CELON PHARMA

HALF-YEAR REPORT

CELON PHARMA

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CELON PHARMA

Part 1

HALF-YEAR CONDENSED FINANCIAL REPORT FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2022 CELON PHARMA S.A.

Kiełpin, 28 September 2022

(EXPRESSED in thousands of PLN)

STATEMENT OF COMPREHENSIVE INCOME
for the 6-month period ended June 30, 2022

	Notes	for the period from 01/01 to 06/30/2022 (unaudited)	for the period from 01/01 to 06/30/2022 (unaudited)	for the period from 04/01 to 06/30/2022 (unaudited)	for the period from 04/01 to 06/30/2022 (unaudited)
Continuing operations					
Revenues	4, 5.1	**94,762**	**105,096**	**52,826**	**57,669**
Revenue from the sale of drugs		78,764	91,771	45,842	48,603
Revenues from grants		15,647	11,520	6,961	8,405
Other revenues		351	967	23	112
Revenue from the sale of licenses		0	838	0	549
Operating costs	4	**114,272**	**102,563**	**61,182**	**55,561**
Depreciation and amortization		23,168	20,328	11,518	10,900
Raw materials usage		32,555	33,220	19,583	17,373
External services		23,533	16,911	12,676	10,138
Employment costs	5.6	29,729	26,232	14,792	13,504
Other costs		5,287	5,872	2,613	3,646
Profit/(loss) from sales		**-19,510**	**2,533**	**-8,356**	**2,108**
Other operating revenues	5.2	676	71	283	63
Other operating costs	5.3	648	694	309	644
Operating profit/(loss)		**-19,482**	**1,910**	**-8,382**	**1,527**
Financial income	5.4	810	10	527	0
Financial costs	5.5	1,531	1,794	674	-322
Profit/(loss) before tax		**-20,203**	**126**	**-8,529**	**1,849**
Income tax	6	-4,579	-176	-419	-168
Net profit/loss from continuing operations		**-15,624**	**302**	**-8,110**	**2,017**
Discontinued operations					
Net profit/(loss) from discontinued operations		0	0	0	0
Net profit/(loss) for the financial year		**-15,624**	**302**	**-8,110**	**2,017**
Other comprehensive income					
Items not subject to reclassification to the profit/(loss) in subsequent reporting periods:					
Actuarial gains/(losses) on defined benefit schemes		0	0	0	0
Net profit/(loss) on equity instruments at fair value through other comprehensive income		-24,442	30,428	-24,442	-4,653
Income tax on other comprehensive income	6	-4,644	5,781	0	884
Other net comprehensive income not subject to reclassification to the profit/(loss) in subsequent reporting periods		**-19,798**	**24,647**	**-24,442**	**-3,769**
Other net comprehensive income		**-19,798**	**24,647**	**-24,442**	**-3,769**
ANNUAL COMPREHENSIVE INCOME		**-35,422**	**24,949**	**-32,552**	**-1,752**
Profit/loss per share		-0.31	0.01	-0.01	0.01
- basic profit for the financial year		-0.31	0.01	-0.01	0.01
- basic profit from continuing operations for the financial year		-0.31	0.01	-0.01	0.01
- diluted profit for the financial year		-0.31	0.01	-0.01	0.01
- diluted profit from continuing operations for the financial year		-0.31	0.01	-0.01	0.01

(EXPRESSED in thousands of PLN)

STATEMENT OF FINANCIAL POSITION
as at 30 June 2022

	Explanatory notes	June 30, 2022 (unaudited)	December 31, 2021 (audited)
ASSETS			
Non-current assets			
Tangible fixed assets	9	299,294	303,665
Right-of-use assets	10	30,939	25,543
Intangible assets	11	26,256	29,171
Investments in other entities	12	13,462	37,904
Other financial assets	16	218	218
Deferred tax assets	6	36,515	31,936
		406,684	**428,437**
Current assets			
Inventories	13	29,921	23,376
Trade receivables	14	31,953	24,673
Income tax receivables		0	0
Other receivables	14	3,563	2,571
Other non-financial assets	15	2,098	529
Other financial assets (ST)	16	78,672	79,755
Cash and cash equivalents	17	113,167	147,796
		259,374	**278,700**
TOTAL ASSETS		**666,058**	**707,137**
EQUITY AND LIABILITIES			
Equity			
Share capital		5,103	5,100
Supplementary capital		598,710	613,510
Revaluation reserve		5,959	25,757
Reserve capital from valuation of share options		1,309	1,309
Retained earnings/ Losses brought forward		-92,117	-80,068
Net profit/loss for the current period		-15,624	-11,606
		503,340	**554,002**
Long-term liabilities			
Deferred tax provision	6	1,398	6,042
Leasing liabilities	18	8,456	8,354
Other liabilities (including investment liabilities)	22.3	19,428	22,526
Accruals from grants	20	31,754	29,851
		61,036	**66,773**
Short-term liabilities			
Trade liabilities	21	17,514	12,681
Liabilities due to loans and borrowings		2	0
Leasing liabilities	18	10,041	6,563
Other liabilities (including investment liabilities)	22.3	24,768	6,284
including liabilities due to dividends		14,800	0
Liabilities due to employment costs	21	7,533	2,305
Other non-financial liabilities	21	1,361	1,256
Provisions		1,566	1,446
Accruals from grants	20	38,897	55,827
		101,682	**86,362**
Total liabilities		**162,718**	**153,135**
EQUITY AND LIABILITIES		**666,058**	**707,137**

(EXPRESSED in thousands of PLN)

STATEMENT OF CASH FLOW
for the 6-month period ended June 30, 2022

	Explanatory notes	period ended June 30, 2022 (unaudited)	period ended June 30, 2021 (unaudited)
Cash flows from operating activities			
Profit/(loss) before tax		-20,203	126
Adjusted for:		7,583	-1,267
Depreciation and amortization		23,168	20,328
Foreign exchange gains/losses		0	-980
(Gains)/losses on investing activities		-176	-46
(Increase)/decrease in trade receivables and other receivables		-8,273	-1,022
(Increase)/decrease in inventories		-6,545	2,653
(Increase)/decrease in other non-financial assets		-1,569	-2,656
Increase/(decrease) in liabilities, except for loans and borrowings		16,288	2,460
Interest income/costs		1,112	586
Change in prepayments, accruals and deferred income due to grants		-16,099	-23,780
Change in provisions		120	1,190
Income tax paid		-443	0
Net cash flows from operating activities		**-12,620**	**-1,141**
Cash flows from investing activities			
Sale of tangible fixed assets and intangible assets		200	85
Purchase of tangible fixed assets and intangible assets		-16,963	-14,915
Sales of shares in other entities		0	0
Purchase of shares in other entities		0	0
Sales of other financial assets		0	0
Purchase of other financial assets		0	0
Interest received		503	0
Net cash flows from investing activities		**-16,260**	**-14,830**
Cash flows from financing activities			
Inflows from issue of shares		3	0
Inflows due to loans/borrowings incurred		0	-531
Repayment of loans/borrowings		2	0
Repayment of leasing liabilities		-5,223	-1,885
Interest on leasing liabilities		-520	-392
Interest on loans/borrowings		0	-194
Other interests		-11	0
Other		0	0
Net cash flows from financing activities		**-5,749**	**-3,002**
Net cash flows		**-34,629**	**-18,973**
Cash at the beginning of the period		**147,796**	**43,978**
Cash at the end of the period		**113,167**	**25,005**

(EXPRESSED in thousands of PLN)

STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity	Share capital	Supplementary capital	Revaluation reserve	Reserve capital from valuation of share options	Retained earnings /Uncovered losses	Total equity
Opening balance as at January 1, 2022	**5,100**	**613,510**	**25,757**	**1,309**	**(91,674)**	**554,002**
Net profit/(loss) for the year	-	-	-	-	(15,624)	(15,624)
Other net comprehensive income for the year	-	-	(19,798)	-	-	(19,798)
Comprehensive income for the year	-	-	(19,798)	-	(15,624)	(35,422)
- issue of shares	3	-	-	-	-	3
- costs of issue of shares	-	-	-	-	-	-
- valuation of share options	-	-	-	-	-	-
- dividends declared	-	(14,800)	-	-	(443)	(15,243)
- dividends paid	-	-	-	-	-	-
Closing balance as at June 30, 2022	**5,103**	**598,710**	**5,959**	**1,309**	**(107,741)**	**503,340**

Statement of changes in equity	Share capital	Supplementary capital	Revaluation reserve	Reserve capital from valuation of share options	Retained earnings /Losses brought forward	Total equity
Opening balance as at January 1, 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 December 31, 2021	**5,100**	**613,511**	**25,757**	**1,309**	**(91,675)**	**554,002**

Additional explanatory notes to the half-year condensed financial statements
attached on pages 5-22 constitute its integral part

1. General information

The financial statements of Celon Pharma S.A. cover the 6-month period ended June 30, 2022 and include comparative data for the 6-month period ended June 30, 2021 and as at December 31, 2022. These financial statements were approved for publication by the Management Board on 28 September 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 Regional 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 stricken therefrom by virtue of law, on the date of the company's transformation into a joint-stock company.

The duration of the Company is indefinite.

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

2. Composition of the Company's corporate authorities

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.

There were no changes to the composition of the Management Board during the reporting period and up to the date of preparation of this report.

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.

There were no changes to the composition of the Supervisory Board during the reporting period and up to the date of preparation of this report.

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 pandemic and the Russia and Ukraine war, as described in the Report on the Management Board's operations, does not materially affect the Company's operations and financial position. However, the current economic situation is characterized by high uncertainty, while the volatility of difficult-to-predict events. 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, that result from the domestic and global epidemic and political situation. The assessment of the Company's current situation 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 half-year condensed financial statements were prepared in accordance with the International Financial Reporting Standard no. 34 “Interim financial reporting” approved by the European Union (“IAS 34”).

The half-year condensed financial statements do not cover all information or disclosures required in the annual financial statements and they should be read together with the financial statements of the Company for the year ended December 31, 2021 approved for publication on April 27, 2022.

These half-year condensed financial statements are presented in Polish zloty (“PLN”), and all values, unless indicated otherwise, are provided in thousands of PLN.

These half-year condensed financial statements been prepared under the assumption of the Company’s going concern in the foreseeable future.

The half-year financial result cannot fully reflect the achievable financial result for the financial year.

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 which lead to the Company manufacturing and selling drugs already registered and authorized for marketing.
- The innovative segment involving all activities aimed at developing the documentation on the basis of which a drug could be registered or commercialized 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 revenue) and income tax are monitored at the level of the Company and they are not allocated to segments.

There are no significant transactions between the segments.

(EXPRESSED in thousands of PLN)

	Generic drug segment *(unaudited)*		Innovative segment *(unaudited)*		Total *(unaudited)*	
	01/01-06/30/2022	**01/01-06/30/2022**	**01/01-06/30/2022**	**01/01-06/30/2022**	**01/01-06/30/2022**	**01/01-06/30/2022**
Revenue from the sale of drugs	78,764	91,771	0	0	78,764	91,771
Other revenues	351	967	0	0	351	967
Revenues from grants	0	0	15,647	11,520	15,647	11,520
Revenue from the sale of licenses	0	839	0	0	0	839
Total revenues of the segment	**79,115**	**93,576**	**15,647**	**11,520**	**94,762**	**105,097**
including:						
Domestic	*52,066*	*43,828*	*15,647*	*11,520*	*67,713*	*55,348*
Export	*27,049*	*49,748*	*0*	*0*	*27,049*	*49,748*
Total costs by nature	**59,778**	**60,685**	**54,494**	**41,878**	**114,272**	**102,564**
including:						
Depreciation and amortization	16,763	15,863	6,405	4,466	23,168	20,329
Raw material consumption	20,216	23,927	12,340	9,292	32,556	33,219
Third party services	3,435	2,404	20,097	14,507	23,532	16,911
Employment costs	15,673	14,358	14,056	11,875	29,729	26,233
Other costs	3,691	4,133	1,596	1,738	5,287	5,873
Profit/loss of the segment	**19,337**	**32,891**	**-38,847**	**-30,358**	**-19,510**	**2,533**
Other operating revenues	676	71	0	0	676	71
Other operating costs	648	694	0	0	648	694
Operating profit/loss (EBIT)	**19,365**	**32,268**	**-38,847**	**-30,358**	**-19,510**	**1,910**
Operating profit/loss adjusted for depreciation and amortization (EBITDA)	**36,128**	**48,131**	**-32,442**	**-25,892**	**3,686**	**22,238**
Financial income					810	10
Financial costs					1,531	1,794
Net profit (loss)					**-20,203**	**126**
Income tax, including					-4,579	-176
- current income tax					*0*	*0*
- deferred income tax					*-4,579*	*-176*
Net profit/loss					**-15,624**	**302**

	Generic drug segment *(unaudited)*		Innovative segment *(unaudited)*		Total *(unaudited)*	
	04/01-06/30/2022	**04/01-06/30/2022**	**04/01-06/30/2022**	**04/01-06/30/2021**	**04/01-06/30/2022**	**04/01-06/30/2022**
Revenue from the sale of drugs	45,842	48,603	0	0	45,842	48,603
Other revenues	23	112	0	0	23	112
Revenues from grants	0	0	6,961	8,405	6,961	8,405
Revenue from the sale of licenses	0	550	0	0	0	550
Total revenues of the segment	**45,865**	**49,264**	**6,961**	**8,405**	**52,826**	**57,669**
including:		0		0		0
Domestic	*26,332*	*22,871*	*6,961*	*8,405*	*33,293*	*31,276*
Export	*19,533*	*26,393*	*0*	*0*	*19,533*	*26,393*

(EXPRESSED in thousands of PLN)

	Generic drug segment *(unaudited)*		Innovative segment *(unaudited)*		Total *(unaudited)*	
	04/01-06/30/2022	04/01-06/30/2021	04/01-06/30/2022	04/01-06/30/2021	04/01-06/30/2022	04/01-06/30/2021
Total costs by nature	**31,606**	**32,908**	**29,577**	**22,654**	**61,183**	**55,562**
including:		0		0		0
Depreciation and amortization	8,175	7,041	3,344	3,860	11,519	10,901
Raw material consumption	12,723	14,838	6,860	2,644	19,583	17,482
Third party services	1,503	1,165	11,173	8,788	12,676	9,953
Employment costs	8,136	7,398	6,656	6,181	14,792	13,579
Other costs	1,747	2,466	866	1,181	2,613	3,647
Profit/loss of the segment	**13,581**	**16,356**	**-21,938**	**-14,249**	**-8,357**	**2,107**
Other operating revenues	283	63	0	0	283	63
Other operating costs	309	643	0	0	309	643
Operating profit/loss (EBIT)	**14,233**	**15,776**	**-22,616**	**-14,249**	**-8,383**	**1,527**
		0		0		0
Operating profit/loss adjusted for depreciation and amortization (EBITDA)	**21,730**	**22,817**	**-18,594**	**-10,389**	**3,136**	**12,428**
Financial income					527	0
Financial costs					674	-321
Net profit (loss)					**-8,530**	**1,848**
Income tax, including					-419	-168
- current income tax					*0*	*0*
- deferred income tax					*-419*	*-168*
Net profit/loss					**-8,111**	**2,016**

In relation to the segment note, in 1H2022 the Company performed a review of operating costs with regard to allocation toward specific operating segments, as a result of which a change was made to the cost allocation keys between segments; in particular allocation keys for the cost of common units of the Company were changed. In 2021, the costs of these units were mostly allocated only to the generic drugs segment. The new allocation keys were used in the segment note above both in relation to the 6-month reporting period ended June 30, 2022 and June 30, 2021.

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

- in the 6-month period ended June 30, 2022 – PLN 79,115 thousand,
- in the 6-month period ended June 30, 2021 – PLN 92,610 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 particular segments

Revenues

In 1H2022, the revenues of the Company dropped to the level of PLN 94.8 m from PLN 105.1 m in 1H2021, which concerns the entirety of the generics segment, and, more precisely, the decrease in the export sales. The domestic sales in 1H2022 amounted to PLN 67.7 m, which means there was a 22% increase compared to 1H2021. The export sales decreased from PLN 49.7 m in 1H2021 to PLN 27 m in 1H2022, which is a consequence of using significant production capacities in 1Q22 on the trial series of innovative drugs required for the implementation of the Falkieri Project. It should also be pointed out that 1H2021 was a record year in terms of export sales for the French and Italian markets, which, as new markets, were starting the stocking-up process during that period. Since the beginning of the second half of 2021, this occurrence has weakened, as the markets became saturated and the actual needs for the Company's products on these markets was established.

(EXPRESSED in thousands of PLN)

On a quarterly basis, in 2Q22, the domestic sales retained its high dynamic and generated revenues in the amount of PLN 26 m, compared to PLN 25.7 m in 1Q22 and PLN 22.9 m in 2Q21. Whereas in terms of the export sales of the generics segment, in 2Q22, normalization of the export sales levels was observed; it generated revenues in the amount of PLN 19.5 m in 2Q22, compared to PLN 7.5 m in 1Q22 and PLN 26.3 m in 2Q21.

The revenues from grants increased from PLN 11.5 m in 1H2021 to PLN 15.6 m in 1H2022; this is related to the greater advancement of the Company's research and development projects ("R&D projects). In 1H2022 the Company conducted 19 R&D projects actively.

EBITDA

EBITDA of the generic drugs segment amounted to PLN 36.3 m in 1H2021 and PLN 48.1 m in 1H2021; whereas in 1H2022, the innovative segment reported a negative EBITDA result in the amount of PLN 32.4 m, compared to - PLN 25.9 m in 1H2021.

The decrease of EBITDA in 1H2022 was caused by the aforementioned revenue gap in the generic drugs segment; therefore, the part of the fixed costs was not covered, in particular the cost of wages and salaries. Moreover, 1H2022 is a period of very high inflation and continuously significant wage pressure. Nonetheless, the EBITDA profitability of the generic drugs segment remain on a high level in 1H2022 and amounted to 46%. It should also be pointed out that the increase of costs in the innovative segment in 1H2022 was covered by the increase in the revenues from grants; the index of subsidizing R&D costs using grants amounted to 30% in 1H2022, compared to 25% in 1H2021.

The most significant increases of operational costs due to inflation pressure in 1H2022 were noted in the cost of utilities. The costs of energy and gas in the Company increased nearly three-fold compared to 1H2021.

The increase of costs of wages and salaries in 1H2022, compared to 1H2021, results from both the increase of the average employment (an increase by 34 FTEs), in particular in the area of the innovative segment, as well as from the increase of the average remuneration in the Company. The increase of the average remuneration is related with both the wage pressure, as well as employing personnel highly qualified in the area of the innovative segment.

5. Revenues and costs

5.1. Other revenues

Other revenues	6-month period ended		3-month period ended	
	June 30, 2022 *(unaudited)*	June 30, 2021 *(unaudited)*	04/01-06/30/2022 *(unaudited)*	04/01-06/30/2021 *(unaudited)*
Profit sharing	-	936	-	89
Other	351	31	23	23
Total	**351**	**967**	**23**	**112**

Other revenues in 1H2022 regard mostly the milestone of registering Salmex in the Saudi Arabia market.

5.2. Other operating revenues

Other operating revenues	6-month period ended		3-month period ended	
	June 30, 2022 *(unaudited)*	June 30, 2021 *(unaudited)*	04/01-06/30/2022 *(unaudited)*	04/01-06/30/2021 *(unaudited)*
Profit on disposal of non-financial non-current assets	200	46	185	38
Released provisions	345	0	0	0
Other	131	25	98	25
Total	**676**	**71**	**283**	**63**

(EXPRESSED in thousands of PLN)

5.3. Other operating costs

Other operating costs	6-month period ended		3-month period ended	
	June 30, 2022 *(unaudited)*	June 30, 2021 *(unaudited)*	04/01-06/30/2022 *(unaudited)*	04/01-06/30/2021 *(unaudited)*
Donations	1	0	1	0
Paid liquidated damages	420	0	0	0
Other	227	694	308	644
Total	**648**	**694**	**309**	**644**

5.4. Financial income

Financial income	6-month period ended		3-month period ended	
	June 30, 2022 *(unaudited)*	June 30, 2021 *(unaudited)*	04.01-06/30/2022 *(unaudited)*	04/01-06/30/2021 *(unaudited)*
Interest	810	10	527	-
Other	-	-	-	-
Total	**810**	**10**	**527**	**-**

5.5. Financial costs

Financial costs	6-month period ended		3-month period ended	
	June 30, 2022 *(unaudited)*	June 30, 2021 *(unaudited)*	04/01-06/30/2022 *(unaudited)*	04/01-06/30/2021 *(unaudited)*
Interest on leasing liabilities	520	392	319	324
Bank interests and fees	11	194	5	102
Budget interest	117	1	117	1
Revaluation of financial assets	756	2	354	1
Exchange losses	127	1,206	(121)	(748)
Other financial costs	-	-	-	-
Total	**1,531**	**1,795**	**674**	**(320)**

5.6. Employment costs

Employment costs	6-month period ended		3-month period ended	
	June 30, 2022 *(unaudited)*	June 30, 2021 *(unaudited)*	04/01-06/30/2022 *(unaudited)*	04/01-06/30/2021 *(unaudited)*
Wages and salaries	24,366	21,529	12,046	11,205
Costs of social insurance	4,425	3,846	2,316	2,070
Costs of payments to the Employee Capital Plan (PPK)	60	51	30	27
Other costs of employee benefits	878	807	400	277
Total	**29,729**	**26,233**	**14,792**	**13,579**

The increase of the cost of wages and salaries in the 6-month period ended June 30, 2022 compared to the analogical period of 2021 results both from the increase of the average level of employment, in particular in the innovative segment, as well as from the increase of the average remuneration in the Company. The increase of the average remuneration is related both with the wage pressure, as well as employing personnel highly qualified in the area of the innovative segment.

(EXPRESSED in thousands of PLN)

6. Income tax

6.1. Tax expense

Key components of the tax expense for the 6-month period ended June 30, 2022 and June 30, 2022 were as follows:

Income tax	6-month period ended	
	June 30, 2022 *(unaudited)*	June 30, 2021 *(unaudited)*
Current income tax	-	-
Deferred income tax	4,579	176
Income tax reported in the financial performance	**4,579**	**176**
Deferred income tax, including:	4,644	(5,781)
Tax on net profit/(loss) on equity instruments at fair value through other comprehensive income	4,644	(5,781)
Income tax on other comprehensive income	**4,644**	**(5,781)**

6.2. Deferred income tax

Deferred income tax has resulted from the following items:

	Statement of financial position		Statement of comprehensive income for the year ended	
	June 30, 2022 *(unaudited)*	June 30, 2021 *(unaudited)*	June 30, 2022 *(unaudited)*	June 30, 2021 *(unaudited)*
Provision for deferred income tax				
Leased fixed assets	30,939	25,668	5,271	2,602
Fixed assets – differences due to depreciation and amortization	1,904	2,458	-554	0
Valuation of shares in Mabion	7,357	31,799	-24,442	30,428
Other valuations	3,880	261	3,618	0
Profit sharing	0	843	-843	-1,934
Total deferred income tax provision	**8,375**	**11,596**	**-3,221**	**5,908**
Deferred income tax assets				
Financial leasing liabilities	18,207	15,109	3,098	2,284
Accruals and deferred income	3,622	3,050	572	-1,266
Provisions for employment costs	3,355	2,364	991	577
Valuation of short-term investments	1,001	0	1,001	0
R&D projects except for salaries*	116,172	116,172	0	0
Tax loss	86,030	60,098	25,932	0
Total deferred income tax assets	**43,394**	**37,391**	**6,003**	**303**
Deferred income tax expense			**9,223**	**-5,605**
Change charged to equity (valuation of Mabion S.A.)			**4,644**	**-5,781**
Change charged to profit or loss			**4,579**	**176**

** The amount reflects costs of R&D projects except for salaries, incurred by the Company in the years 2016-2019 and were capitalized 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.*

As at June 30, 2021, the Company had PLN 86 million of unused tax losses relating to 2020 and 2021 and the 6-month period ended June 30, 2022. This loss is available for use over five (5) consecutive years, that is for the year 2027 inclusive – however, not more than 50% in each tax year. The value of recognized deferred tax asset due to existence of an unsettled

(EXPRESSED in thousands of PLN)

tax loss for 2020 and 2021 amounts to PLN 11.4 m. As at June 30, 2022 there are no unrecognized 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 commercialization of ongoing generic and 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 32-63-743 guidance of July 15, 2019. Consideration was given to the significant increases in the sales revenue already achieved (mainly export) and the possibility of commercializing 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 anticipated 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 Company's Management Board, 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 and 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 drugs on the market), will generate significant tax income allowing for the settlement of the tax loss under deferred tax assets as at June 30, 2021.

7. Non-current assets classified as held for sale

The Company has not identified any assets held for sales.

8. Dividends paid and declared for payment

During the 6-month period ended June 30, 2022, dividends were not paid. Pursuant to the resolution no. 6 of the Extraordinary General Meeting of the Company of June 22, 2022, the Company paid a dividend of PLN 14,800 thousand (PLN 0.29/share) on July 11, 2022. The dividend was paid from the part of the supplementary capital which was created from the profit generated in the previous years and is compliant with the requirements of Article 348 of the Code of the Commercial Companies.

9. Tangible fixed assets

Tangible fixed assets – net values	06/30/2022 *(unaudited)*	12/31/2021 *(audited)*
Land	6,352	6,352
Buildings, premises, and civil and water engineering constructions	124,601	127,259
Technical equipment and machines	61,476	68,459
Vehicles	3,550	4,672
Other fixed assets	29,961	33,654
Fixed assets under construction	59,571	50,633
Advances	13,782	12,637
Total	**299,294**	**303,665**

(EXPRESSED in thousands of PLN)

Tangible fixed assets 6-month period ended June 30, 2022	Land	Building, premises	Technical equipment and machines	Vehicles	Other fixed assets	Fixed assets in progress	Advances	Total
Gross value								
1. Opening balance	6,352	146,079	165,567	11,774	58,877	50,633	12,844	**452,126**
2. Increases	0	0	668	0	1,775	8,938	1,145	**12,526**
a) purchase	0	0	668	0	1,775	8,938	1,145	**12,526**
b) transfer	0	0	0	0	0	0	0	**0**
3. Decreases	0	0	0	610	0	0	0	**610**
a) sale and liquidation	0	0	0	610	0	0	0	**610**
b) transfer	0	0	0	0	0	0	0	**0**
4. Closing balance	**6,352**	**146,079**	**166,236**	**11,165**	**60,650**	**59,571**	**13,989**	**464,042**
Accumulated depreciation and amortization								
1. Opening balance	0	**18,819**	**97,108**	**7,103**	**25,223**	**0**	**0**	**148,253**
2. Increases	0	2,658	7,652	1,096	5,467	0	0	**16,873**
a) depreciation and amortization for the period	0	2,658	7,652	1,096	5,467	0	0	**16,873**
b) other	0	0	0	0	0	0	0	**0**
3. Decreases	0	0	0	586	0	0	0	**586**
a) sale and liquidation	0	0	0	586	0	0	0	**586**
4. Closing balance	0	**21,478**	**104,761**	**7,613**	**30,690**	**0**	**0**	**164,542**
Impairment write-downs								
1. Opening balance	0	0	0	0	0	0	207	**207**
a) increase	0	0	0	0	0	0	0	**0**
2. Closing balance	0	0	0	0	0	0	207	**207**
Net value at the beginning of the period	**6,352**	**127,258**	**68,459**	**4,672**	**33,653**	**50,633**	**12,637**	**303,665**
Net value at the end of the period	**6,352**	**124,601**	**61,476**	**3,550**	**29,961**	**59,571**	**13,782**	**299,294**

10. Right-of-use assets

The Company has concluded leasing agreements for the production machines, laboratory equipment and vehicles. The leasing period is 36 months. As at June 30, 2021 the Company leased space in three real properties under lease agreements. The agreements for two locations are in the notice period stage and they terminate in December 2023 and June 2024. The third agreement is concluded for an indefinite period of time with a 3-month notice period.

Assets related to the right-of-use – net values	June 30, 2022 (unaudited)	December 31, 2021 *(audited)*
Real properties	1,594	1,704
Technical equipment and machines	4,687	5,075
Vehicles	2,280	136
Other fixed assets	22,378	18,628
Total	**30,939**	**25,543**

(EXPRESSED in thousands of PLN)

Right-of-use 6-month period ended June 30, 2022	Real properties	Technical equipment and machinery	Vehicles	Other fixed assets (including laboratory equipment)	Total
Gross value					
1. Opening balance	3,986	5,871	3,331	19,350	**32,538**
2. Increases	174	0	2,218	5,928	**8,320**
a) purchase	0	0	2,218	5,928	**8,147**
b) transfer	174	0	0	0	**174**
3. Decreases	0	0	0	0	**0**
a) sale and liquidation	0	0	0	0	**0**
b) transfer	0	0	0	0	**0**
4. Closing balance	**4,160**	**5,871**	**5,549**	**25,279**	**40,859**
Accumulated depreciation and amortization					
1. Opening balance	2,283	796	3,195	722	**6,996**
2. Increases	283	388	75	2,178	**2,924**
a) depreciation and amortization for the period	283	388	75	2,178	**2,924**
b) other	0	0	0	0	**0**
3. Decreases	0	0	0	0	**0**
a) sale and liquidation	0	0	0	0	**0**
4. Closing balance	**2,566**	**1,183**	**3,270**	**2,900**	**9,919**
Impairment write-downs					
1. Opening balance	0	0	0	0	**0**
a) increase	0	0	0	0	**0**
2. Closing balance	0	0	0	0	**0**
Net value at the beginning of the period	**1,704**	**5,075**	**136**	**18,628**	**25,543**
Net value at the end of the period	**1,594**	**4,687**	**2,280**	**22,378**	**30,939**

11. Intangible assets

Intangible assets – net value	06/30/2022 *(unaudited)*	12/31/2021 *(audited)*
Cost of completed research and development	680	1,360
Concessions, patents, licenses and similar assets, including:	25,576	27,811
- computer software	*1,467*	*751*
Total	**26,256**	**29,171**

(EXPRESSED in thousands of PLN)

Intangible assets 6-month period ended June 30, 2022	Cost of completed research and development	Concessions, patents, licenses	- including software	Other	Advances	Total
Gross value						
1. Opening balance	5,440	9,217	5,089	42,523	0	**57,180**
2. Increases	0	1,168	1,168	1,190	0	**2,358**
a) purchase	0	1,168	1,168	1,190	0	**2,358**
b) development projects	0	0	0	0	0	**0**
3. Decreases	0	0	0	0	0	**0**
4. Closing balance	5,440	10,385	6,257	43,713	0	**59,538**
Accumulated depreciation and amortization						
1. Opening balance	4,080	8,307	4,338	15,622	0	**28,008**
2. Increases	680	452	452	4,142	0	**5,274**
a) depreciation and amortization for the period	680	452	452	4,142	0	**5,274**
3. Decreases	0	0	0	0	0	**0**
4. Closing balance	4,760	8,759	4,790	19,764	0	**33,282**
Impairment 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) utilized	0	0	0	0	0	**0**
2. Closing balance	0	0	0	0	0	**0**
Net value at the beginning of the period	**1,360**	**910**	**751**	**26,901**	**0**	**29,171**
Net value at the end of the period	**680**	**1,626**	**1,467**	**23,949**	**0**	**26,256**

12. Investments in other entities

The Company does not have any investments in subsidiaries, associated companies or joint ventures. 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 June 30, 2022 and June 30, 2021, the Company's percentage share in the capital and the number of votes were as follows:

Entity:	*Registered seat*	*Core business activity*	*Number of shares*	*The Company's percentage shareholding in the capital*	*The Company's percentage share in the number of votes*	*Share value as at June 30, 2022*	*Share value as at December 31, 2021*
Mabion S.A	Konstantynów Łódzki	Manufacture of drugs and pharmaceutical products	620,350	3.84%	6.28%	21.70	61.10

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

(EXPRESSED in thousands of PLN)

13. Inventory

Inventory	06/30/2022 *(unaudited)*	12/31/2021 *(audited)*
Materials	14,431	15,178
Semi-finished products and work in progress	7,264	3,397
Finished products	8,826	4,801
Commercial goods	0	0
Advances for supplies and services	0	0
Total inventories – net value	**29,921**	**23,376**
Including impairment write-down	-	*(262)*
Total inventories – gross value	*29,921*	*23,638*

No inventory category was used as collateral for loans or borrowings in the year ended June 30, 2022 and December 31, 2021.

14. Trade receivables and other receivables

Trade receivables and other receivables	06/30/2022 *(unaudited)*	12/31/2021 *(audited)*
Trade receivables	31,953	24,673
Other receivables from third parties	3,563	2,570
including		
refundable VAT	1,523	2,273
Other	2,040	297
Total net receivables	**35,516**	**27,243**
Write-off for expected losses	-	-
Gross receivables	*35,516*	*27,243*

15. Other non-financial assets

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

16. Other financial assets

Under other short-term financial assets, the Company disclosed:

- As at December 31, 2021 – participation units in open investment funds investing in corporate bonds of Polish companies, in the amount of PLN 79,755 thousand;
- As at June 30, 2023 – participation units in open investment funds investing in corporate bonds of Polish companies, in the amount of PLN 78,672 thousand;

As at June 30, 2022 and December 31, 2021, under long-term other financial assets, the Company recognized deposits for real property lease.

17. Cash and cash equivalents

Cash at bank bears interest at variable interest rates depending on the interest rate paid on bank deposits. Short term deposits are made for various periods ranging from one day to three months, depending on the Company's current cash requirements, and bear interest at the relevant interest rates. As at June 30, 2022 and December 31, 2022, the fair value of cash and cash equivalents was equal to their book value and amounted to PLN 113,167 thousand and PLN 147,796 thousand, respectively.

(EXPRESSED in thousands of PLN)

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 37.617 thousand as at June 30, 2022 and PLN 50,241 thousand as at December 31, 2021.

18. Lease liabilities and other financial liabilities

Lease liabilities and other financial liabilities	06/30/2022 *(unaudited)*	12/31/2021 *(audited)*
Leasing liabilities	18,498	14,917
including:		
- leasing of technical equipment and machinery	14,697	12,926
- real property leasing	1,698	1,825
- vehicle leasing	2,102	166
Total	**18,498**	**14,917**
- short-term	*10,041*	*6,563*
- long-term	*8,456*	*8,354*

As at June 30, 2022, 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 credit facility was not being used by the Company in 2022 and due to that fact, it was closed in July, 2022.

19. Loans and borrowings

Loans and borrowings	*06/30/2022* *(unaudited)*	*Effective rate, %*	*12/31/2021* *(audited)*	*Effective rate, %*
Short-term	**10,041**		**6,563**	
Leasing liabilities	10,041	10.7%	6,563	5.1%
Long-term	**8,456**		**8,354**	
Leasing liabilities	8,456	10.7%	8,354	5.1%

20. Accruals and deferred income from grants

Accruals and deferred income from grants	06/30/2022 *(unaudited)*	12/31/2021 *(audited)*
Short-term	**38,897**	**55,827**
advances received for projects financed from the grants	32,486	49,416
grants received for tangible fixed assets	6,411	6,411
Long-term	**31,754**	**29,851**
grants received for tangible fixed assets	31,754	29,851

(EXPRESSED in thousands of PLN)

21. Trade liabilities, other liabilities and accruals

Trade liabilities, other liabilities and accruals	06/30/2022 *(unaudited)*	12/31/2021 *(audited)*
Trade liabilities	17,512	12,681
- including accruals	1,206	809
Other liabilities (including investment liabilities)	44,196	28,810
- including liabilities resulting from the dividend	14,800	0
Liabilities due to employment costs	7,534	2,305
- including liabilities due to unused leaves	2,688	2,132
Other non-financial liabilities (public and legal settlements)	1,361	1,255
Income tax liabilities	-	-
Total	**70,603**	**45,051**
- short-term	51,175	22,525
- long-term	19,428	22,526

21.1. Trade liabilities and other non-financial liabilities

Other liabilities (including investment liabilities) of PLN 44,196 thousand as at June 30, 2022 and PLN 28.810 thousand as at December, 31 2021 include annual payments to be made until the end of September 2025 due to licenses recognized under intangible assets, purchased in 2020.

21.2. Off-balance sheet liabilities Information on the issuer granting sureties or guarantees

As at June 30, 2022 and December 31, 2022 there are no off-balance sheet liabilities, in particular the Company was not granting sureties and guarantees.

22. Contingent liabilities

22.1. 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 performance of the Agreement on the joint project of 28 September 2010 and Annex no. 1 of 17 June 2014 to the aforementioned Agreement by the Parties. 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 Salmex (Fluticasone propionate + Salmeterol) to the French market, but the Company does not accept the claims of Polfarmex S.A. that interprets the agreement between the Parties in a unilateral and highly subjective manner, using an unclear methodology for calculating the profit resulting from the performance of the agreement.

There were no other significant proceedings pending before a court, a competent arbitration authority or a public administration authority concerning the Company's liabilities or receivables as at June 30, 2022,

22.2. Tax settlements

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 Company's opinion, no provision to allow for the recognition of any quantifiable tax risk was required as at June 30, 2022.

On February 7, 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. On May 18, 2022, the Company received minutes from that inspection, as a result of which it paid the amount of PLN 554 thousand on May 27, 2022 toward the tax arrears resulting from the findings of the aforementioned inspection.

(EXPRESSED in thousands of PLN)

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

As at June 30, 2022 the Company disclosed investment liabilities of PLN 41.676 thousand (including licenses fees acquired in 2020 and accounts payable due to construction works) Outlays for tangible fixed assets planned to be incurred in the future are PLN 25 million.

23. Information on affiliates

23.1. Dominant entity

As at June 30, 2022 and December 31, 2021, Glatton Sp. z o.o. is the owner of 58.88% of shares which grant the right to 68.19% of the votes on the General Meeting of Shareholders.

During the 6-month period ended June 30, 2022 and June 30, 2021, obligations toward the dominant entity were accrued, concerning the payment of a dividend which took place after the balance sheet date.

23.2. Terms and conditions of transactions with affiliates

In the 6-month period ended June 30, 2022 and December 31, 2021, the Company did not conclude transactions with affiliates on conditions other than at arm's length. Moreover, none of the Company's relation with joint ventures are of a strategic nature for the Company.

Name of the entity	June 30, 2022 *(unaudited)*	March 31, 2021 *(unaudited)*
Glatton Sp. z o. o		
- loans granted	0	0
- receivables	0	0
- liabilities	6,090	0
- sales	0	0
- purchases	0	0
- dividend	0	3,150
Neitec Sp. z o. o		
- loans granted	0	0
- receivables	0	0
- liabilities	0	0
- sales	0	0
- purchases	0	0
Urszula Wieczorek		
- loans granted	0	0
- receivables	0	0
- lease liabilities	121	108
- sales	0	0
- office space lease	48	108

(EXPRESSED in thousands of PLN)

24. 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 June 30, 2022.

06/30/2022	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	13,462		
Financial assets for which fair value is disclosed:			
Trade receivables and other receivables		31,953	
Loans granted			
Other financial assets		78,672	
Cash and cash equivalents		113,167	
Financial assets at fair value			
Financial liabilities for which the fair value is disclosed:			
Trade liabilities		17,512	
Interest-bearing loans and borrowings		2	
Investment liabilities		44,196	

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

12/31/2021	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 the 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 the fair value is disclosed:			
Trade liabilities		12,681	
Interest-bearing loans and borrowings		0	
Investment liabilities		27,991	

(EXPRESSED in thousands of PLN)

25. Employment structure

The table below presents the information about the average employment in the Company (by professional group) in the 6-month periods ended June 30, 2022 and December 31, 2021, by nominal number of employees:

	Period ended June 30, 2022 *(unaudited)*	Year ended December, 31 2021 *(unaudited)*
Management Board	1	1
White-collar workers	368	357
Blue-collar workers	135	130

Individuals performing work for the Company are employed based on contracts of employment. The Company uses employment based on contracts of mandate or specific task contracts 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 a contract of employment.
The Company's Vice-President, Jacek Glinka, is not employed by the Company under a contract of employment.
The Company's Management Board's Member, Dorota Zwolińska, is employed by the Company under a contract of employment.

26. Factors and events of unusual nature that have significant impact on the condensed financial statements

Factors and events of unusual nature that have significant influence on the condensed financial statements

The factors and events impacting the financial results of the Company in the 6-month period ended June 30, 2022 have been described in the *"Operating segments"* chapter and in the Report on the Management Board's operation in the *"Selected financial data"* chapter. The factors and events of unusual nature with significant impact on the condensed financial statements are listed below.

Risk related to the SARS-COV-2 epidemiological situation

The Management Board is closely monitoring the impact of the current epidemiological situation on the Company's business operations. The internal and external procedures developed since 2020 make it possible for the Management Board to undertake activities that will be able to minimize the potential influence of the pandemic on the Company's operational activity in a way adequate to the development of the epidemiological situation in Poland and abroad, In the Management Board's opinion, the impact of the epidemiological danger of COVID-19 over securing raw-materials as at the day of publishing these statements is marginal and is neutral for the Company's current activity.

Risk related to the war between Russia and Ukraine

The current conflict does not affect the Company's current business operations 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 its projects. The Company has no branches or local offices in war-affected areas. 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 its financial performance in the subsequent periods, especially due to the possible negative impact on the economic situation in the country, including the weakening of the Polish currency and an increase in interest rates. Apart from the above factors there were no factors significantly impacting the assets, liabilities, equity, net result or cash flows that are unusual due to their type, size or frequency in the 6-month period ended June 30, 2022.

27. Post-balance sheet events

Admission of 5,000 C-series shares to stock exchange trading

On July 15, 2022 the Management Board of the Warsaw Stock Exchange adopted a resolution concerning the admission and introduction of 5,000 C-series shares to stock exchange trading. Next, on July 18, 2022, the Central Securities Depository of Poland made a decision to assimilate these 5,000 C-series shares with the shares in the stock exchange trading.

The aforementioned 5,000 C-series shares concern the A-series subscription warrants which were granted in 1Q2022 under the Incentive Programs for Members of the Management Board and other persons of key importance to the Company in relation to completing the managerial aims for 2021. Each share has the nominal value of PLN 0.10.

Entering a mention on the amending the Articles of Association of the Company and increasing the share capital in the National Court Register (KRS)

On September 14, 2022 the Regional Court for the capital city of Warsaw, 14th Commercial Division of the National Court Register amended the Company's Articles of Association by way of resolution no. 19 of the Ordinary General Meeting of the Shareholders of June 22, 2022. The amendment consisted in adding the following object (field of activity) of the Company: "Other healthcare activity not elsewhere classified (86.90. E)". Moreover, an entry was made on the increase of the Company's share capital due to the allocation of 30,000 C-series shares under a conditional share capital increase.

28. Significant accounting policies

The accounting principles (policies) applied in the preparation of the half-year condensed financial statements are consistent with the principles applied in the preparation of the Company's historical financial data for the year that ended on December 31, 2021, except for the application of new or amended standards and interpretations effective for annual periods beginning on or after January 1, 2022.

The changed standards and interpretations that are applicable for the first time in 2022 do not affect significantly the half-year condensed financial statements of the Company.

- Amendments to IFRS 3 "Business Combinations" – update of references to the 2022 Conceptual Framework
- Amendments to IFRS 16 "Property, Plant and Equipment" – profits from selling items produced while bringing an asset into the location and condition necessary for it to being operational in 2022
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" – clarification of costs an entity considers in assessing whether a contract is onerous in 2022
- Annual improvement process 2018-2020 – corrections include explanations and clarify guidelines of standards pertaining to recognition and measurement: IFRS 1 "First-time Adoption of Internal Financial Reporting Standards," IFRS 9 "Financial Instruments," IAS 41 "Agriculture" and the illustrative examples to IFRS 16 "Leases."

The Company has not decided to apply early any standard, interpretation or amendment that has been published but has not yet come into force in the light of the European Union regulations.

During the reporting period, the classification of financial assets as a result of a change of the purpose or application of these assets did not change.

29. Relevant values based on professional judgement and estimates

The estimates of the Management Board of the Company which influence the values presented in the financial statements concern mainly:

- recognition of revenues from research and development grants,
- expected economic useful life of property, plant and equipment, as well as intangible assets,
- lease period for leases for indefinite period,
- Impairment write-downs on assets, including inventories and receivables,
- discount rate, expected salary increases and actuarial assumptions used when calculating provisions for retirement benefits,
- future tax results taken into account when determining deferred tax assets,
- fair value assessment of financial instruments that are not quoted at active markets.

The methodology used to make the estimates did not change significantly during the reporting period, it is based on the Management Board's best knowledge and complies with IFRS requirements. In particular, methods of valuation of financial instruments at fair value did not change during the reporting period.

Kiełpin, 28 September 2022

Signed electronically by Maciej Wieczorek Date: 09.28.2022 22:56:23 +02'00'

Maciej Wieczorek
President of the Management Board

Signature Not Verified
Document signed by Jacek Glinka
Date: 2022.09.28 22:49:41 CEST

Jacek Glinka, Vice-President of the Management Board

Signed electronically by Dorota Zwolińska Date: 09.28.2022 22:30:02 +02'00'

Dorota Zwolińska,
Member of the Management Board

Signed by Emilian Pych Date / Data: 09/28/2022 22:28

Emilian Pych,
Head Accountant

CELON PHARMA

Part 2.

THE REPORT OF THE MANAGEMENT BOARD ON THE OPERATIONS OF CELON PHARMA S.A. IN 1H2022

Kiełpin, 28 September 2022

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1 Selected financial data

The selected balance sheet items expressed in the EUR currency have been calculated in accordance with the average EUR exchange rates announced by the National Bank of Poland on June 30, 2022 (PLN 4.6806/EUR) and on December 31, 2021 (PLN 4.5994/EUR). The selected items of the profit and loss account and the cash flow statement were calculated into EUR in accordance with the exchange rate announced by the National Bank of Poland which constitutes the arithmetic mean of the average exchange rates of EUR applicable on the last day of each ended month within the 6-month period ended June 30, 2022 and the 6-month period ended June 30, 2021 (PLN 4.6427/EUR and PLN 4.5472/EUR, respectively).

	Period ended June 30, 2022 (unaudited) **PLN'000**	**Period ended June 30, 2021** (unaudited) **PLN'000**	**Period ended June 30, 2022** (unaudited) **EUR'000**	**Period ended June 30, 2021** (unaudited) **EUR'000**
Revenues	94,762	105,096	20,411	23,112
including:				
Generic drug segment	*79,115*	*93,576*	*17,041*	*20,579*
Innovative segment	*15,647*	*11,520*	*3,370*	*2,533*
Operating profit/loss (EBIT)	-19,482	1,910	-4,196	420
Operating profit/loss adjusted for depreciation and amortization (EBITDA)	3,686	22,238	794	4,891
including:				
Generic drug segment	*36,128*	*48,131*	*7,782*	*10,585*
Innovative segment	*-32,442*	*-25,892*	*-6,988*	*-5,694*
Profit/(loss) before tax	-20,203	126	-4,352	28
Net profit/(loss)	-15,624	302	-3,365	66
Net cash flow from operating activities	-12,620	-1,141	-2,718	-251
Net cash flow from investing activities	-16,260	-14,830	-3,502	-3,261
Net cash flow from financial activities	-5,749	-3,002	-1,238	-660
Total net cash flows	-34,629	-18,973	-7,459	-4,172
Number of shares	51,030,000	45,000,000	51,030,000	45,000,000
Net profit (loss) per share	-0.31	0.01	-0.07	0.00
Diluted net profit (loss) per share	-0.31	0.01	-0.07	0.00

	Period ended June 30, 2022 (unaudited) **PLN'000**	**Period ended December 31, 2021** (unaudited) **PLN'000**	**Period ended June 30, 2022** (unaudited) **EUR'000**	**Period ended December 31, 2021** (unaudited) **EUR'000**
Total assets	666,058	707,138	142,302	153,746
Liabilities and provisions for liabilities	162,718	153,136	34,764	33,295
Long-term liabilities	61,036	66,773	13,040	14,518
Short-term liabilities	101,682	86,363	21,724	18,777
Equity	503,340	554,002	107,537	120,451
Share capital	5,103	5,100	1,090	1,109

2 Comment on the Company's financial performance in 1H2022

Revenues

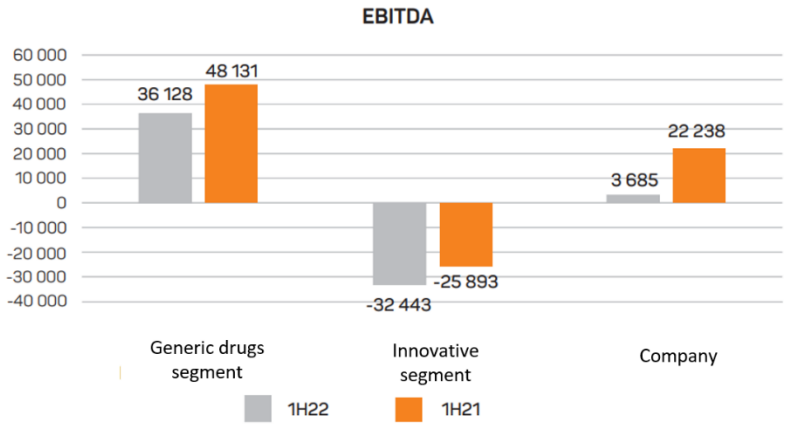
In 1H2022, the revenues of the Company dropped to the level of PLN 94.8 m from PLN 105.1 m in 1H2021, which concerns the entirety of the generics segment, and, more precisely, the decrease in the export sales. The domestic sales in 1H2022 amounted to PLN 67.7 m, which means there was a 22% increase compared to 1H2021. Whereas the export sales decreased from PLN 49.7 m in 1H2021 to PLN 27 m in 1H2022, which is a consequence of using significant production capacities in 1Q22 on the trial series of innovative drugs required for the implementation of the Falkieri Project. It should also be pointed out that 1H2021 was a record year in terms of export sales for the French and Italian markets, which as the new markets were starting the stocking-up process during that period. Since the beginning of the second half of 2021, this occurrence has weakened, as the markets became saturated and the actual needs for the Company's products on these markets was established.

On a quarterly basis, in 2Q22, the domestic sales retained its high dynamic and generated revenues in the amount of PLN 26 m, compared to PLN 26.4 m in 1Q22 and PLN 22.8 m in 2Q21. In terms of the export sales of the generics segment, normalization of the export sales levels was observed in 2Q22; they generated revenues in the amount of PLN 19.5 m in 2Q22, compared to PLN 7.5 m in 1Q22 and PLN 25.5 m in 2Q21.

The revenues from grants increased from PLN 11.5 m in 1H2021 to PLN 15.6 m in 1H2022; this is related to the greater advancement of the Company's research and development projects ("R&D projects). In 1H2022 the Company conducted 19 R&D projects actively.

EBITDA

EBITDA of the generic drugs segment amounted to PLN 36.1 m in 1Q2021 and PLN 48.1 m in 1H2021; whereas in 1H2022, the innovative segment noted a negative EBITDA result in the amount of PLN 32.4 m, compared to - PLN 25.9 m in 1H2021.



The decrease of EBITDA in 1H2022 was caused by the mentioned revenue gap in the generic drugs segment; therefore, the part of the fixed costs was not covered, in particular the cost of wages and salaries. Moreover, 1H2022 is a period of very high inflation and continuously significant wage pressure. Nonetheless, the EBITDA profitability of the generic drugs segment remain on a high level in 1H2022 and amounted to 46%. It should also be pointed out that the increase of costs in the innovative segment in 1H2022 was covered by the increase in the revenues from grants, the index of subsidizing R&D costs using grants amounted to 30% in 1H2022, compared to 25% in 1H2021.

The most significant increases of operational costs due to inflation pressure in 1H2022 were noted in the cost of utilities. The costs of energy and gas in the Company increased nearly three-fold compared to 1H2021.

The increase of costs of wages and salaries in 1H2022, compared to 1H2021, results from both the increase of the average employment (an increase by 34 FTEs), in particular in the area of the innovative segment, as well as from the increase of the average remuneration in the Company. The increase of the average remuneration is related both with the wage pressure, as well as employing personnel highly qualified in the area of the innovative segment.

Liquidity

The Company's financial situation as of June 30, 2022 is stable, as evidenced by, among others, the financial liquidity ratios that remain on high levels; they are presented in the table below. The decrease in the net cash position as at June 30, 2022, compared to December 31, 2021 results from the continuation of high investment expenditure in relation to implemented R&D projects (approx. PLN 17 m), as well as the return of advance payments to the Polish National Center for Research and Development (NCBiR), a part of which can be obtained again and used to finance further R&D projects. In the opinion of the Company, non-financial performance indicators, including the matters related to the ESG area, in particular the climate factors, or social issues related to the Issuer's operations do not affect the assessment of Issuer's development, results and situation.

Indicator	Explanation	6-month period ended	
		06/30/2022 (unaudited)	06/30/2021 (unaudited)
EBITDA profitability [%]	*EBITDA/revenues*	3.9%	21.2%
return on assets (ROA)	*net financial result/total assets*	-2.3%	0.1%
return on equity (ROE)	*net financial result/equity*	-3.1%	0.1%
debt/(cash) net	*financial liabilities/cash and cash equivalents*	0.16	2.1
liquidity – liquidity ratio I	*current assets/short-term liabilities*	2.6	1.0
liquidity – liquidity ratio III	*cash/short-term liabilities*	1.1	0.2
sustainability of the financing structure [%]	*(equity + provisions and long-term liability)/ equity and liabilities*	84.7%	81.3%
liabilities to assets [%]	*total liabilities/total assets*	24.4%	31.9%

3 Information about the Company

3.1 The object of the Company

Celon Pharma Spółka Akcyjna, hereinafter also referred to as the Company or the Issuer, with its registered seat in Kiełpin at ul. Ogrodowa 2A, was created by transforming the company operating under the business name Celon Pharma Sp. z o.o. Celon Pharma Sp. z o. o was entered into the Register of Entrepreneurs of the National Court Register on June 20, 2002 and removed from it by virtue of the law on the day on transformation into a joint-stock company. Celon Pharma S.A. was entered into the Register of Entrepreneurs of the National Court Register on October 25, 2012 under the KRS no. 0000437778, maintained by the Regional Court in Warsaw, 14th Commercial Division of the National Court Register.

The core activity of the Company is the manufacture of drugs, PKD 21.20.Z.

Celon Pharma S.A. is CEE's leading integrated biopharmaceutical company. The Company's area of the business activity includes development, manufacture, distribution and marketing of specialized prescription-only generic drugs, as well as the widely understood scope of research and development works related with the projects of innovative drugs that will be able to address the key needs of modern medicine in the future. Celon Pharma S.A. has a diversified portfolio of drug candidates in the four key therapeutic areas – neuropsychiatry, metabolic diseases, oncology and inflammatory diseases. The Company is implementing 19 innovative projects in these areas, 5 of which are in the clinical phase. The Company's most advanced program is the Falkieri program which concerns the use of esketamine in the treatment of treatment-resistant depression, both unipolar and bipolar affective disorder. The other highly advanced project is the CPL'36 program concerning the use of the PDE10a inhibitor in the treatment of schizophrenia and psychomotor disorders, the CPL'110 program concerning the use of the FGFR inhibitor in the treatment of solid tumors (bladder, lungs, stomach) and the CPL'280 program concerning the use of the GPR40 agonist in the treatment of diabetes and diabetic neuropathies. The advancement of the clinical projects is presented in the table below.

Table 1. Projects in clinical development.

* Idiopathic pulmonary fibrosis [IPF] / Pulmonary arterial hypertension [PAH], Rheumatoid arthritis [RA] / Psoriasis
** Psoriatic arthritis / Giant cell arteritis / Steroid resistant (SR) asthma

* The pipeline presents projects developed in given therapeutic areas

Moreover, the Company also monitors and responds to the current medial challenges.

The Company's R&D model is based on its own fully integrated competencies, starting from the development of the idea for a drug, all the way to its production for the needs of the clinical trials. The Company is developing the innovative projects up to phase II clinical trials in order to obtain a partner for phase III and subsequent licensing the commercialization of the drug. However, the Company does not exclude the possibility of conducting phase III trials and subsequent commercialization independently (full or partial) of the selected projects.

In 2020, the Company opened its new R&D Center in Kazuń, nearby Warsaw, thanks to which the R&D area of the Company increased from 10,000 m2 to 30,000 m2, thus providing the possibility of enlarging the team of scientists from 160 to 350; the Company expects to reach this number over the next 2-3 years. In the Company's opinion, the investment in one of the largest biopharmaceutical R&D centers in Central and Eastern Europe, allows for increasing the Company's capacities in terms of the number of research programs conducted at the same time from 19 currently conducted innovative programs to potentially 30 projects conducted simultaneously.

3.2 Composition of the managerial and supervisory bodies

As at June 30, 2022 and as at the day of this statement, the Management Board of Celon Pharma S.A. is composed of the following persons:

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

There have been no changes in the composition of the Management Board during 1H2022 and up to the day of publishing this statement.

Composition of the Supervisory Board

As at June 30, 2022 and as at the day of providing this statement, the Supervisory Board of Celon Pharma S.A. is composed of the following persons:

- 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 following changes occurred in the composition of the Company's Supervisory Board during 1H2022 and up to the day of publishing this statement:

3.3 The share capital of the Company

As at January 1, 2022 the share capital of Celon Pharma S.A. was PLN 5,100,000.00 and was divided into 51,000,000 shares with a nominal value of PLN 0.10 each, including:

- 15,000,000 A1-series registered shares, privileged as to voting in such a way that each share carries two votes at the General Meeting of the Company,
- 15.000.000 ordinary A2-series bearer shares,
- 15.000.000 ordinary B-series bearer shares,
- 6.000.000 ordinary D-series bearer shares,

On March 11, 2022, 5,000 C series shares were registered on the securities accounts of eligible persons, under a conditional share capital increase. The shares have been acquired by holders of A series subscription warrants; their granting under the Incentive Programs for Members of the Management Board and other persons of key importance to the Company was announced by the Company in its current report No. 45/2021 of November 2021. Rights attached to shares were acquired together with the granting of the shares, and the Company's share capital was increased by PLN 3.000.

On June 27, 2022, 5,000 C series shares were allocated under a conditional share capital increase. The aforementioned shares have been acquired by holders of A series subscription warrants; their granting under the Incentive Programs for persons of key importance to the Company was announced by the Company in its current report No. 8/2022 of April 15, 2022. Rights attached to shares were acquired together with the granting of the shares, and the Company's share capital was increased by PLN 500.

The A-series warrants were issued on the basis of Resolution No. 7 of the Extraordinary General Meeting of the Company of February 16, 2021 on the issue, *for the purpose of implementing Incentive Programs for Members of the Management Board and other persons of key importance to the Company, of A series subscription warrants with exclusion of share subscription rights of existing shareholders, entitling them to subscribe for C series shares and a conditional increase of the share capital through the issue of C series shares with exclusion of share subscription rights of existing shareholders and an amendment to the Company's Articles of Association related thereto.* Their allocation was made on the basis of Resolution No. 6 adopted by the Company's Extraordinary General Meeting of February 16, 2021 on the introduction of Incentive Programs for Members of the Management Board and other persons of key importance to the Company and on the basis of the applicable regulations of these Incentive Programs, in connection with the approving of the fulfilment of the further objectives by the authorized persons, determined in accordance with the provisions of these regulations.

Hence, as at June 30, 2022 and as at the day of publishing of these statements, the share capital of the Company is PLN 5,103,500 and is divided into 51,035,000 shares, including:

- 15,000,000 A1-series registered shares, privileged as to voting in such a way that each share carries two votes at the General Meeting of the Company,
- 15.000.000 ordinary A2-series bearer shares,
- 15.000.000 ordinary B-series bearer shares,
- 35.000 ordinary C-series bearer shares,
- 6.000.000 ordinary D-series bearer shares,

The total number of votes arising from all shares issued by the Company is 66,035,000.

The amount of the conditional increase in the share capital after the above-mentioned C-series shares have been granted is PLN 196.500.

Pursuant to Article 452 § 4 of the Code of Commercial Companies, the Management Board of the Company submitted a motion to the registration court to update the entry on the Company's share capital.

On September 14, 2022 an entry was made in the National Court Register on the increase of the Company's share capital due to the allocation of 30,000 C-series shares under a conditional share capital increase. The increase of the Company's share capital resulting from the aforementioned allocation of 5,000 C-series shares has not yet been entered in the register.

The C-series shares were introduced to stock exchange trading on the WSE Main Market List, after their assimilation with the Company's shares in the exchange trade, designated with the "PLCLNPH00015" code, by the Central Securities Depository of Poland, of which the Company informed in its current reports no. 7/2022, 21/2022 and 22/2022.

4 Short description of the Issuer's significant achievements or failures in 1H2022 together with a list of the most important events concerning the Issuer up to the day of publishing the statements

The most important events concerning the Issuer that took place during the period covered by this report, up to the date of its publication, are presented below.

European patent for esketamine inhalation formulation and expanding patent protection beyond treatment-resistant depression

On January 10, 2022 the Company received specifications of European patents No. EP 3 731 815 B1 and EP 3 505 157 B1 for esketamine inhalation formulation, the granting of which was announced in "European Patent Bulletin 21/49" of December 8, 2021.

In accordance with the received specification, Patent No. EP 3 731 815 B1 concerns a pharmaceutical composition in the form of a dry powder, containing ketamine or its pharmaceutically acceptable salt, to be used to treat depression by direct pulmonary administration, whereas the scope of Patent EP 3 505 157 B1 is broader and involves using a pharmaceutical composition in the form of a dry powder, containing ketamine or its pharmaceutically acceptable salt, in a drug suitable for pulmonary administration, without being restricted solely to the treatment of treatment-resistant depression. It might create possibilities for using it in developing drugs for other indications in this therapeutic area. In the opinion of the Management Board, such a broad patent protection increases the value of potential commercialization of the Company's products within the therapeutic areas covered by the protection. The Company informed about the above-mentioned event in the current report no. 2/2022 of January 11, 2022.

Commencement of the phase II clinical trial of CPL'280 in treatment of type 2 diabetes

On January 21, 2022, the Company was notified that the first patient was included in the phase II clinical trial for the CPL'280 compound, i.e., a second generation GPR40 receptor agonist. This trial aims at accessing the effectiveness of the compound as an antidiabetic drug lowering the level of glucose on a group of around 90 patients. CPL'280 represents the latest generation of GPR40 agonists used in diabetes and metabolic disorders. The compound has previously demonstrated an extremely favorable safety profile in preclinical and clinical phase I studies, which distinguishes it from other drugs in its class. The clinical development of CPL'280 is conducted under the GATE project, for which the Company received a grant from the National Centre for Research and Development (POIR), in the amount of PLN 24.7 million.

Initially, the Company assumed a course of recruitment for the trial in a 5-month cycle since its commencement. Currently, the recruitment of patients for the trial is still ongoing. The Company informed of the aforementioned event in the current report no. 3/2022 of January 21, 2022.

Conclusion of an agreement on license purchasing

On February 20, 2022, the Company was notified that an agreement with the Salk Institute for Biological Studies ("Salk") on purchasing the license regarding the patent package (non-Exclusive Patent License Agreement, hereinafter "Agreement") within the scope of treatment of metabolic disorders has been concluded. Under the Agreement, Salk granted the Company with a non-exclusive, transferable (under the terms specified in the Agreement) license for the commercial use or commercial sale of the licensed product for treatment of diabetes and metabolic diseases in people. The transaction enables the Company to continue clinical work on the analogue FGF1 protein in treatment of type 2 diabetes, as well as extending the development work by adding other metabolic clinical indications. So far, the trials conducted by the Company have confirmed that the candidate developed under the FAIND project for an innovative antidiabetic drug designated with M43, based on the analogue FGF1 protein, may constitute a new, alternative and safe treatment for patients suffering from type 2 diabetes. This is because it demonstrated a strong antidiabetic effect, and thanks to the new, selective mutation in the FGF1 protein, it is free of the risk of malignancy. M43 is at the final stage of preclinical trials; in 2021, the Company submitted a patent application for new FGF1 analogues, including M43. The purchase constituted an important final element for securing full, unrestricted M43 commercial rights. The FAIND project ("A new diabetes treatment using an innovative FGF1 protein analogue") conducted by Celon Pharma S.A., as the project leader, in collaboration with the University of Warsaw, received funding from the National Center for Research and Development in 2016 – the cost of implementing the project was estimated at PLN 13.4 million, whereas the maximum amount of expenses eligible for the grant for industrial trials is PLN 9.9 million. The project implementation period has currently been extended to 2023 and also covers the early stages of preclinical trials. The event above was announced by the Company in current report no. 5/2022 dated February 21, 2022.

Application to the Food and Drug Administration (FDA) concerning the commencement of a clinical trial for Falkieri (Celon's esketamine DPI)

On April 20, 2022 the Company submitted an application to the Food and Drug Administration (FDA) concerning the commencement of a clinical trial for Falkieri (Celon's esketamine DPI) as a therapy for treatment-resistant bipolar depression under the so-called Investigational New Drug (IND) Application procedure. Submission of the application was a formal stage towards the commencing the clinical development of Falkieri (Celon's esketamine DPI) in the US. Given the large size of the American market, the Management Board of the Company deemed this fact to be pivotal for the development and global commercialization of the Falkieri project. The Company announced the event above in current report No. 9/2022 dated April 20, 2022.

On May 23, 2022, the Management Board of the Company received information from the American regulatory authority that the Company may commence clinical trials of Falkieri (Celon's esketamine DPI), a drug developed as a therapy for treatment-resistant bipolar depression under the approved Investigational New Drug (IND) application in the US.

Submission of the application and receiving the above-mentioned consent to commence the clinical trial was, among others, the result of preparation and submission of a qualitative, preclinical and clinical portfolio including, among others, outcomes of manufactured and released batches of Falkieri, (Celon's esketamine DPI), which meet the FDA's qualitative criteria.

The Company announced the aforementioned event in current report No. 11/2022 dated May 23, 2022.

Application to the Food and Drug Administration (FDA) for the granting the Breakthrough Designation to Falkieri (Celon's esketamine DPI) in treatment-resistant bipolar depression therapy

Moreover, on April 20, 2022 an application was submitted to the Food and Drug Administration (FDA) for the granting of the Breakthrough Designation to Falkieri (Celon's esketamine DPI) in treatment-resistant bipolar depression therapy. This application was supported by results of pre-clinical and clinical trials, in particular the treatment-resistant bipolar depression phase II trial, in which the esketamine DPI developed by the Company has demonstrated an exceptional clinical benefit. For Falkieri (Celon's esketamine DPI), the procedure for granting the Breakthrough Designation would offer a number of advantages; regulatory, clinical and administrative facilitation for the applicant. It could significantly accelerate the market admission of this therapy in the US. In the opinion of the Company's Management Board, assignment of the aforementioned status would significantly increase the commercialization value of the project, and simultaneously minimizes the regulatory risk for the potential partner. The Company announced the aforementioned event in current report No. 10/2022 dated April 20, 2022.

In June 2022, the Management Board of Celon Pharma S.A. was informed that the aforementioned application had been rejected. The FDA indicated that the reason for its refusal was failure to present data from a clinical trial for Falkieri where the subjects with treatment-resistant bipolar depression had a confirmed lack of response to treatment using solely drugs approved by the FDA for treatment of bipolar depression. As a result, the FDA could not make a final decisive statement regarding the treatment-resistance status in accordance with FDA's criteria.

The Company announced its plans to consult the American regulatory authority on the possibility and date of resubmission of the application, whereas this time the application would include the specific data indicated by the FDA.

The FDA's rejection of the application at this stage does not impact the Company's plans for Falkieri in terms of development as well as clinical and business matters.

The Company announced the event above in current report No. 15/2022 dated June 20, 2022.

5 The indication of factors and events of unusual nature of significant impact on the condensed financial statements

There were no factors and events other than the ones indicated in the other points of the report, including factors and events of unusual nature that would have significant impact on the condensed financial statements of the Company in 1H2022.

6 Information on the capital group

Celon Pharma S.A. did not have subsidiaries and it was not making up a capital group during the reporting period.

7 Information on forecasts

The Company has not published forecast results for 2022.

8 Indication of shareholders holding at least 5% of the total votes at the Extraordinary General Meeting of the Issuer and changes in changes in the ownership structure of major blocks of shares

To the best of the Company's knowledge, the ownership structure of major blocks of shares in the Company as at the publication of this report is as follows:

Shareholder	Number of shares	Share in the share capital	Number of votes	Share in the total number of votes
Maciej Wieczorek indirectly through Glatton Sp. z o.o.* (100% of shares)	30,027,531	58.84 %	45,027,531	68.19 %
Other Shareholders	21,007,469	41.16 %	21,007,469	31.81 %
Total	51,035,000	100 %	66,035,000	100%

* Glatton sp. z o.o. holds 15,000,000 registered shares privileged to vote.

Changes in relation to the data as at the date of submission of the previous periodic report, i.e. the report for 1Q2022 published on May 25, 2022, occur only in the items "Other Shareholders" and "Total" and result from the increase of the Company's share capital within the conditional capital by issuing 5,000 series C shares acquired by holders of A series subscription warrants under the Incentive Programs for persons of key importance to the Company (current report No. 19/2022 of 7 July, 2022.

The ownership structure of major blocks of shares in the Company as at the publication of this report was as follows:

Shareholder	Number of shares	Share in the share capital	Number of votes	Share in the total number of votes
Maciej Wieczorek indirectly through Glatton Sp. z o.o.* (100% of shares)	30,027,531	58.84 %	45,027,531	68.19 %
Other Shareholders	21,002,469	41.16 %	21,002,469	31.81 %
Total	**51,030,000**	**100 %**	**66,030,000**	**100%**

* Glatton sp. z o.o. Held 15,000,000 registered shares privileged to vote.

9 List of the ownership of the Issuer's shares or rights to shares by managing and supervising persons along with an indication of changes in the ownership status

	As at the day of publishing the statements for 1Q22 (May 25, 2022)	As at the day of publishing the statements for 1H2022 (September 28, 2022)
Management Board		
Maciej Wieczorek*	30,027,531*	30,027,531*
Jacek Glinka	5,000	5,000
Dorota Zwolińska	-	-
Supervisory Board		
Robert Rzemiński	-	-
Krzysztof Kaczmarczyk	-	-
Bogusław Galewski	-	-
Urszula Wieczorek	-	-
Artur Wieczorek	5,937	5,757

* Maciej Wieczorek holds shares in the Company indirectly through Glatton Sp. z o.o., including 15,000,000 registered shares privileged as to voting.

Members of the Management Board and of the Supervisory Board do not have rights to the Company's shares.

Changes in the status of holding rights to the Company's shares, and then in the status of Members of the Management Board owning shares in the Company may occur in the future as a result of implementing the Incentive Program for Members of the Management Board operating in the Company.

The Incentive Programs “for Members of the Management Board” and “for other persons of key importance to the Company” for the financial years 2021-2030 have been introduced in the Company by way of resolution no. 6/2021 of the Extraordinary General Meeting dated February 16, 2021.

As a part of implementing the Incentive Programs, the eligible persons have the right to acquire A-series subscription warrants which give the right to acquire Company's C-series shares issued under a conditional share capital increase. Persons who are shareholders who directly or indirectly hold more than 33% of the votes in the Company and their family members do not have the right to acquire subscription warrants. In relation to that, the persons covered by the Incentive Program for Members of the Management Board as of the day of the publication of this report are two Members of the Management Board (the Vice-President of the Management Board and a Member of the Management Board).

The right to acquire and exercise the right of A-series subscription warrants for a given calendar year by Members of the Management Board is created after they have met the criteria for participating in the Incentive Program, including after they have achieved the so-called managerial targets set for the given year by the Supervisory Board. When determining managerial targets, the Supervisory Board specifies the maximum number of subscription warrants for each eligible person.

After verifying the completion of managerial targets, the Supervisory Board presents the eligible persons with an offer to acquire warrants.

In relation to the implementation of managerial targets for 2021, on November 2, 2021, the Supervisory Board assigned 5,000 subscription warrants to the Vice-President of the Management Board of the Company. The C-series shares which could be acquired based on the aforementioned warrants were registered on the eligible persons' accounts on March 11, 2022.

As of the day of publishing this report, the managerial targets determined for eligible members of the Management Board by the Supervisory Board for 2022 have not yet been completed.

10 Identification of significant proceedings pending before a court, a competent arbitration authority or a public administration authority concerning the issuer's liabilities and receivables.

There were no significant proceedings pending before a court, a competent arbitration authority or a public administration authority concerning the Company's liabilities or receivables in 1H2022 and as at the date of publication of this report.

In terms of the remaining proceedings, on 29 June 2021, a claim for payment was filed against the Company by Polfarmex S.A. with its registered office in Kutno and is pending before the District Court in Warsaw, 22nd Intellectual Property Division. The plaintiff in the above-mentioned case filed a claim for an amount of PLN 658,776.72 with statutory interest calculated from 30 December 2020 until the payment date, adopting the remuneration allegedly resulting from the implementation of the joint venture agreement of September 28, 2010 and the subsequent amendments thereto as the grounds for the claim. In particular, the purpose of the agreement and its amendments was the joint commercialization in the French market of a medicinal product comprising a combination of salmeterol and fluticasone. In its response to the claim dated August 26, 2021, the Company motioned that the claim be dismissed in its entirety on the grounds that it was unfounded, and that the plaintiff pay the costs of the proceedings. The date for the first hearing has been set for October 2022.

Furthermore, on February 7, 2022, an audit was initiated by the First Mazovian Tax Office in Warsaw on the accuracy of corporate income tax settlements with the state budget for the period from January 1, 2018 to December 31, 2018. On May 18, 2022, the Company received the report of the aforementioned audit, as a result of which on May 27, 2022 it paid the amount of PLN 554 thousand to cover the tax arrears resulting from the findings of the aforementioned audit.

11 Information on transactions with affiliates on conditions other than market conditions

The Issuer did not conclude transactions with affiliates on conditions other than market conditions during 1H2022.

12 Information on the granting of loan or credit guarantees or underwritings by the Issuer

In 1H2022, the Company did not grant any loan or interests and did not grant any guarantees – jointly to one entity or its affiliate, where the total value of the existing guarantees or underwritings would be considerable.

13 Payment of dividends to shareholders

The Ordinary General Meeting (the "OGM") of the Company held on June 22, 2022 adopted a resolution on coverage of loss and payment of the dividend for the financial year 2021. Under the resolution in question, the OGM decided that:

a) the Company's net loss for the financial year starting on January 1, 2021 and ending on December 31, 2021 in the amount of PLN 11,606,054.98 will be covered by the part of the Company's supplementary capital created from the profit generated in the previous years.
b) the Company will pay out the dividend in the amount of PLN 0,29 per one share, which amounts to a total of PLN 14,798,700.00, whereas the amount of the recommended dividend will be paid out from the part of the Company's supplementary capital created from the profit generated in the previous years and complies with the requirements of Article 348 of the Commercial Companies Code.

The Annual General Meeting of the Company set the dividend date at July 1, 2022 and the dividend payment date at July 11, 2022. The dividend was paid by the Company on the scheduled date (event taking place after the balance sheet date).

The Company reported on the Management Board's recommendation and the resolution of the Company's AGM regarding the payment of dividends in current reports No. 12/2022 of 25 May 2022 and No. 16/2022 of 22 June 2022.

14 Identification of factors which, in the Issuer's opinion, will affect its performance in the perspective of at least the next quarter

The Company believes that its performance is primarily affected by the following market factors and trends, some of which the Company anticipates will continue to be significant drivers of the Company's financial results in the future. The Company divides these factors into:

(1) market trends and external factors such as:
  (i) the development of the market for innovative medicines,
  (ii) the development of the market for generic medicines,
  (iii) the costs of complying with applicable regulations,
  (iv) changes in currency exchange rates and
  (v) applicable tax regulations,
(2) factors related to the Company's business activity, such as:
  (i) export sales of Salmex,
  (ii) partnering transactions,
  (iii) R&D expenditure,
  (iv) sales and distribution costs,
  (iv) revenues from subsidies and grants

Commercialization of innovative medicines

The Company believes that the development of innovative medicines and their further commercialization will become one of the main drivers of the Company's growth in the future. Once the critical milestones of the phase II clinical trials have been reached, the Company will work to identify the best commercial solutions, including acquiring commercial partners to pursue phase III clinical development and commercialization of its projects.

While the Company generally intends to grant full licenses for the commercialization of its medicines, the Company is also considering retaining commercialization rights for selected medicines (which require limited investment in this area) sold in Europe and possibly the United States of America. The Company is in the early stages of developing key commercial relationships in this area. In particular, the Company expects to look for a potential commercialization partner for its most advanced Falkieri program in the short or medium term. The Falkieri program is also designed to eventually enable treatment in both clinical and home conditions, for both acute and conservative treatment, respectively. Given the promising safety and bioavailability profile of Falkieri, as well as the exceptionally positive phase II results in bipolar depression, the Company believes it will generate significant interest from potential external partners for further collaboration in phase III and commercialization of the medicine.

In the event that the other innovative projects of the Company reach advanced stages of clinical development, the level of patent protection of the compounds and technologies developed by the Company, as well as the results of preclinical and clinical trials, including the most important phase II studies, will constitute an important factor for such activities. The Company believes that its compounds which are being developed in preclinical and clinical trials have multiple advantages over most of those currently available on the market or those under development, which provides a competitive advantage and favorable commercialization of such medicines in the future.

Further dynamic development of the generic medicines segment, including in particular further growth in global reach and sales of Salmex

The Company will continue to support its activity in the area of generic medicines. The Company is currently working on the development of several medicines in related disease areas, using the Company's current position in the market of generic medicines in Poland and its experience in building leading brands of generic medicines. The Company also plans to further develop its inhalation technologies on the basis of the experience gained from the development of Salmex. Salmex will remain the main export product. It is currently sold in 18 European countries, as well as in some non-European countries, including i.a. the Dominican Republic, Guatemala and Kazakhstan. The commercialization of Salmex outside Poland is done exclusively through business partners such as Glenmark, Viatris (formerly Mylan), Genericon. The Company is actively seeking new partners in various markets worldwide, convinced that Salmex has the potential to become the Polish pharmaceutical industry's first global product. Other countries where further geographical expansion is planned include the United States of America, China, Mexico, South Africa, Greece, Israel and numerous countries in Latin America, the Middle East and South-East Asia.

Medium-term development targets

In terms of the development of innovative medicines, supported by the launch of the infrastructure of the new R&D center, the Company aims to achieve the following medium-term targets:

- the introduction of at least two drug candidates into clinical development per year,
- the completion of phase II drug trials in at least 6 therapeutic indications,
- initiation of phase III programs (independently or in collaboration with other partners) for at least three therapeutic indications,
- the completion of phase III trials of Falkieri (esketamine DPI) and submission of applications to the FDA and EMA,
- the signing of significant partnership agreements.

In terms of the segment of generic medicines, the Company aims to achieve the following medium-term targets:

- continued geographical expansion of Salmex;
- strengthening the market position in the main EU markets;
- achieving a double-digit CAGR growth rate in export sales between 2021 and 2025;
- completing clinical development and obtaining marketing authorization for Salmex in China and the US.
- expansion of the portfolio of generic medicines in key therapeutic areas (respiratory diseases
- and central nervous system diseases).

15 The principles for the preparation of the half-year condensed financial statements.

The accounting principles (policies) applied in the preparation of the half-year condensed financial statements are consistent with the principles applied in the preparation of the Company's historical financial data for the year that ended on December 31, 2021, except for the application of new or amended standards and interpretations effective for annual periods beginning on or after January 1, 2022.

The changed standards and interpretations that are applicable for the first time in 2022 do not affect significantly the half-year condensed financial statements of the Company.

- Amendments to IFRS 3 “Business Combinations” – update of references to the 2022 Conceptual Framework
- Amendments to IFRS 16 “Property, Plant and Equipment” – profits from selling items produced while bringing an asset into the location and condition necessary for it to being operational in 2022
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” – clarification of costs an entity considers in assessing whether a contract is onerous in 2022
- Annual improvement process 2018-2020 – corrections include explanations and clarify guidelines of standards pertaining to recognition and measurement: IFRS 1 “First-time Adoption of Internal Financial Reporting Standards,” IFRS 9 “Financial Instruments,” IAS 41 “Agriculture” and the illustrative examples to IFRS 16 “Leases.”

The Company has not decided to apply early any standard, interpretation or amendment that has been published but has not yet come into force in the light of the European Union regulations.

During the reporting period, the classification of financial assets as a result of a change of the purpose or application of these assets did not change.

16 Description of the essential risks and threats related to other months of the financial year Risk

related to the SARS-COV-2 epidemiological situation

The Management Board is closely monitoring the impact of the current epidemiological situation on the Company's business operations. The internal and external procedures developed since 2020 make it possible for the Management Board to undertake activities that, in a way adequate to the development of the epidemiological situation in Poland and abroad, will be able to minimalize the potential influence of the pandemic on the operational activity of the Company In the assessment of the Management Board, as at the day of publishing these statements, the influence of the epidemiological danger of COVID-19 over securing raw-materials is marginal and is of neutral influence over the current activity of the Company without financial consequences.

Risk related to the war between Russia and Ukraine

The current conflict does not affect the Company's current business operations 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 its projects. The Company has no branches or local offices in war-affected areas. 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 its financial performance in the subsequent periods, especially due to the possible negative impact on the economic situation in the country, including the weakening of the Polish currency and an increase in interest rates. Apart from the above factors there were no factors significantly impacting the assets, liabilities, equity, net result or cash flows that are unusual due to their type, size or frequency in the 6-month period ended June 30, 2022

Risks associated with clinical trials and innovative drug projects

The main characteristics of research projects, particularly with regard to innovative drug development projects, involve a high degree of uncertainty regarding the feasibility of achieving the anticipated results, the relatively frequent need to modify the original research assumptions, and the different and time-varying development potential of the projects related to the possibility of commercializing the compound in question.

The Company's know-how and experience, as well as the extensive literature in this area, suggest that, depending on the therapeutic group, an average of 3 to 5 out of 10 research projects in the field of innovative medicines development reach the clinical trial phase where commercialization is possible, and an average of only 1 to 2 out of 10 reach the registration phase (based on a study by Kimmitt et al., “Time and Success Rates of Pharmaceutical R&D”, 2020). The development of innovative medicines is associated with a number of risks, the two main ones being:

i) delays in the execution of the project, for instance as a result of a change in the original assumptions, which reduce the possible market potential of the compound and limit the possibility of its commercialization, and
ii) failure to achieve the intended research outcomes as a result of failure to achieve the expected pharmacological and clinical parameters of the selected compound or drug candidate.

Should such events occur, the Company may face termination of the research project at a stage prior to its commercialization and thus may not receive a return of its research and development expenditures. At the moment, five of the Company's 15 research projects are at the clinical trial phase. Clinical trials conducted on humans constitute a very important stage of work related to preparation for registration and commercialization, which is subject to significant risks. In particular, it is possible that the results of clinical trials are not consistent with the anticipated results, which may give rise to the need for conducting additional clinical trials or developing new protocols for such trials. Such events may delay the drug registration and therefore delay the point at which the Company will start generating revenues from the sale of the drug and may lead to the project's failure. In particular, in the case of projects discontinued at the clinical trials phase or earlier, the scale of the costs incurred to execute them may prove to be significant, which could have a negative impact on the Company's business activity, financial performance or prospects.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be high, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risks associated with reliance on and collaboration with suppliers

The Company relies, and expects to continue to rely, on third parties to purchase machines, equipment and components for the production of particular drugs, including active substances and chemical reagents as well as laboratory equipment used in research and development. Given the risk of supply chain disruption, the Company sources active substances from Poland, Germany, Italy, Canada, Israel, and India. The main suppliers of both active substances and reagents provide the Company with 80% of its resource needs. The replacement of any of the Company's major suppliers may impose significant efforts on the Company's part and could potentially result in delays in the delivery of materials, additional costs or involve the suspension of sales of the Company's products. In the case of active substances subject to registration in the Company's product registration dossier, supply disruptions may significantly affect the ability to produce the finished product. Almost all active substances included in the registration dossiers of the Company's products have at least two qualified and registered suppliers, thus the risk is reduced. However, replacing any of the suppliers, e.g., in the case of contamination of active substances, may require significant efforts on the Company's part and potentially cause delays in the delivery of materials, additional costs or involve the suspension of sales of the Company's products. A part of the Company's machinery park, in particular the equipment used in the manufacture of dry powder inhalers, is of a unique nature. These are customized machines individually designed to meet the needs of the Company's production processes. Given that the vast majority of investment tasks related to the construction of a machinery park to secure current and future (in the perspective of the next few years) production needs have already been completed, the risk of reliance in this case relates to being able to smoothly and timely service and repair such equipment, particularly the unique equipment. Any delays in servicing and repairing the Company's machinery park may cause delays in the production of the Company's products or the Company's ongoing research projects.

Furthermore, if suppliers fail to meet their contractual obligations, fail to meet expected deadlines or fail to comply with regulatory requirements, the development of potential drugs and the commercialization of drugs produced by the Company may be suspended, delayed or become less profitable, which could have a negative impact on the Company's business activity. Moreover, if the suppliers fail to comply with employment, social and recognized ethical standards or other standards, the Company's reputation, image and the perception of its products may be adversely affected or harmed.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be high, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with losing key wholesalers or distributors of generic drugs, and as a consequence – final customers

Due to the regulations regarding the trade in pharmaceutical products, the Company cannot directly influence the purchasing decision of the final customers, i.e., patients, through advertisement. That is why, in terms of the scope of marketing products, the Company is dependent on wholesalers or distributors. In Poland, the Company sells its generic drugs mostly to pharmaceutical wholesalers. The Company cooperates with and delivers its products to 14 pharmaceutical wholesalers that

account for over 95% of the Company's turnover from pharmaceuticals in Poland Such wholesalers supply drug stores and hospitals directly or indirectly; most of them are sold nationwide. The three biggest wholesalers in Poland account for approx. 70% of the Company's revenue generated in Poland. The fact that the majority of these wholesalers operate in drug stores across Poland limits the risk of a significant sales decline of Company's products to drug stores across Poland in the event of ceasing cooperation with one of such wholesalers. Outside of Poland, the distribution of the Company's products takes place through external business partners who are responsible for marketing and sale of the Company's drugs on foreign markets. The Company gives the partners the rights to distribute and sell the Company's products on territories which usually cover one or more countries, based on the concluded license agreements. Partners rarely withdrew from such a cooperation voluntarily. However, discontinuing cooperation with a partner may result from situations such as the partner's bankruptcy or being taken over by a different entity that may have its own competitive product and might want to replace the Company’s product. In such a case, the Company will be forced to look for a new partner, which – depending on the market – might be connected with a temporary decrease in sales of products on the given territory or might delay the Company’s entrance on the given market.

The Company limits dependence on its key wholesalers or distributors of generic drugs by diversifying such partners. There is a risk of losing one or more of such wholesale recipients. Losing one or more of such wholesale recipients or business partners may temporarily disrupt the process of distributing and selling drugs, and in consequence negatively impact their availability to final customers, meaning patients, which may negatively impact the Company’s financial situation. Moreover, lower revenues from generic drugs may have a negative impact on the financing of the Company's research activity.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be high, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with recruiting patients for clinical trials

The Company is dependent on recruiting patients for clinical trials for its new generic and innovative drugs. Patient recruitment depends on numerous factors, including the size and nature of the patient group, qualification criteria for a given trial, proximity of the clinics, the draft clinical trial protocol, the existence of competitive clinical trials, availability of new drugs approved for the indication that is the subject of the clinical trial and the clinician's and patient's perception of potential benefits of the researched drug compared to other available therapies. As some of the drugs developed by the Company focus on rare diseases and disorders, the Company can engage a limited number of patients in order to complete its clinical trials in a timely and cost-effective manner. In the case of rare diseases or disorders, the Company is competing also for patients with competitive programs conducted by other entities. Additionally, studies performed on patients in clinical trials may also be limited or discontinued due to additional guidelines of regulators, including ethical committees that might require a change to the method of conducting trials, which in consequence may influence the timely completion of the clinical trial. The above events constitute a permanent risk in the Company's activity, and they did happen in the past, resulting in a delay of innovative projects implemented by the Company in relation to their original schedule; such delays might also occur in the case of the currently implemented innovative projects.

Moreover, the Company's efforts aiming at establishing a relation with patient organizations as a part of recruiting patients for clinical trials might prove unsuccessful due to varying standards of care in different countries or varying opinions of the ethics committees analyzing the trials, which might cause delays in enrolling patients for such clinical trials. Moreover, any negative effects of the clinical trials for one of the potential drugs of the Company may hinder or make it impossible to recruit and keep patients in other clinical trials for this potential drug, as well as impact other projects of the Company due to the risk of a tarnished reputation.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be high, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk of underestimation of costs related with development and commercialization of drugs

The Company estimates the costs of each R&D project concerning a new drug taking into consideration different scenarios, including the level of financing from own funds as well as external funds (e.g., grants), and the possibility of establishing relations with potential distributing partners. The possibility that the actual amount of costs of R&D projects conducted by the Company will be significantly higher than originally expected cannot be excluded. The potential reasons for underestimation of costs of development of drugs and introduction of the developed drugs to the market might include:

(i) changes of provisions of law resulting in, among others, the necessity of changing the technology used by the Company or necessitating the incurring of additional expenditure and time for the Company to adjust to the new regulations, (ii) the necessity to expand the scope of clinical trials, (iii) the increase of costs related to the purchase of raw materials or active substances, as well as (iv) shortage or decrease of the quality of raw materials and materials used for manufacturing drugs. The above-mentioned events constitute a constant risk in the Company's activity and in the past, there were indeed cases when the planned budged for a given project was exceeded in relation to, for instance, underestimation of costs or increasing the scale of the project during its course. This risk may also concern the Company's currently implemented innovative projects, whereas the possible scale of underestimation of costs can be estimated only after the projects in question have been completed. Moreover, as the development stages of the Company's innovative projects are becoming more advanced and time-consuming, the frequency of these events may increase in the future.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be high, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk of withdrawal of marketing authorization of certain drugs manufactured by the Company or of their marketing being suspended

Prior to the introduction of each drug to the market, the Company must obtain marketing authorization for each drug, separately for each market where the Company is planning to distribute the given drug, including from the appropriate national body in the case of authorization in EU member states, of the European Medicines Agency (EMA) in the case of marketing authorization in the entire territory of the EU (centralized procedure) or of the Food and Drug Agency (FDA) in the US. There is committee concerned with safety of medicinal products operating in EMA. In the event of issues with the safety of a medicinal product that was authorized for marketing in more than one member state, within the entire EU territory, the same regulatory activities are undertaken, and the patients and health care workers in all member states receive identical guidelines. In cases specified by the law, the competent authority has the right to withdraw the marketing authorization of a drug. Withdrawal of the marketing authorization of a given medicinal product of the Company would have a negative impact on the Company's development perspective and the obtained financial results. Moreover, in certain circumstances (e.g., in the case of a justified suspicion regarding safety of the products), the appropriate supervisory authorities, including a voivodeship (regional) pharmaceutical inspectorate in Poland may issue a decision suspending the marketing of certain batches of a medicinal product, which may have a negative impact on the Company's development prospects and the obtained financial results.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be high, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with the Company being unable to enter new markets or to expand its presence on the existing markets

One of the main objectives of the Company is to sell drugs on the global markets, independently or through a pharmaceutical partner, that were developed and manufactured by the Company, including primarily markets of the UE member states and the United States of America. This is connected with the obligation for these drugs to be registered by the applicable authorities – EMA and FDA, respectively, as well as an obligation to use the applicable GMP quality system that describes the minimal standards to be met by the drug manufacturer during the manufacturing process. There is a risk that in the case of, for example, failure to adjust the products to the applicable requirements, procedural changes or mistakes in documentation, the process of registering drugs might be delayed or end with a refusal. Moreover, there is a risk that the appropriate regulatory requirements adopted by each of the relevant authorities will be significantly changed, which might cause the Company to incur additional costs or face the risk of annulment of the marketing authorization. The factors above might negatively impact the Company's activity, financial performance or prospects. Moreover, there is a risk that cooperation with a partner responsible for registering the drug in a given territory will be unsuccessful, which might cause the necessity of finding a new partner and, as a result, a delay or withdrawal of the Company from entering such a new market.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be high, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk of adverse effects caused by the Company's products and the risk of liability for products

The Company cannot exclude a situation where some of the Company's drugs and medicinal products, as well as the potential new products, demonstrate undesired or unintended side effects, toxicity or other traits that might result in preventing the Company from receiving additional marketing authorizations, withdrawing marketing authorization or preventing or limit the commercial use of the given drug.

If such adverse effects are identified during the development works on the potential products of the Company, the Company might be forced to refrain from further development works on such products. If the adverse effects occur after the drug registration, the marketing profile of such approved drug might be limited or the Company might face other significant consequences, such as claims due to the liability for the product. In the case of drugs authorized for marketing in the EU, based on the scientific assessment conducted by EMA, the European Committee may grant marketing authorization, refuse to grant it, change its terms, as well as suspend the marketing authorization, it may also undertake an activity on the European-wide scale in the event of issues with the safety of the product which had been granted a national marketing authorization. However, the Company notes that the risk of side effects caused by the Company products is constant and it might be one of the most significant risks for pharmaceutical companies, in particular due to the reason that some side effects may be revealed only after a relatively long time, or their significance might be underestimated during the works on the drug.

In the cases in which using medicinal products of the Company will have negative impact on the client's health, the authorization for commercialization of the Company's products might be withdrawn or might result in the injured party claiming damages from the Company in the course of civil proceedings, which might result in the liability for damages. Moreover, in such a case, the Company may also be liable due to the sale of dangerous products. There are many factors that might cause the products to be deemed as dangerous, including the manner of introducing them to the market or the manner of providing information on the product characteristics to consumers. The necessity to satisfy all or part of the damage claims directed against the Company may have a negative effect on the Company's business activity, financial performance or prospects. Moreover, in certain circumstances, the Company or its Management Board may face administrative or criminal charges in the case when the Company's drugs cause harm to patients. All of the above-mentioned events may negatively affect the Company's reputation, its image and result in a negative perception of its products.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with other pharmaceutical companies discovering and marketing of other drugs used in the same indications as the Company's drugs

Neuropsychiatry, metabolic diseases, inflammatory diseases and oncology, which are the key areas of the Company's activity, are being heavily researched in biomedical sciences. The dynamic development in the area of genetics and molecular biology has a significant impact on the acceleration of efforts to develop next-generation drugs. This results in a risk that new drugs characterized by an advantage in terms of effectiveness or tolerability over the drugs which are currently manufactured or developed by the Company will be marketed within the next few years. Furthermore, there is a risk that new treatment methods are discovered – e.g., vaccines intended against disorders treated with the use of drugs offered by the Company, either currently or in the future. The emergence of new, more advanced, more effective or cheaper drugs and treatment methods in areas which are the focus of the Company's activity could have a negative impact on the Company's business activity, financial performance or prospects.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with lack of possibility to commercialize the Company's innovative drugs

The Company's activity in the area of innovative drugs is largely based on the identification of leading compounds which have the potential to be developed into innovative drugs. The value of the Company's innovative drug projects depends on whether therapeutic actions, administration methods, better tolerability, or new medical applications of such drugs are demonstrated compared to the currently available treatment options. As at today, results of those works on the projects in question are difficult to access. Therefore, there is a risk that they will not prove to be as beneficial as anticipated, and that their commercialization will be hindered. For example, the Company might not be able to grant licenses for its innovations or might come across difficulties in finding partners which would be suitable (in terms of geographic or trade aspects) to commercialize such projects or might find it difficult to agree on satisfactory cooperation terms with such partners. Furthermore, commercialized projects might fail to achieve the anticipated milestones or performance which might have a negative impact on the Company's business activity, financial performance or prospects. Moreover, the Company's innovative projects, including the Falkieri project, are, or might become, the subject of partnering talks with potential external partners. Negotiations with such partners might not be finalized within the initially assumed time frame or the course of talks with partners might encourage the Company to analyze alternative commercialization scenarios, including independent commercialization directly by the Company in all or selected territories. This might have a negative impact on the Company's business activity, financial performance or prospects, in particular with regard to planning the financing of the Company's activity and other innovative projects in situations where the obtained financing proves to be insufficient.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with reimbursement of drugs

As at the date of this report, all drugs included in the Company's portfolio (with the exception of Lazivir) are listed as reimbursed drugs, i.e., drugs financed in part or in full from public funds, as determined by the Polish Minister of Health or other foreign regulatory bodies in certain other jurisdictions.

In most jurisdictions, the market of drugs, in particular reimbursed drugs, is subject to detailed regulations. On their basis the list of reimbursed drugs, the scope of reimbursement, including pricing and reimbursement level are determined. After marketing authorization has been granted on the EU level, pricing and reimbursement decisions are taken at the level of individual member states; this decision-making takes into account the potential role and application of the given medicinal product in the context of the given country's state healthcare system. Unfavorable changes of those regulations in individual member states (e.g., reducing the level of reimbursement or removing the Company's products from the list of reimbursed drugs) might have a negative impact on the sale of the Company's products and thus negatively affect the Company's business activity, financial performance or prospects.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with disputes related to industrial and intellectual property rights

Regulations on industrial and intellectual property rights and protection of those rights play a significant role in the Company's business activity. The Company cannot guarantee that its business activity will not lead to the violation of third-party intellectual property rights. In such situations, it cannot be excluded that third parties will pursue claims against the Company for violation of industrial and intellectual property rights (in particular patents), in particular at the level of research and at the level of obtaining marketing authorization for the Company's medicinal products. Such claims being pursued, even if they are groundless, might have a negative impact on the time needed to obtain the aforementioned marketing authorization and defending against such claims might necessitate the incurring of significant costs, which might have a negative impact on the Company's business activity, financial performance or prospects.

Effectively pursued claims on the violation of any third-party rights against the Company or the Company's failure to effectively pursue claims on the violation on the Company's rights by third parties might have a negative impact on the Company's business activity, financial performance or prospects. For instance, GSK's claims pursued in 2018 resulted in suspended distribution of Salmex on foreign markets in 2019 and reduced revenues of the Company from the sale of this drug on certain foreign markets. Although, in January 2020, the Company, GSK, and the Glenmark Group concluded a settlement under which the Company and Glenmark could continue sales of Salmex in Poland and on selected European markets, the Company cannot guarantee that it will not be sued for the violation of other trademark and copyright protection rights by companies in the GSK group or by other entities in the future.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with refusal to grant patent protection and risk associated with withdrawal of patent protection

Patents and other intellectual property rights held by the Company might not ensure sufficient protection of its technologies and products which might limit the Company's effective advantage on the market. The Company's success is to a certain extent dependent on its capacity to obtain, maintain and enforce patents and other intellectual property rights regarding the Company's technologies and products, in Poland, the EU and other countries. The Polish Patent Office, the European Patent Office and patent offices in other countries require the compliance with a number of provisions on the incurring of fees and other similar provisions in the course of applying for the patent. Although in many cases, accidental expiry of a protection right can be remedied by way of paying a fee for late payment or in a different manner, in accordance with applicable provisions of law, there are certain situations where failure to comply with provisions might result in the rejection or expiry of a patent or a patent application, which leads to the loss of patent rights in a given legal system either in part or in full. Violations of provisions which might result in the rejection or expiry in a patent of patent application include failure to respond to official actions within a prescribed time frame, failure to make payments or irregularities in the actions taken to secure patent protection, including failure to submit all the formally required documents.

Furthermore, the granting, scope, validity, enforceability and trade value of the Company's patent rights cannot be taken for granted because the Company's currently examined and future patent applications might not result in the granting of patent protection to the Company's technologies or products, in full or in part, or which would effectively prevent other companies from commercializing competitive technologies and products. Changes to patent law or interpretations of patent law in Poland and other countries might reduce the value of the patents held by the Company or reduce the scope of the patent protection they provide.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Foreign exchange risk

Most machines and devices, laboratory equipment, active substances required for manufacturing and reagents for conducting research are bought from foreign suppliers at prices determined in foreign currencies, including in particular EUR and USD. Unfavorable currency exchange changes (the weakening of the Polish currency in relation to foreign currencies) might have a negative impact on the level of the Company's investment outlays and might result in increased costs of manufacturing products and conducting R&D works, which in turn may negatively affect the Company's financial performance. To date, usually the Company's revenues and expenditure in foreign currencies balance out, as the Company generates revenue in EUR on account of exporting its drugs. However, the Company's revenues in foreign currencies are on the rise and the Company anticipates that they will continue to increase as the Company's planned development on foreign markets continues. That will be associated with greater exposure to currency exchange changes in the future, in particular given the fact that most of the Company's costs are incurred and most likely will continue to be incurred in PLN.
As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with the loss of key employees

Effective operations of the Company and successful implementation of its strategy depend on the experience of its managers and key personnel. Given the specific nature of the Company's area of activity, it depends on highly qualified, technically skilled and creative employees whose high level of competencies and skills allow for developing new technologies and innovative products. The Company's actions are based on the know-how and experience of its highly qualified management, including the President of the Management Board – Maciej Wieczorek, Vice-President of the Management Board – Jacek Glinka and managers responsible for individual business areas (including R&D, production and supplies, sales and marketing, as well as finances and accounting). Competencies, loyalty and commitment of key employees are the main factors affecting the Company's everyday activity and its development. There is a risk that competition on the market where the Company operates, fueled by i.a. the shortage of experts with relevant qualifications, will result in resignations of employees of key importance to the Company, and the Company cannot guarantee that it will be able to recruit and retain such key employees in the future, including to obtain experts whose employment will prove necessary for the Company's future development, which might negatively affect Company's business activity, financial performance or prospects. In view of the above, the Company might also be forced to incur higher payroll costs. The Company is of the opinion that, to date, employee rotation in the Company was at a level typical for this industry, however, given the aforementioned factors, in particular the anticipated growing demand for such experts on the market, the Company cannot exclude such events happening more often in the future. Losing expert employees and key managers might have a negative impact on the Company's research capacities and the development of drug candidates, as well as on successful implementation of the Company's strategy.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with possible disclosure of trade and technological secrets

The successful implementation of the Company's plans in regard to i.a. innovative drug projects or details of conducted clinical trials might depend on whether confidential information held by the Company, in particular information regarding the conducted trials and technological processes, are kept secret. Only the Company's management and key employees and occasionally partners of projects implemented by the Company, such as academic establishments, have access to sensitive, confidential information regarding the Company's activity, such as its strategic plans, its planned business ventures and its key technologies. However, a situation where such information is disclosed and used by persons cooperating with the Company, in particular by its employees, cannot be excluded; as a result, such information could be used by the Company's competitors.

In a such event, the measures protecting the Company's rights, in particular the claims which could be pursued by the Company, might prove insufficient to protect the Company against the negative effects of such events, which might have a negative impact on the Company's business activity, financial performance or prospects. The Company is of the opinion that this risk will become more significant in the future as the Company continues to develop its innovative project and as the Company develops its unique know-how in the course of its regular activity.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with granted co-financing

In relation to its innovative projects, the Company had implemented and is currently implementing projects co-financed from national and EU public funds, including programs implemented and managed by the National Center for Research and Development. Individual agreements on co-financing, terms of grant contests or applicable provisions of law determine detailed rules on i.a. applying for grants, using allocated funds, implementing projects, as well as interim reporting of their results. With regard to currently implemented projects, the Company applies due diligence to ensure that the projects are implemented in line with the agreements on co-financing, in particular with regard to schedules of works and expenditures. To the best of the Company's knowledge, there are no circumstances which would result in the Company's obligation to return the support obtained for the purpose of projects implemented with the use of public funds. However, the risk that competent national or EU bodies and institutions audit the Company with regard to the correctness of the project implementation, the achievement of their objectives and the use of the received funds as intended and identify possible deficiencies, and in consequence demand that a part of or the entire grant be returned with interest cannot be excluded. The possible requirement to return the co-financing might be associated with the risk of negatively affecting the Company's reputation and potential exclusion of the Company from participation in future grant contests on the basis of relevant provisions governing the allocation of funds in such contests. The above-mentioned entitlements of public bodies are usually subject to a 10-year period of limitation, calculated from the date on which the grant was awarded, i.e., the conclusion of individual agreements on co-financing. The possible demand to return the funds in part or in full might have a negative impact on the Company's business activity, financial performance or prospects.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with failure to secure grants for planned innovative projects

As part of the Company's development strategy, the Management Board adopted an investment program which covers in particular outlays on two areas of activity related to: (i) the development of inhaled drugs and their registration in European and North American markets and (ii) the development of new drug projects, including potential innovative drugs. EU subsidies which are estimated to account for approx. 50-60% of the planned project costs constitute a significant source of funds covering the Company's investment plans; the remaining costs are to be financed from the Company's own funds.

However, one cannot exclude the risk where the grant applications submitted by the Company are not successful due to the competitive nature of acquiring funds for innovative projects. To date, the Company has been successful in obtaining co-financing for the majority of its projects, however, should the application be rejected, it will be forced to search for other sources of financing its planned innovative projects; that might significantly delay their implementation and/or result in the need to engage the Company's equity or increase its debt. The actual options of the Company obtaining additional funds will depend on the financial, economic, market and other factors, over which the Company might have limited control or no control whatsoever. If the relevant funds are not available on acceptable commercial terms or if support from public funds is not granted within the required time frame and in the sufficient amount, the Company might be forced to delay, limit or discontinue the implementation of its strategy or might not be able to make the best of future business opportunities. The above risks might negatively impact the Company's business activity, financial performance or prospects.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with the use of hazardous substances and generating hazardous waste

The specific nature of the Company's activity which includes manufacturing of drugs and conducting research in this area is associated with the need to use chemical substances categorized as hazardous, such as oil, gas and benzine, including laboratory-scale use of carcinogenic and teratogenic substances, as well as the creation of hazardous waste. This is associated with potential exposure of the Company's employees to harmful effects of such substances and waste.

Given that the carcinogenic and teratogenic substances are used on a small scale, mainly for use in laboratories, and because relevant procedures are in place, the Company accesses this risk as low. However, one cannot exclude the risk where, in the event of a possible violation of the requirements related to the use of hazardous substances and the creation of such waste adopted by the Company, authorities will impose a penalty, including the order to discontinue or limit a given type of activity. Furthermore, the risk of a malfunction or other event resulting in harm to persons exposed to contact with substances or waste cannot be excluded; that might result in possible claims and the Company's liability, including financial liability. It is also possible that future legal regulations regarding requirements on handling hazardous substances will result in the need to limit the Company's current activity or to incur outlays to adjust the Company's activity to the new legal requirements; that might have a negative impact on the Company's business activity, financial performance or prospects. Violations of requirements regarding the handling of hazardous substances or creation of such waste might result in the Company incurring significant costs due to administrative fines or criminal penalties, as well as being liable for damages. Although the Company is insured against its employees' civil liability and such insurance covers the costs and expenses which the Company might be forced to incur in relation to injuries to its employees resulting from the use of hazardous materials or other work-related injuries, such insurance will not provide the required protection against potential liability.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with the competitive nature of the market in which the Company operates

Historically, the Company was focused on the production of generic drugs. In 2006, the Company started expanding its activity towards the development of inhalation drugs categorized as the so-called generics plus, biosimilars and innovative drug projects. The generic drug market is characterized by low barriers to entry and the possibility of generating stable revenues and achieving a significant market share over a short period of time. As a result, the first years after patent protection expires lead to a quick quantitative increase in the sale of generic drugs. However, as new generics to original drugs are introduced to the market over the course of a few years, the drug price erodes quickly and a systematic reduction of the cost-effectiveness of the generic drug sales on the given market is observed. One cannot exclude a risk where revenues from the sale of generics included in the Company's product portfolio drop more quickly than anticipated by the Company; that might result in the need to withdraw the given drug from the product portfolio and cause a temporary reduction of revenues from sales and financial performance.

The market of innovative therapeutics as characterized by relatively lower competitiveness, which results from the fact that registration and marketing of an innovative drug requires time-consuming and costly research and preparation of the full registration dossier. The process between the commencement of the research of such a drug and marketing it takes approx. 10 years. The Company cannot foresee how powerful and numerous the competition will be, however, greater competitiveness on the market is inevitable; this gives rise to the risk that the capacity to achieve the planned market share and the capacity for sales or commercialization of the pending innovative projects will be limited.

Publicly available information suggests that currently there are many entities on the market which are developing generics to the same original drugs targeted by the Company and that works on some of them are already very advanced. There is a risk that upon expiry of patent protection for the original drugs, some of those entities will be ready to market their own generics. This will increase the competition against the Company (e.g., the competitors might market their products sooner or introduce cheaper drugs etc.) and might force the Company to revise its assumptions as to the planned market share or the anticipated potential revenues.

The Company's commercial capacities might also be limited or eliminated if the competitors manage to develop and market products which are safer, more effective, are characterized by less frequent or significantly less severe adverse effects, are more convenient to use or cheaper than the products developed by the Company. It is also possible that the Company's competitors will obtain the necessary authorizations from regulatory bodies for their products sooner than the Company; this might lead to the Company's competitors achieving a strong market position before the Company manages to enter a given market.

As a result, the actions aimed at discovering new potential drugs might prove not to be cost-effective for the Company; that might weaken its market position and have a negative impact on the Company's business activity, financial performance or prospects.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be high, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with national and international legal regulations

Frequent amendments of provisions to which the Polish legal system is prone may constitute a potential risk for the Company; the Management Board's assumptions with regard to its business activity might became out of date and its financial standing might deteriorate. The regulations which have the largest impact on the Company's operations include in particular pharmaceutical law, tax law and intellectual property law. Amendments to the aforementioned regulations might lead to a significant change to the provisions of law applicable to the Company and impact its financial performance, for example by way of increasing the operating costs (through a direct increase of tax burdens or additional expenditure required to meet new legal and administrative requirements), the extending of manufacturing and investment processes, the imposing of administrative fees and tax burdens on the Company in relation with non-compliance with provisions of law found by public administration bodies.

Another significant factor which might impact the Company's business activity, financial performance or prospects is the issue of discrepancies between interpretation of Polish and EU provisions of law. Inconsistent interpretation of provisions by Polish courts and public administration bodies, as well as EU courts might affect the Company both indirectly and directly.

The Company cannot guarantee that it will obtain the required administrative decisions for its drug development project, nor that no current or future administrative decisions will be questioned, withdrawn, amended, repealed or cancelled. Such situations may delay or change the original projects and have a negative impact on the Company's business activity, financial performance or prospects.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with tax policy

The Company is subject to complex tax legislation in both Poland and other countries where it is operational; this exposes it to frequent changes and lack of precision of tax regulations which often lack a consistent interpretation. Both the practices of tax offices and court decisions on tax issues which are based on ambiguous legal regulations increase the risk for business activities in Poland compared to more stable tax systems in place in more mature economies. The Company enjoyed a tax relief on account of its research and development activity ,which allows the Company to deduct anew additional 100% of eligible expenditure incurred on such activity, which has already been classified as tax deductible cost from the tax base. Additionally, in line with the current tax regulations, it is also possible to use the so-called IP Box eligible IP rights mechanism, which makes it possible to apply a preferential tax rate, i.e., 5% from the tax base, that is the income. The Company can apply that preferential rate in the case of commercialization of certain projects. Possible new tax provisions or regulations might be introduced retroactively or non-retroactively; there might also be changes to the applicable interpretation and enforcement of such provisions or regulations, which might have a negative impact on the tax provisions currently applied by the Company.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is moderate and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with decisions taken by the Company's main shareholder

Glatton Sp. z o. o., a company where the sole shareholder is Maciej Wieczorek – the President of the Company's Management Board, holds 58.84% of shares in the Company's share capital; that gives it the right to 68.19% of the total votes in the General Meeting of Shareholders. As the dominating shareholder in the Company, Glatton Sp. z o.o. can significantly impact decisions of the General Meeting of Shareholders regarding payment and amount of dividends, and even decide not to make such a payment in particular financial years, or decide to vote in favor of payment of a dividend which is higher or lower than the amount recommended by the Company's Management Board, which might be contrary to the interest and expectations of the other shareholders and Management Board.

Glatton Sp. z o. o. and its sole shareholder Maciej Wieczorek have decisive impact on the Company's affairs, including i.a. the shaping of the Company's policies and strategies, the directions in which the Company will develop, the selection of Supervisory Board members and, indirectly, the Company's Management Board. Resolutions of the General Meeting of Shareholders adopted with the majority shareholder's votes might not be consistent with the intentions or interests of minority shareholders. It is not possible to foresee whether the majority shareholder's policy and actions will be convergent with the interests of other shareholders of the Company.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

Risk associated with potential conflicts of interest

As at the publication of this report, the following relations between members of the Management Board and the Supervisory Board exist:

i) Maciej Wieczorek is indirectly the majority shareholder of the Company; he is the President of the Company's Management Board, the husband of a Member of the Supervisory Board, Urszula Wieczorek and the father of another Member of the Supervisory Board, Artur Wieczorek;
ii) Urszula Wieczorek, a member of the Supervisory Board, is the mother of another Member of Supervisory Board – Artur Wieczorek.

In view of the above, there is a potential risk of a conflict of interest among the above-mentioned individuals and between the above-mentioned individuals and the Company. This conflict could lead to a collision between the obligation to act in the best interest of the Company or to remain independent, and the personal interests of those individuals. The interest of each of the above-mentioned individuals might not be identical to the Company's interests, therefore the risk associated with a conflict of interest which might end unfavorably for the Company should be taken into account.

As at the date of preparation of this report, the Company assesses the relevance of this risk factor to be moderate, that the probability of the occurrence of this risk is low and that, should this risk occur in the future, the scale of its negative impact on the Company's business activity, financial performance or prospects would be significant.

17 Other information which, in the Issuer's opinion, is significant for the assessment of its situation in terms of personnel, assets, finances, financial performance and changes thereto, and information which is significant for the assessment of the Issuer's capacity to meet its liabilities.

There is no information, other than the information indicated below and in the other sections of this report, which is significant for the assessment of the Company's situation in terms of personnel, assets, finances, financial performance and changes thereto as well as the Company's capacity to meet its liabilities.

CELON
PHARMA

Kiełpin, September 28, 2022

DECLARATION OF THE MANAGEMENT BOARD OF CELON PHARMA S.A.
ON THE RELIABILITY OF THE STATEMENTS FOR 1H2022

The Management Board of Celon Pharma S.A. declares that to the best of its knowledge, the half-year condensed financial statement for the period between 01.01.2022 and 06.30.2022 and the comparative data have been drawn up in accordance with applicable accounting principles and constitute a true, reliable and clear reflection of the Company's assets, finances and financial performance and that the Management Board's report on the activity of Celon Pharma S.A. in 1H2022 constitutes a true picture of the Company's development, achievements and situation, including descriptions of the essential risks and threats.

Signed electronically by
Maciej Wieczorek
Date: 2022.09.28 22:56:45
+02'00'

Maciej Wieczorek, President of the Management Board

Signature Not Verified
Document signed by Jacek Glinka
Date: 2022.09.28 22:51:00 CEST

Jacek Glinka, Vice-President of the Management Board

Signed electronically
by Dorota Zwolińska

Date: 09.28.2022
22:30:53 +02'00'

Dorota Zwolińska, Member of the Management Board

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President of the Management Board: Maciej Wieczorek
KRS no.: 0000437778
Amount of the share capital: PLN 5,103,000
NIP: 118- 16- 42 - 061, REGON : 015181033
www.celonpharma.com

Kiełpin, 28 September 2022

Signed electronically by
Maciej Wieczorek
Date: 09.28.2022
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Maciej Wieczorek
President of the
Management
Board

Signature Not Verified
Document signed by Jacek Glinka
Date: 2022.09.28 22:53:20 CEST

Jacek Glinka,
Vice-President of the
Management Board

Signed
electronically by
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Dorota Zwolińska,
Member of the
Management
Board


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