to him, and
- the Company's obligation to provide the good or service to the customer can be identified as separate from the other obligations set out in the contract.

Determination of the transaction price

In order to determine the transaction price, the Company takes into account the terms of the contract and the customary business practices. The transaction price is the amount of consideration that the Company expects to receive in exchange for transferring the promised goods or services to the customer, excluding amounts collected on behalf of third parties (for example, certain sales taxes). The remuneration specified in the contract with the customer may include fixed amounts, variable amounts or both.

Variable consideration

If the contractual consideration includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for providing the promised goods or services to the customer. The Company estimates the variable amount using that of the following methods which allows the Company to more accurately predict the amount of consideration to which it is entitled:

- expected value – the expected value is the sum of the all probability-adjusted products of the possible consideration amounts. The expected value may be an appropriate estimate of the amount of variable consideration if the Company enters into a large number of similar contracts.
- most likely value – the most likely value is the single most likely amount from the range of possible consideration amounts (i.e., the single most likely outcome of the contract). The most likely value may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, the Company either earns a performance bonus or fails to do so).

The Company includes some or all of the amount of variable consideration in the transaction price only to the extent that it is highly probable that a significant portion of the amount of previously recognised cumulative revenue will not be reversed when the uncertainty about the amount of variable consideration no longer applies.

Transaction price allocation to performance obligations

The Company allocates s a transaction price to each performance obligation (or to a distinct good or distinct service) in an amount that reflects the amount of consideration that the Company expects to receive in exchange for transferring the promised goods or services to the customer.

Performance obligation fulfilment

A receivable is recognised by the Company if an amount of consideration that is unconditional is expected from the customer after it has fulfiled (or is in the process of fulfiling) its performance obligation by transferring the promised good or service to the customer.

Principal's consideration vis-a-vis intermediary's consideration

Where another entity is involved in the provision of goods or services to the customer, the Company determines whether the nature of the Company's promise is an obligation to perform the service of providing the specified goods or services (in which case the Company is a principal) or to have another entity provide those goods or services (in which case the Company is an intermediary).

The Company is deemed a principal if it exercises control over the promised good or service before transferring it to the customer. However, an entity need not act as a principal if it obtains title to the product only temporarily before it is transferred to the customer. An entity acting as a principal in a contract may fulfil the performance obligation itself or may delegate the fulfilment of that obligation or part of it to another entity (such as a subcontractor) on its behalf. In such a situation, the Company recognizes the revenue for the gross consideration to which it expects to be entitled in exchange for the goods or services transferred.

The Company acts as an intermediary (agent) when its performance obligation is to procure the provision of goods or services by another party. In such a case, the Company recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for the provision of goods or services by another party.

Contract assets

As part of its contract assets, the Company recognises its rights to consideration in exchange for goods or services that it has transferred to a customer if the right is dependent on a condition other than the passage of time (for example, the entity's future services). The Company assesses whether a contract asset is impaired on the same basis as a financial asset under IFRS 9 (note 11.13. "Impairment of financial assets").

Receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before the consideration payment is due).The Company recognises a receivable in accordance with IFRS 9 (note 11.11. "Financial assets"). Upon initial recognition of a contractual receivable, any difference between the measurement of the receivable under IFRS 9 and the corresponding previously recognised amount of revenue is recognised by the Company as an expense (impairment losses on trade and other financial assets).

Contract liabilities

A contract liability recognised by the Company if a payment is received or a payment is due from a customer that involves an obligation for the Company to transfer the related goods or services to the customer.

Right of return liability

A right-of-return liability is recognised for the obligation, upon receipt, to refund some or all of the consideration received (or receivable) from a customer. The liability is measured at the amount the Company ultimately expects it will have to return to the customer. The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price as well as and the resulting change in the contract liability) at the end of each reporting period to reflect the change in circumstances.

34.20.2. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. 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. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset in "Income from governement grants" or "Grants".

If the grant applies to an asset item, then it is recognised as deferred income. It is then, gradually, by way of equal annual write-offs, recognised in profit or loss over the estimated useful life of the corresponding asset by reducing the amortisation cost of the asset.

34.20.3. Interest

Interest income is recognised systematically as it accrues (using the effective interest rate method, which is the rate that discounts future cash inflows over the estimated life of the financial instruments) in relation to the net carrying amount of the financial asset.

34.20.4. Dividends

Dividends are recognised when the shareholders' right of payment have been established.

34.21. Taxes

34.21.1. Current income tax

Current and historical income tax assets and liabilities are measured at the amount paid to the taxation authorities (or expected to be recovered from them) while the tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

34.21.2 Deferred tax

For the purpose of reporting, deferred tax is calculated using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date.

The provision for deferred tax is recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss nor taxable profit or tax loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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:

- except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- in respect of negative deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 recovered. Unrecognised deferred tax assets are re-assessed at each balance sheet 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period 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 balance sheet date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss: they are recognised in correlation to the underlying transaction either in OCI or directly in equity.

The Company offsets deferred tax assets against deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxpayer and the same taxation authority.

34.21.3. Value added tax

Revenues, expenses, assets and liabilities are recognised net of value added tax, except:

- except where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities, in which case it is recognised as part of the cost of the asset or as part of the expense item as appropriate; and
- receivables and payables, which are stated inclusive of the amount of goods and services tax.

The net amount of value added tax recoverable from or payable to the tax authorities is included as part of receivables or payables in the statement of financial position.

34.21.4. Uncertainty related to the recognition of income tax

If, in the Company's assessment, it is probable that the Company's approach to a tax issue or a cluster of tax issues will be accepted by the tax authority, the Company determines the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates in its tax return, while considering its assessment of any plans regarding taxation planned or applied. In assessing this probability, the Company assumes that tax authorities which are equipped with the authority to audit and challenge the Company's tax approach will conduct such an audit and will have access to all necessary information.

If, on the other hand, the Company is of opinion that it is unlikely that the tax authority will accept the Company's approach to a tax issue or a cluster of tax issues, then the Company should consider the effects of the uncertainty in its accounting treatment of the tax in the relevant period. The Company recognises an income tax liability using this one of the following two methods, which reflects the likelihood of the uncertainty being fulfilled:

- The company establishes the most likely scenario – it constitutes a single amount among several possible outcomes or
- The company establishes an expected value – it constitutes the mean of the sum of probability-weighted amounts calculated against the other possible outcomes.

34.22. Net earnings per share

Net income per share for each period is calculated by dividing the net income for the period by the weighted average number of shares in the reporting period.

The Company does not present diluted earnings/loss per share as there is no reason to do so. If options are issued under the employee schemes, this operation might have a dilutive effect.

35. Judgement and estimates

35.1. Professional judgement

The preparation of the Company's financial statements requires the Management Board to make judgements, estimates and assumptions that affect the presented revenue, expenses, assets and liabilities, as well as related notes and disclosures of contingent liabilities. Uncertainty as to these assumptions and estimates can result in material adjustments to the carrying amounts of assets and liabilities in the future.

When applying accounting principles (policy), the Management Board has made the following judgements that have the most significant effect on the reported carrying amounts of assets and liabilities.

Revenue recognition

The Company sells medicines. Generated revenue is recognised in accordance with IFRS 15. Medicines are sold mainly on anIncoterms EXW basis, i.e. revenue is recognised when the goods are released from the warehouse (at the point in time). Payment for the goods is usually made within 30 - 60 days after the obligation to perform the service has been fulfilled. In Poland, the Company sells medicines at official prices.

Sales to distributors are based on a profit sharing mechanism in which the distributor of the product is contractually obliged to share with Celon Pharma the margin on sales to the final customer. The settlement with the distributor is made after the medicine is sold to the final customer and the estimate of revenue from profit sharing is made on an ongoing basis and recognised when the product is sold to the distributor. Settlements are made on a semi-annual basis and estimates of the generated revenue are recognised as other receivables and settled in the period of several months after the end of the financial year.

Research and development costs

The Company makes a judgement as to whether research and development costs meet the capitalisation criteria. Due to the risks and uncertainties surrounding the process of obtaining a marketing authorisation for the medicine, the Company does not currently meet the capitalisation criteria for this type of research and development and thus these costs are recognised at the moment they are incurred. In general, the Company expects to begin capitalisation of R&D costs from the moment the medicine is approved by the competent regulatory authority, i.e. after phase 3 clinical trials.

The Company incurred research and development costs of PLN 47,694 thousand and PLN 40,894 thousand in 2021 and 2020 respectively. Out of R&D costs of PLN 47,694 thousand in 2021, costs of PLN 3.850 thousand were not reimbursed in 2021 due to lack of the decision by the funding authority (NCBiR).

Grants for research and development

The Company assesses when the received advance payments or refunds for research and development are recognised in the Company's revenue taking into account the risk that they may need to be returned. Grants are recognised in revenue gradually as the costs are incurred, but not earlier than at the moment when the Company obtains reasonable assurance that the grant needs not to be returned to the co-financing institution, i.e. the institution which has given the grant.

In 2021 and 2020, the Company recognised revenue from research and development grants of PLN 26,528 thousand and PLN 21,874 thousand, respectively.

Lease term in agreements entered into for an indefinite period of time

The Company has lease agreements entered for an indefinite period of time for the lease of space in several buildings. When determining the lease term, the Company takes into account the useful life of fixed assets located and used in a given location and also determines the enforceability period of the agreement. A lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the agreement without the need to obtain consent from the other party without incurring penalties in the amount greater than insignificant. The Company assesses the significance of penalties in a broad sense, i.e. in addition to strictly contractual or financial considerations, it takes into account any other significant economic factors that discourage termination (e.g. significant investments in the leased asset, availability of alternatives or relocation costs). If neither the Company as lessee nor the lessor incurs a significant penalty for termination (broadly understood), the lease ceases to be enforceable and its term is the period of notice. If either party – in its professional judgement – is to incur a significant penalty for termination (broadly understood), the Company considers that the lease term is sufficiently certain (i.e. that it can be assumed with reasonable certainty that the agreement will continue in this term).

35.2. Uncertainty of estimates and assumptions

The key assumptions about the future and other key sources of uncertainty at the balance sheet date, which involve a significant risk of causing the need to make material adjustments to the carrying amounts of assets and liabilities in the next financial year, are discussed below. The Company has made assumptions and estimates about the future based on its knowledge at the time of preparing the financial statements. The assumptions and estimates made may change due to future events resulting from market change or changes beyond the Company's control. Such changes are reflected in the estimates or assumptions as they occur.

Impairment of fixed assets

A significant judgement is required to assess whether indications of impairment, such as failure to meet the budget and other business objectives, are present. If such indications are present, the Company carries out an impairment test. This requires estimation of the value-in-use of the cash-generating unit to which the fixed assets belong. Estimation of the value-in-use involves determination of the future cash flows generated by the cash-generating unit and requires determination of a discount rate to be used to calculate the present value of those cash flows.

Impairment of trade receivables

The Company manufactures medicines. On the domestic market, it cooperates only with pharmaceutical wholesalers. On international markets, it cooperates only with a few companies that are distributors of medicines in their countries. As the risk of credit losses is low, the Company analyses the timeliness of repayments and the financial standing of its contractors at the end of each quarter.

Deferred tax asset

The Company recognises the deferred tax asset based on the assumption that the tax profit will be generated in the future, which will make it possible to utilise it. Deterioration in tax profits generated in the future can make this assumption unreasonable.

The Company carefully assesses the nature and scope of the evidence supporting the conclusion that it is probable that future taxable profit will be generated in the amount sufficient to deduct from it unused tax losses, unused tax credits or other deductible temporary differences.

When assessing whether the generation of future taxable profits is probable (probability higher than 50%), the Company takes into account all available evidence, i.e. the evidence confirming that it is probable and the evidence confirming that it is not probable.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is established using appropriate valuation techniques. When selecting appropriate methods and assumptions, the Company uses professional judgement. No such instruments existed for the period for which the financial statements were prepared.

Revenue recognition

The Company identifies sales revenue when finished goods are released. In Poland, the Company sells its manufactured medicines at official prices, because all Company's products are included in the list of reimbursed drugs of the Ministry of Health. Furthermore, as far as sales outside Poland are concerned, the Company uses profit sharing agreements based on which it makes estimates as to the sharing of sales revenue generated by the Company's partners in other countries.

Depreciation rates

Depreciation rates are determined on the basis of the expected period of economic lifetime of tangible and intangible assets. The Company verifies annually the adopted periods of economic lifetime based on current estimates.

Lessee's incremental borrowing rate of interest

The Company is not able to easily determine the rate of interest for lease agreements and therefore, when measuring the lease liability, it uses the Lessee's incremental borrowing rate of interest. This is the rate of interest the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to purchase the asset of the value similar to the value of the right-of-use asset in a similar economic environment.

Uncertainty related to tax settlements

Regulations on value added tax, corporate income tax and social security payments are subject to frequent changes. These frequent changes result in a lack of appropriate reference points, inconsistent interpretations and few established precedents which could be used. Regulations in force also contain ambiguities that cause differences in opinions as to the legal interpretation of tax regulations, both between the State authorities and between the State authorities and companies.

Tax settlements and other areas of activity (e.g. customs or foreign exchange issues) may be the subject of audits by the authorities which are entitled to impose high penalties and fines. Any additional tax liabilities identified during the audit must be paid along with high interest. Thus, the tax risk in Poland is greater than in countries with more mature tax systems.

Consequently, the amounts presented and disclosed in the financial statements may change in the future as a result of a final decision of a tax audit authority.

As of 15 July 2016, the Tax Code was amended to include the provisions of the General Anti-abuse Rule (GAAR). The GAAR is intended to prevent the creation and use of artificial legal structures created to avoid paying tax in Poland. The GAAR defines the avoidance of tax as an act done primarily to obtain a tax advantage which in the given circumstances is contrary to the subject and purpose of the provisions of the Tax Act. Under the GAAR, such an act does not result in obtaining a tax advantage if the manner of acting was artificial. Any occurrence of (i) unjustified splitting of operations, (ii) involvement of intermediaries despite the lack of economic or business justification, (iii) elements that cancel or compensate one another, and (iv) other actions similar in effect to those mentioned above, may be treated as an indication of the existence of artificial acts subject to the provisions of the GAAR. The new regulations will require much greater judgement when assessing the tax consequences of individual transactions.

The GAAR should be applied to transactions made after its entry into force and to transactions which were made before its entry into force, but for which advantages were or still are possible to be obtained after it becomes effective. The introduction of the above regulations will make it possible for the Polish tax audit authorities to question legal arrangements and agreements, such as restructuring and reorganisation of the group, made by taxpayers.

The Company recognises and measures current and deferred tax assets or liabilities using the requirements of IAS 12 – Income Taxes based on the profit (tax loss), tax base, unused tax losses, unused tax credits (in particular the R&D credit) and tax rates, taking into account the assessment of the uncertainty related to tax settlements.

When there is uncertainty as to whether and to what extent the tax authority will accept tax settlements of the transaction, the Company recognises these settlements taking into account the assessment of uncertainty.

36. New standards and interpretations that have been published, but have not yet come into force

- IFRS 14 – Regulatory Deferral Accounts (published on 30 January 2014) – in accordance with the decision of the European Commission, the process of endorsement of the standard in the initial version will not be initiated before the standard in the final version is published – not endorsed by the EU as at the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published on 11 September 2014) – the work to endorse these amendments has been postponed indefinitely by the EU – the effective date has been postponed indefinitely by the IASB;
- IFRS 17 – Insurance Contracts (published on 18 May 2017) including Amendments to IFRS 17 (published on 25 June 2020) – applicable to annual periods beginning on or after 1 January 2023;
- Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (published on 23 January 2020 and 15 July 2020 respectively) – not endorsed by the EU as at the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2023;
- Amendments to IAS 3 – Amendments to References to the Conceptual Framework (published on 14 May 2020) – applicable to annual periods beginning on or after 1 January 2022;
- Amendments to IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use (published on 14 May 2020) – applicable to annual periods beginning on or after 1 January 2022;
- Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract (published on 14 May 2020) – applicable to annual periods beginning on or after 1 January 2022;
- Annual Improvements to IFRS Standards 2018–2020 (published on 14 May 2020) – applicable to annual periods beginning on or after 1 January 2022;
- Amendments to IAS 1 and Practice Statement 2 – Disclosure of Accounting Policies (published on 12 February 2021) – applicable to annual periods beginning on or after 1 January 2023;
- Amendments to IAS 8 – Definition of Accounting Estimates (published 12 on February 2021) – applicable to annual periods beginning on or after 1 January 2023;
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (published on 7 May 2021) – not endorsed by the EU as at the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2023;
- Amendments to IFRS 17 – Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (published on 9 December 2021) – not endorsed by the EU as at the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2023.

The effective dates are the dates specified in standards published by the International Accounting Standards Board. Dates of application of the standards in the European Union may differ from the dates of application specified in the standards and are announced at the time of endorsement for use by the European Union.

Kiełpin, 27 April 2022

Maciej Wieczorek
President of the Management Board

Jacek Glinka
Vice-president od the Management Board

Dorota Zwolińska
Member of The Management Board