CELON PHARMA

CELON PHARMA S.A.

Historical financial data for year ended 31 December 2020, 31 December 2019 roku and December 2018

Kiełpin, 7 April 2021

(in thousands of PLN)

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Continuing Operations				
Income	**10, 11**	**159 992**	**121 408**	**145 237**
Revenue from sales		129 058	98 895	114 937
Government grants		21 874	20 658	21 453
Other income		2 639	1 843	3 815
Revenue from the sales of licences		6 422	12	5 033
Operating costs	**12.5**	**163 860**	**143 450**	**122 768**
Depreciation		31 767	20 879	15 615
Raw material consumption		32 011	23 355	28 176
Third party services		10 285	15 215	17 688
Employment benefit expenses	12.6	31 529	28 938	18 191
R & D costs		49 364	44 980	33 598
Other costs		8 905	10 082	9 498
Profit/loss from sales		**- 3 868**	**-22 042**	**22 470**
Other operating income	12.1	719	1 593	517
Other operating costs	12.2	524	793	1 261
Operating profit/loss		**- 3 673**	**-21 242**	**21 726**
Finance income	12.3	142	1 836	3 431
Other finance income		0	0	0
Finance costs	12.4	2 056	1 058	1 706
Gross profit/loss		**- 5 588**	**-20 463**	**23 451**
Income tax	13	- 4 671	-9 498	5 129
Net profit/loss from continuing operations		**-917**	**-10 966**	**18 322**
Discontinued operations				
Profit (loss) from discontinued operations		0	0	0
Net profit/ (loss) for the financial year	**16**	**-917**	**-10 966**	**18 322**
Other comprehensive income *Entries that will not be reclassified to profit or loss in subsequent financial periods*				
Actuarial gains/(losses) on specific benefit plans		0	0	0
Net profit (loss) on equity instruments at fair value assessment calculated at fair value through other comprehensive income		-34 895	-5 954	-16 254
Income tax on other comprehensive income	13	6 630	1 131	3 088
Other comprehensive net income that will not be reclassified to profit or loss in subsequent financial periods		**-28 265**	**-4 823**	**-13 166**
Other net comprehensive income		**-28 265**	**-4 823**	**-13 166**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-29 181**	**-15 789**	**5 156**
Earnings/ (loss) per share: 16	16	-0,02	-0,24	0,41
- basic, profit for the financial year		-0,02	-0,24	0,41
- basic, profit from continuing operations for the financial year		-0,02	-0,24	0,41
- diluted, profit for the financial year		-0,02	-0,24	0,41
- diluted, profit from continuing operations for the financial year		-0,02	-0,24	0,41

(in thousands of PLN)

STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2020	31 December 2019	31 December 2018	1 January 2018
ASSETS					
Non-current assets					
Property, plant and equipment	18	331 414	245 630	194 132	138 748
- including right-of-use assets	19	16 826	6 672	7 743	9 243
Intangible assets	20	41 097	6 162	7 410	2 639
Investment in other entities	21	12 872	48 530	54 475	70 729
Other financial assets		93	91	91	91
Other non-financial assets		0	0	0	0
Deferred tax assets	13.3	27 171	15 870	5 184	875
		412 646	**316 282**	**261 292**	**213 082**
Current assets					
Inventories	24	29 760	30 062	23 607	18 356
Trade receivables	25	32 528	39 177	31 691	30 836
Income tax		1 536	2 812	879	0
Other receivables	25	7 957	3 729	7 561	2 897
Other current non-financial assets	22	3 470	1 044	2 015	1 103
Other current financial assets	26	13	45 436	47 886	102 583
Cash and cash equivalents	27	43 978	21 256	100 112	98 772
		119 242	**143 516**	**213 751**	**254 546**
TOTAL ASSETS		**531 888**	**459 798**	**475 042**	**467 628**
LIABILITIES					
Equity					
Basic share capital	28.1	4 500	4 500	4 500	4 500
Capital reserve	28.2	393 124	384 789	365 892	347 926
Revaluation reserve	28.4	5 482	33 747	38 570	51 736
Retained earnings/Unrecovered losses		-57 657	-34 756	-23 382	2 234
Net profit/loss for the current period	16	-917	-10 966	18 322	0
		344 532	**377 314**	**403 903**	**406 396**
Non-current liabilities					
Deferred tax	13.3	0	0	0	0
Provisions	31	0	0	550	550
Lease liabilities	29, 32	9 158	2 589	4 164	5 203
Other liabilities	32	24 380	0	0	0
Accruals from government grants	30	39 672	32 775	27 494	23 416
		73 210	**35 364**	**32 208**	**29 169**
Current liabilities					
Trade payables	32	20 480	9 309	9 437	6 955
Interest-bearing loans and borrowings	29, 32	12 838	0	0	0
Leases	29, 32	3 485	2 036	1 484	2 090
Investment liabilities	32	25 633	9 221	3 523	4 194
Income tax payable	32	0	0	0	984
Employee benefits	32	4 709	1 659	1 400	1 396
Other non-financial liabilities	32	1 226	959	644	735
Provisions	31	0	200	650	0
Government grants	30	45 775	23 737	21 793	15 709
		114 145	**47 121**	**38 931**	**32 064**
Total liabilities		**187 356**	**82 485**	**71 139**	**61 232**
EQUITY AND LIABILITIES		**531 888**	**459 798**	**475 042**	**467 628**

Significant accounting standards (policies) and additional the explanatory notes presented on pages 5 to 60 are an integral part of these financial statements.

(in thousands of PLN)

STATEMENT OF CASH FLOWS

	Notes	rok zakończony 31 grudnia 2020	rok zakończony 31 grudnia 2019	rok zakończony 31 grudnia 2018
Cash flows from operating activities				
Gross profit/loss		- 5 588	-20 463	23 451
Adjustments to reconcile profit:		**77 327**	**14 442**	**6 953**
Depreciation		31 767	20 879	15 615
(Profit) loss from investment		324	-679	-277
(Increase)/decrease in trade receivables, and other receipts		2 419	-3 654	-5 519
(Increase)/decrease in inventories		302	-6 455	-5 251
(Increase)/decrease in other non-financial assets		-2 426	971	-912
(Increase)/decrease in liabilities, except for loans and borrowings		14 489	446	2 395
Interest income and interest cost		443	-1 301	-1 697
Movements in government grants		28 934	7 225	10 162
Movements in provisions		-200	-1 000	650
Income tax paid		1 275	-1 990	-8 213
Net cash flows from operating activities		**71 739**	**-6 021**	**30 404**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment and intangible assets		631	679	277
Purchase of property, plant and equipment and intangible assets		-99 477	-65 431	-76 441
Proceeds from sale of shares in other entities		13	0	0
Purchase of shares in other entities		0	-10	0
Proceeds from sale of other financial assets		45 424	2 450	54 697
Purchase of other financial assets		0	0	0
Interest received		142	1 607	2 232
Other		0	0	0
Net cash flows from (used in) investing activities		**-53 268**	**-60 705**	**-19 235**
Cash flows from (used in) financing activities				
Proceeds from issue of shares		0	0	0
Dividends paid	17	-3 600	-10 800	-7 650
Proceeds from borrowings		12 838	0	0
Repayment of loans and borrowings		0	0	0
Payment of lease liabilities		-4 401	-1 023	-1 645
Interest on leases		-276	-306	-535
Interest on loans/borrowings		-310	0	0
Other interest		0	0	0
Other		0	0	0
N**et cash flows from(used in) financing activities**		**4 251**	**-12 129**	**-9 830**
Net cash flows		**22 722**	**-78 856**	**1 340**
Cash flows at the start of the reporting period		**21 256**	**100 112**	**98 772**
Cash flows at the end of the reporting period		**43 978**	**21 256**	**100 112**

(in thousands of PLN)

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Reserve capital	Reserve capital revaluation	Retained earnings/Un recovered losses	Net profit/loss	Total equity
As at 1 January 2020	**28**	4 500	384 789	33 747	-45 722	-	377 314
Net profit /(loss) for the period		-	-	-	-	-917	-
Other net comprehensive income for the period		-	-	-28 265	-	-	-
Total comprehensive income		**-**	**-**	**-28 265**	**-**	**-917**	**-29 182**
- Issue of shares		-	-	-	-	-	-
- Cost of issue of shares		-	-	-	-	-	-
- Share based payments		-	-	-	-	-	-
- Dividends paid		-	-	-	-3 600	-	-3 600
- Transfer/Carry over		-	8 335	-	-8 335	-	
At 31 December 2020		**4 500**	**393 124**	**5 482**	**-57 657**	**-917**	**344 532**

	Notes	Share capital	Reserve capital	Reserve capital revaluation	Retained earnings/Un recovered losses	Net profit/loss	Total equity
As at 1 January 2019	**28**	4 500	365 892	38 570	-5 059	-	403 903
Net profit /(loss) for the period		-	-	-	-	-10 966	-
Other net comprehensive income for the period		-	-	-4 824	-	-	-
Total comprehensive income		**-**	**-**	**-4 824**	**-**	**-10 966**	**-15 790**
- Issue of shares		-	-	-	-	-	-
- Cost of issue of shares		-	-	-	-	-	-
- Share based payments		-	-	-	-	-	-
- Dividends paid		-	-	-	-10 800	-	-10 800
- Transfer/Carry over		-	18 897	-	-18 897	-	-
At 31 December 2019		**4 500**	**384 789**	**33 746**	**-34 756**	**-10 966**	**377 314**

	Notes	Share capital	Reserve capital	Reserve capital revaluation	Retained earnings/Un recovered losses	Net profit/loss	Total equity
As at 1 January 2018	**28**	4 500	347 926	51 736	2 234	-	406 396
Net profit /(loss) for the period		-	-	-	-	18 322	-
Other net comprehensive income for the period		-	-	-13 165	-	-	-
Total comprehensive income		-	-	**-13 165**	**-**	**18 322**	**5 157**
- Issue of shares		-	-	-	-	-	-
- Cost of issue of shares		-	-	-	-	-	-
- Share based payments		-	-	-	-	-	-
- Dividends paid		-	-	-	-7 650	-	-7 650
- Transfer/Carry over		-	17 965	-	-17 965	-	-
At 31 December 2018		**4 500**	**365 892**	**38 570**	**-23 382**	**18 322**	**403 903**

Significant accounting standards (policies) and additional the explanatory notes presented on pages 5 to 60 are an integral part of these financial statements.

1. General corporate information

The financial statements of Celon Pharma S.A. have been prepared for the year ended at 31 December 2020. For comparative purposes, the report includes the statements for the year ended 31 December 2019 and 31 December 2018. It also includes the opening balance sheet of the earliest period, as at 1 January 2018, following the adoption of the International Financial Reporting Standards (IFRS). These financial statements do not represent the statutory documents of Celon Pharma S.A., since the financial statements for the years 2018 – 2020 were prepared in accordance with the Polish Accounting Act from 29 September 1994 and the regulations applicable to issuers of securities listed on the Warsaw Stock Exchange. The financial statements in question are available on www.celonpharma.com as well as in the ESPI system (Electronic Data Transfer System).

Celon Pharma Spółka Akcyjna (PLC), hereinafter also referred to as the "Company", is a public limited company domiciled at Kiełpin, ul.Ogrodowa 2A. It was established on 25 October 2012 after it incorporated and transformed from a company under the business name Celon Pharma Sp.z o. o. (limited company), registered in Kiełpin. Celon Pharma S.A. was registered in the National Court Register of Entrepreneurs on 25 October 2012 under KRS number 0000437778, maintained by the District Court in Warsaw, XIV Commercial Division of the National Court Register.

Celon Pharma Sp. z o. o had been entered in the Register of Entrepreneurs of the National Court Register on 20 June 2002 under number 117523 and subsequently deleted from it on the day of its transformation into a joint stock company.

Celon Pharma S.A. is principally engaged in the provision of pharmaceutical drugs, PKD 2120Z (Statistical classification of economic activities in Poland (NACE).

2. Corporate structure

The Management Board as at the reporting date consists of:

- Maciej Wieczorek – President
- Jacek Glinka – Vice-President
- Iwona Giedronowicz – Board Member.

The Supervisory Board as at the reporting date includes:

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

In H1 2020, the Company's Board of Directors underwent changes. On 29 April 2020, the Supervisory Board called off Mr Bogdan Manowski, a Management Board Member, and appointed Jacek Glinka to the Management Board, entrusting him with the function of Vice-President of the Management Board, as of 1 June 2020. To date, there have been no other changes to the Management Board.

On 16 February 2021, the Extraordinary General Meeting appointed Mr Bogusław Galewski to the Supervisory Board. On 11 February 2021, Mr Michał Kowalczewski, a Supervisory Board Member, tendered his resignation, effective on the date of the Extraordinary General Meeting, that is 16 February 2021.

As of the date of submission of this report, the Supervisory Board consists of:

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

3. Authorisation for issue of the Financial Statements

These financial statements were authorised for issue in accordance by the Management Board on 7 April 2021.

(in thousands of PLN)

4. The Company's investments

The Company has no investments in subsidiaries, associates nor interests in joint arrangements. The long-term investment in Mabion S.A. has been classified as an investment at fair value estimated through other comprehensive income.

As at 31 December 2020,31 December 2019, 31 December 2018 and 1 January 2018, the investment of the Company in Mabion's equity and number of votes was as follows:

Entity	Location	Principal activity	Number of shares	Relative share of Company in equity	Relative share of Company in the number of votes
Mabion S.A	Konstantynów Łódzki	Production of pharmaceutical drugs and preparations	620 350	4,52%	7,07%

Additionally, as at 31 December 2020, 31 December 2019, 31 December 2018 and 1 January 2018, the Company had an 84,6% share in Action for Development of Research Sp. z o.o. It was sold on 3 November 2020. The relevant information is included in note 21.

5. Significant accounting judgements, estimates and assumptions

5.1. Professional judgement

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

The Management has made the following judgements in the process of applying the accounting standards and policies that have most significantly affected the reported carrying amounts of assets and liabilities.

Revenue classification

The revenues from sales are identified when the finished products are moved. Nationwide, the Company sells medicines at the statutorily established prices. With respect to sales outside the territory of Poland, the Company applies profit sharing agreements. Profit sharing constitutes the basis for the distribution of the proceeds obtained from the sales made by the Company's partners in other countries. The Company's products are sold to these partners, while the control over them ceases at the time of delivery. The additional mark-up obtained by the partners is divided according to the proportional profit sharing clause included in the contract between the Company and the partner. The relevant settlements are carried out every six months while the corresponding receipts are estimated and recognised in the documentation as other receivables and settled within a few months after the end of the financial year.

Development costs

The costs of research and development work are assessed by the Company from the point of view of their capitalisation. Due to the risk and uncertainty associated with the process of approval necessary to market medicines, the capitalisation criteria for this type of development work cannot be fulfilled. As a result, these costs are recognised at the time they are incurred. Nevertheless, the Company's expectations are that the R&D costs will be capitalised as of the date a given medicine has been approved by the relevant regulatory agency, that is after the third stage of clinical tests.

Grants for research and development

The Company assesses at which date the advances or reimbursement funds from the research and development grants should be recognised in the Company's revenues in view of the risk caused by the need to potentially return them. The grants are gradually entered into Company's revenues in proportion to the costs incurred but not before the Company is confident that a given grant will not have to be returned to the co-financing institution, that is the institution granting the subsidy.

Lease term for open-ended contracts

The Company has lease agreements for an indefinite period for the lease of several properties. While determining the lease term, the Company is guided by the useful life of the property, plant and equipment located and used in each location. The Company also determines the enforceability period of the contract. A lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the contract without seeking the consent of the other party without incurring more than negligible penalties. The materiality of penalties is assessed in a broad sense, that is in addition to strictly contractual or financial issues, while any other significant economic factors that discourage termination are taken into account (e.g., significant investments in the leased asset, whether alternatives exist, relocation costs). If neither the Company as a lessee nor the lessor incur a material termination penalty (broadly construed), the lease ceases to be enforceable and its term becomes the effective notice period. By contrast, should either party - in its professional judgement - incur a material termination penalty (broadly construed), the Company defines the lease term as sufficiently certain (i.e., the term over which it can be assumed with reasonable certainty that the arrangement will continue).

5.2. Uncertainty of assumptions and estimates

The key assumptions about the future and other key sources of uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below. The assumptions and estimates regarding the future have been based on the Company's knowledge at the time of preparing the financial statements. Those assumptions and estimates may change as a result of future events resulting from market changes or changes which remain outside the Company's control. Such changes are reflected in the estimates or assumptions as they occur.

Impairment of non-current assets

Should sufficient grounds occur, the Company's non-current assets are subjected to impairment testing. The test requires an estimation of the value in use of the cash-generating unit to which these non-current assets belong. The process of estimating the value in use involves determining the future cash flows generated by the cash-generating unit and requires the determination of a discount rate to be used in order to calculate the present value of those cash flows.

Impairment of trade receivables

The company is a pharmaceutical manufacturer. On the domestic market, it only cooperates with pharmaceutical wholesalers. On the international markets, the Company cooperates only with a limited number of companies, that is those that distribute medicines within a given country. The risk of credit loss is low, therefore the Company conducts the analysis of the payment promptness and financial standing of its partners once every quarter, at its end.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses based on the assumption that it is probable that taxable profit will be available in the future. A future tax result deterioration could make this assumption unjustifiable. The Management carefully assesses the nature and extent of the evidence supporting the conclusion that it is probable that sufficient future taxable profit will be available to offset unused tax losses, unused tax credits or other deductible temporary differences. Significant management judgement is required to assess the nature and extent of the evidence supporting the assumption that it is probable that sufficient future taxable profit will be available to offset unused tax losses, unused tax credits or other deductible temporary differences. While assessing whether the future taxable income is likely to occur (probability of more than 50%), the Management take into consideration all available evidence, both the evidence supporting the existence of the probability and the evidence against such a likelihood.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is measured using the appropriate valuation methods. In selecting appropriate methods and assumptions, the Management is guided by professional judgement. No such instruments exist for the period for which this report was prepared.

Revenue recognition

A sales revenue is identified when the relevant finished goods are released. In Poland, the Company applies the statutory, official prices for the manufactured medicines owing to the fact that all of the Company's products are included in the list of reimbursed medicines published by the Ministry of Health.

Depreciation/amortisation rates

Depreciation rates are determined on the basis of the expected economic useful life of tangible and intangible assets. The adopted economic useful life periods are annually verified on the basis of current estimates.

Marginal interest rate on lease contracts

It exceeds the capabilities of the Company to readily determine the interest rate for lease contracts and therefore the lessee's marginal interest rate is accepted to assess the lease liability. The marginal interest rate corresponds to the interest rate which the Company would have to pay if it were to borrow the funds necessary to purchase an asset of similar value to the right-of-use asset for a similar term, in the same currency and with similar collateral, and in a similar economic environment.

Tax settlement uncertainty

State regulations on value added tax, corporate income tax and social security contributions are subject to frequent change. These frequent changes result in a lack of appropriate reference points, inconsistent interpretations and few established precedents that could be applied. The in force legislation also contains ambiguities that give rise to differences of opinion as to the legal interpretation of tax provisions, both between state bodies themselves and between state bodies and companies.

Tax settlements and other areas of activity (e.g. customs or foreign exchange issues) may be requested to be inspected by the authorities, which are entitled to impose high penalties and fines while any additional tax liabilities resulting from an inspection must be paid together with any accrued high interest. These conditions make tax risk in Poland higher than in those countries where a more mature tax system exists.

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

As of 15 July 2016, the Tax Ordinance was amended to incorporate the provisions of the General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the creation and use of tax avoidance driven artificial or contrived arrangements driven by tax avoidance schemes. The GAAR defines tax avoidance as an act done primarily for the purpose of obtaining a tax advantage that is contrary in the circumstances to the object and purpose of the provisions of the Tax Act. Under the GAAR, such an act does not result in tax advantages if the course of action was artificial or contrived. Any instance of (i) unjustifiable fragmenting of operations, (ii) involving intermediary entities which contribute no justifiable economic or business value, (iii) elements that cancel or reward each other and (iv) other activities with similar effects to those mentioned above, may be perceived as an indication of the existence of artificial operations that are subject to the GAAR provisions. The new regulations will require more judicial assessment of the tax consequences borne by individual transactions.

The GAAR provisions should be applied to transactions carried out after the GAAR had entered into force and to transactions which had been carried out before the GAAR entered into force entry into force but for which benefits have been or continue to be derived after the effective date of the GAAR. The implementation of the above provisions will enable the Polish tax audit authorities to challenge legal arrangements and agreements applied by taxpayers, such as restructuring and reorganisation of a business group.

Current and deferred tax assets or liabilities are recognized and measured using the requirements of Izba Administracji Skarbowej (IAS, Chambers of Fiscal Administration) regarding the MSR (International Accounting Standards) 12 Income Taxes on the basis of tax profit (loss), tax base, unused tax losses, unused tax credits and tax rates, as well as taking into account the assessment of uncertainties in tax settlements.

Should uncertainty arise as to whether and to what extent the tax authority will accept particular tax settlements of transactions, the Company recognises those settlements while accounting for and assessing uncertainty.

6. The principles of statement preparation

These financial statements have been prepared on a historical cost basis, except for equity instruments.

These financial statements are presented in thousands of PLN.

These financial statements have been prepared under the presumption that the Company will continue its business for the foreseeable future. As at the date of approval of these financial statements, there are no circumstances which would indicate that there is a threat to the Company's going concern.

The year 2020 brought numerous challenges caused by the SARS-Cov-2 pandemic and the associated administrative and organisational difficulties. The current situation related to the Covid-19 pandemic has no significant impact on the Company's operations and its financial position. However, the current economic situation is characterised by high uncertainty while the volatility of events makes it difficult to predict. The Company's Management Board is conducting an ongoing analysis of risks and threats of a financial and operational nature that could adversely affect the Company's ability to continue operating as a result of the domestic and global epidemic situation. The assessment of the current situation of the Company and its economic environment, together with the forecast analysis of financial indicators and other legal, economic and social factors, does not indicate a threat to the continuation of its operations in the 12 months following the report publication date.

6.1. Statement of compliance

The Company's financial statements for 2018-2020 were prepared for statutory purposes and in accordance with the Accounting Act. These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU IFRS") specifically for the purpose of including it in the prospectus prepared in connection with the planned Secondary Public Offering of the Company's shares as well as illustrative purposes in relation to implementing the EU IFRS for statutory purposes as of 1 January 2021, following the resolution of the Extraordinary General Meeting of Shareholders of 15 February 2021. As at 31 December 2020, given the ongoing process of the IFRS implementation in the European Union, the IFRS applicable to these financial statements do not differ from the EU IFRS.

EU IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and adopted for implementation within the EU. .

6.2 Functional currency and the currency of the statements

The functional currency of the Company and the reporting currency of these financial statements is PLN.

7. Changes in accounting standards and interpretations which have been published but not yet implemented

- IFRS 14 *Regulatory accruals* (published on 30 January 2014) – in accordance with the decision of the European Commission, the approval process of the standard preliminary version will not be initiated before the publication of the final version of the standard – it has not been approved by the EU by the date on which these financial statements were authorised – effective for annual periods beginning on or after 1 January 2016;

- Amendments to IFRS 10 and IAS 28 *Sale or contribution of assets transactions between an investor and its associate or joint venture* (published on 11 September 2014) – the work leading to the approval of these amendments has been postponed indefinitely by the EU – the effective date has been postponed indefinitely by the IASB;

- IFRS 17 *Insurance Contracts* (published on 18 May 2017) including Amendments to IFRS 17 (published on 25 June 2020) – not approved by the EU by the date on which these financial statements were authorised – effective for annual periods beginning on or after 1 January 2023;

- Amendments to IAS 1 *Presentation of Financial Statements – Current and Non-current Liabilities as well as Current and Non-current Liabilities – Deferral of the Effective Date* (published on 23 January 2020 and 15 July 2020 respectively) – not approved by the EU by the date on which these financial statements were authorised – effective for annual periods beginning on or after 1 January 2023;

- Amendments to IFRS 3 *Amendments to references to the Conceptual Framework* (published on 14 May 2020) – not approved by the EU by the date on which these financial statements were authorised – effective for annual periods beginning on or after 1 January 2022;

- Amendments to IAS 16 *Property, plant and equipment: income before use* (published on 14 May 2020) – not approved by the EU by the date on which these financial statements were authorised – effective for annual periods beginning on or after 1 January 2022;

- Amendments to IAS 37 *Onerous Contracts – Costs of meeting contractual obligations* (published on 14 May 2020) - not approved by the EU by the date on which these financial statements were authorised – effective for annual periods beginning on or after 1 January 2022;

- *Amendments arising from the revision of IFRS 2018-2020* (published May 14, 2020) – not approved by the EU by the date on which these financial statements were authorised – effective for annual periods beginning on or after January 1, 2022;

- Amendments to IFRS 4 *Insurance Contracts Deferral of IFRS 9* (published on 25 June 2020) – effective for annual periods beginning on 1 January 2021 or later;

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Benchmark interest rates reform* – Phase 2 (published on 27 August 2020) - effective for annual periods beginning on or after 1 January 2021;

- Amendments to IAS 1 and Practice Statement 2: *Accounting Policies Disclosures* (issued on 12 February 2021) – not endorsed by the EU up to the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2023;

- Amendments to IAS 8: *Definition of Accounting Estimates* (published on 12 February 2021) – not endorsed by the EU up to the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2023;

- Amendments to IFRS 16: *Leases: Rent concessions related to Covid-19 after 30 June 2021* (published 31 March 2021) – not endorsed by the EU as at the date of approval of these financial statements – effective for annual periods beginning on or after 1 April 2021.

The effective dates are those resulting from the standards as promulgated by the International Financial Reporting Council. The application dates for the standards in the European Union may differ from the application dates resulting from the content of the standards and becomeeffective at the time they are authorised for implementing by the European Union.

On the the date these financial statements were authorised for issue, the Management Board did not anticipate that the introduction of the other standards and interpretations will have a material impact on the accounting policies applied by the Company.

8. First-time adoption of the International Financial Reporting Standards

The financial period ended 31 December 2020 was the first period for which the Company prepared its financial statements in accordance with the IFRS and related interpretations adopted by the European Union (EU). The comparative figures include 31 December 2019 and 31 December 2018.

In the prior periods, including the year ended 31 December 2019 and the year ended 31 December 2018, the Company's financial statements were prepared in accordance with the Accounting Act (Ustawa o Rachunkowości, "UoR") of 29 September 1994 ("AA").

The IFRS were first applied in the balance sheet on 1 January 2018 and this date has been recognised as the transition date.

The Company has applied the relevant mandatory and voluntary exemptions from the selected EU IFRSs as set out in IFRS 1. These are described below.

<u>Mandatory exceptions:</u>

(a) Estimates

The estimates as at 1 January 2018, as at 31 December 2018, and as at 31 December 2019 are consistent with the estimates made as at the same dates in accordance with the Accounting Act, after making adjustments for differences between accounting policies.

Voluntary exemptions:

a) leases

The lease liabilities of the Company were measured at the date of transition to the IFRS. The lease liabilities were measured at the present value of the remaining lease payments discounted through the use of the lessee's incremental borrowing rate at the date of transition to the IFRS. The right-of-use assets were recognised at an amount equal to the lease liability, adjusted for the amount of any prepaid and accrued lease payments on that lease in question, and recognised in the statement of financial position immediately before the date of transition to the IFRS.

In addition, the Company:

- applied a single discount rate to a portfolio of leases with substantially similar characteristics (for example, those with a similar remaining lease term as exemplified by a similar class of referential assets in a similar economic environment);
- did not recognise a lease liability in respect of leases whose lease term ended during the 12 months after the date of transition to the IFRS;
- did not recognise a lease liability in relation to contracts where the referential asset was of low value;
- applied the retrospective knowledge, as in the case of determining the lease term, if the contract required a renewal of the lease or a termination of the lease;
- estimated the liabilities on the property leases for an indefinite period on the basis of the expected useful life of the Company's fixed assets located at these premises.

b) external finance costs

Since the IFRS transition date the Company has applied the requirements of IAS 23 although finance costs are irrelevant to the Company's operations as both operating and investing activities are financed internally.

c) recognition of previously recognised financial instruments

The investment in an equity instrument (an equity interest in Mabion) was recognised and measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 and based on the facts and circumstances at the date of transition to the IFRS.

The main differences between the Accounting Act (UoR) and the IFRS as at 1 January 2018 and 31 December 2020 are tabled below.

(in thousands of PLN)

RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION ACCORDING TO THE ACCOUNTING ACT (UOR) AND THE IFSR PREPARED AS AT 1 JANUARY 2018

	Change	As at 1 January 2018 (UoR)	IFRS transition effect	As at 1 January 2018 (IFRS)
ASSETS				
Non-current assets				
Property, plant and equipment	A	134 762	-5 257	129 506
Right-of-use assets	A	0	9 243	9 243
Intangible assets		2 639		2 639
Investment in other entities		70 729		70 729
Other non-financial assets		91		91
Other financial assets	B	54 876	-54 876	0
Deferred tax assets	B	7 408	-6 533	875
		270 504	**-57 422**	**213 082**
Current assets				
Inventories		18 356		18 356
Trade receivables		30 836		30 836
Income tax		0		0
Other receivables		2 897		2 897
Other current non-financial assets		1 103		1 103
Other current financial assets	E	0	102 583	102 583
Cash and cash equivalents	E	201 355	-102 583	98 772
		254 546	**0**	**254 546**
TOTAL ASSETS		**525 050**	**-57 422**	**467 628**
LIABILITIES				
Equity				
Basic share capital		4 500		4 500
Capital reserve		347 926		347 926
Revaluation reserve		51 736		51 736
Retained earnings/Unrecovered losses / Net profit/loss for the current period	A, B	35 685	-33 452	2 234
		439 847	**-33 452**	**406 396**
Non-current liabilities				
Deferred tax	A, B	14 379	-14 379	0
Provisions		550		550
Lease liabilities	A	1 707	3 495	5 203
Other liabilities		0		0
Accruals from government grants	B	49 594	-26 178	23 416
		66 230	**-37 061**	**29 169**
Current liabilities				
Trade payables	C	5 927	1 028	6 955
Leases	A	1 599	491	2 090
Investment liabilities		4 194	0	4 194
Income tax payable	D	0	984	984
Employee benefits	C	0	1 396	1 396
Other non-financial liabilities	D	1 719	-984	735
Provisions	C	2 424	-2 424	0
Accruals from government grants	B	3 109	12 600	15 709
		18 972	**13 091**	**32 064**
Total liabilities		**85 203**	**-23 970**	**61 232**
EQUITY AND LIABILITIES		**525 050**	**-57 422**	**467 628**

Adjustments explained:

A) Application of IFRS 16:

- Property, plant and equipment used under finance leases in accordance with the Accounting Act in the amount of PLN 5 257 thousand were reclassified
- Rights to use buildings in the amount of PLN 3 986 thousand were recognised
- Lease liabilities in the amount of PLN 3986 thousand were recognised

B) Product development projects:

- Retained earnings corresponding to product development work-in-progress in the amount of PLN 54 876 thousand were recognised in prior statements
- Income of deferred income from product development grants in the amount of PLN 13 577 thousand was recognised
- Accruals from grants in the amount of PLN 12 600 thousand were reclassified to current liabilities
- Deferred tax of PLN 7 847 thousand was adjusted

C) Reclassification of:

- employee benefit liabilities in the amount of PLN 1 396 thousand
- accruals to trade liabilities in the amount of PLN 1 028 thousand

D) Separation of income tax settlements in the amount of PLN 984 thousand

E) Deposits longer than 3 months as well as participation units in investment funds in the amount of PLN 102 583 thousand were reclassified to other financial assets

(in thousands of PLN)

RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION ACCORDING TO THE ACCOUNTING ACT (UOR) AND THE IFRS PREPARED AS AT 31 DECEMBER 2020

	Change	As at 31 December 2020 (UoR)	IFRS transition effect	As at 31 December2020 (IFRS)
ASSETS				
Non-current assets		**584 725**	**-172 079**	**412 646**
Property, plant and equipment	A	329 140	-14 552	314 588
-Including: right-of-use assets	A	0	16 826	16 826
Intangible assets		41 097		41 097
Investment in other entities		12 872		12 872
Other financial assets		93		93
Other non-financial assets	B	179 020	-179 020	0
Deferred tax assets	B	22 504	4 667	27 171
Current assets		**118 917**	**325**	**119 242**
Inventories		29 760		29 760
Trade receivables		32 528		32 528
Income tax	D	0	1 536	1 536
Other receivables	D	9 493	-1 536	7 957
Other current financial assets		13		13
Other current non-financial assets		3 145	325	3 470
Cash and cash equivalents		43 978		43 978
TOTAL ASSETS		**703 642**	**-171 754**	**531 888**
LIABILITIES				
Equity		**434 671**	**-90 139**	**344 532**
Basic share capital		4 500		4 500
Capital reserve		393 124		393 124
Revaluation reserve		5 482		5 482
Retained earnings/Unrecovered	A, B	10 070	-67 727	-57 657
Net profit/loss for the current period	A, B	21 495	-22 412	-917
Non-current liabilities				
Deferred tax	B	16 465	-16 465	0
Provisions		0		0
Lease liabilities	A	7 334	1 824	9 158
Other financial liabilities		24 380		24 380
Accruals from government grants	B	150 222	-110 550	39 672
		198 401	**-125 191**	**73 210**
Current liabilities				
Trade payables	C	18 092	2 388	20 480
Leases	A	2 900	585	3 485
Other financial liabilities		25 633		25 633
Loans and borrowings liabilities		12 838		12 838
Income tax payable		0		0
Employee benefits	C	0	4 709	4 709
Other non-financial liabilities		1 226		1 226
Provisions	C	6 773	-6 773	0
Government grants	B	3 109	42 666	45 775
		70 570	**43 575**	**114 145**
Total liabilities		**268 971**	**-81 615**	**187 356**
EQUITY AND LIABILITIES		**703 642**	**-171 754**	**531 888**

Adjustments explained:

A) Application of IFRS 16

B) Non-current assets used under finance lease agreements in accordance with the Accounting Act in the amount of PLN 2 274 thousand were reclassified

- Lease liabilities in the amount of PLN 2 409 thousand were recognised

C) Product development projects:

- Product development work-in-progress in the amount of PLN 67 727 thousand was recognised in retained earnings
- Deferred income from government grants for product development projects in the amount of PLN 21 874 thousand was recognised in accruals
- Accruals of grants in the amount of PLN 42 666 thousand were reclassified to current liabilities
- Deferred tax in the amount of PLN 11 798 thousand was adjusted

D) Reclassifying of:

- employee benefit liabilities in the amount of PLN 2 302 thousand
- accruals to trade payables in the amount of PLN 2 063 thousand

E) Audit liabilities in the amount of PLN 325 thousand were recognised

(in thousands of PLN)

RECONCILIATION OF THE STATEMENT OF COMPREHENSIVE INCOME ACCORDING TO THE ACCOUNTING ACT (UOR) AND THE IFRS FOR THE PERIOD FROM 1 JANUARY 2020 TO 31 DECEMBER 2020

	Change	Period ended 31 December 2020 (UoR)	IFRS transition effect	Period ended 31 December 2020 (IFRS)
Continuing Operations				
Income		**139 270**	**20 722**	**159 992**
Revenue from sales	C, D	139 270	-10 212	129 058
Government grants	B	0	21 874	21 874
Other income	C	0	2 639	2 639
Revenue from sales of licences	C	0	6 422	6 422
Operating costs		**115 425**	**48 435**	**163 860**
Depreciation	A, E, F	30 882	885	31 767
Raw material consumption		32 011		32 011
Third party services	F	10 948	-663	10 285
Employment benefit expenses		31 529		31 529
R&D costs	A, I	0	49 364	49 364
Other costs	D	10 055	-1 150	8 905
Profit/loss from sales		**23 845**	**-27 714**	**-3 868**
Other operating income	E, J	14 420	-13 701	719
Other operating costs	I	14 388	-13 864	524
Operating profit/loss		**23 877**	**-27 550**	**-3 673**
Finance income		142		142
Other finance income		0		0
Finance costs	F	1 950	106	2 056
Gross profit/loss		**22 069**	**-27 657**	**-5 588**
Income tax	G	574	-5 245	-4 671
Net profit/loss from continuing operations		**21 495**	**-22 412**	**-917**
Discontinued operations				
Profit (loss) from discontinued operations		**0**		**0**
Net profit/ (loss) for the financial year		**21 495**	**-22 412**	**-917**
Other comprehensive income				
Entries that will not be reclassified to profit or loss in subsequent financial periods:				
Net profit (loss) on equity instruments at fair value assessment calculated at fair value through other comprehensive income	H	0	-34 895	-34 895
Income tax on other comprehensive income	H	0	6 630	6 630
Other comprehensive net income that will not be reclassified to profit or loss in subsequent financial periods		**0**	**-28 265**	**- 28 265**
Other net comprehensive income		**0**	**- 28 265**	**-28 265**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**21 495**	**-50 676**	**-29 181**

Adjustments explained:

A) Product development work-in-progress projects in the amount of PLN 49 364 thousand were recognised in the current year costs; depreciation on non-current assets used in research and development projects in the amount of 4 814 thousand PLN was reclassified

B) Product development grants in the amount of PLN 21 874 thousand were recognised in revenue accruals

C) Separation of revenues from:

- licences in the amount of PLN 6 422 thousand
- other revenues in the amount of PLN 2 639 thousand

(in thousands of PLN)

D) Costs of tender in the amount of PLN 1 151 thousand were reclassified from other costs to sales revenue

E) Reclassification to depreciation and amortisation costs from other operating revenue of the grant settlement covering depreciated property, plant and equipment in the amount of PLN 1 391 thousand for the R&D segment and PLN 3 109 thousand for the operating segment

F) Application of IFRS 16 to:

- discontinue the entry of rental costs in the amount of PLN 648 thousand
- include depreciation costs in the amount of PLN 571 thousand
- recognise interest expense of PLN 106 thousand

G) The deferred tax effect on the above adjustments in the amount of PLN -4 671 thousand was recognised

H) Equity instrument valuation in the amount of PLN 34 895 thousand as well as the deferred tax effect in the amount of PLN 6 630 thousand were recognised in other comprehensive income

RECONCILIATION OF THE STATEMENT OF CASH FLOWS ACCORDING TO THE ACCOUNTING ACT (UOR) AND THE IFRS FOR THE PERIOD FROM 1 JANUARY 2020 TO 31 DECEMBER 2020

	Change	Period ended 31 December 2020 (UoR)	IFRS transition effect	Period ended 31 December 2020 (IFRS)
Cash flows from operating activities				
Profit/(loss) net (UoR), gross (IFRS)		21 495	-27 083	-5 588
Adjustments to reconcile profit:		**49 409**	**27 918**	**77 327**
Depreciation	A	30 882	885	31 767
Share-based payment expense		0	0	0
(Profit) loss from investment		336	-12	324
(Increase)/decrease in trade receivables and other receipts	D	3 741	-1 322	2 419
(Increase)/decrease in inventories		302	0	302
(Increase)/decrease in other non-financial assets	A	-53 422	50 996	-2 426
(Increase)/decrease in liabilities, except for loans and borrowings	C, F	13 175	1 314	14 489
Interest income and interest costs	E	479	-36	443
Movements in government grants	B	41 607	-12 672	28 935
Movements in provisions	F	12 309	-12 509	-200
Income tax paid	D	0	1 275	1 275
Other	B	0	0	0
Net cash flows from operating activities		**70 904**	**835**	**71 739**
Cash flows from (used in) investing activities				
Proceeds from sale of property, plant and equipment and intangible assets		631	0	631
Purchase of property, plant and equipment and intangible assets	A	-99 163	-314	-99 477
Proceeds from sale of shares in other entities		0	13	13
Purchase of shares in other entities		0	0	0
Proceeds from sale of other financial assets	E	0	45 424	45 424
Purchase of other financial assets		0	0	0
Dividends received		0	0	0
Interest received	E	0	142	142
Other		0	0	0
Net cash flows from (used in) investing activities		**-98 532**	**45 264**	**-53 268**

(in thousands of PLN)

	Change	Period ended 31 December 2020 (UoR)	IFRS transition effect	Period ended 31 December 2020 (IFRS)
Cash flows from (used in) financing activities				
Proceeds from issue of shares		0	0	0
Proceeds from loans and borrowings		12 838	0	12 838
Repayment of borrowings and loans		0	0	0
Payment of lease liabilities	C	-3 845	-556	-4 401
Interest on leases	C	-169	-107	-276
Interest on loans/borrowings		-310	0	-310
Other interest		0	0	0
Other		0	0	0
Dividends paid		-3 600	0	-3 600
Net cash flows from (used in) financing activities		**4 914**	**-663**	**4 251**
Net cash flows		-22 714	45 436	22 722
Cash and cash equivalents at the start of the reporting period		**66 692**	**-45 436**	**21 256**
Cash and cash equivalents at the end of the reporting period		**43 978**	**0**	**43 978**

Adjustments explained:

A) Product development work-in-progress projects were recognised in current year expenses; depreciation on non-current assets used in research and development projects was reclassified; grant settlements applicable to depreciated non-current assets were reclassified from other operating income to depreciation expense

B) Deferred income from product development grants was recognised

C) Application of IFRS 16 to reclassify payments of lease liabilities and lease interest

D) Disclosure of tax paid and reclassification of income tax settlements

E) Deposits longer than 3 months and investment fund units were reclassified to other financial assets

F) Accruals were reclassified to trade payables

9. Significant accounting principles (policies)

9.1. Fair value measurement

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

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

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

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

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

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

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

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

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are categorized in the fair value hierarchy as described below, based on the lowest level input that is significant to the fair value measurement taken as a whole:

- Level 1– Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 –Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Significant accounting policies relating to fair value measurements – summary

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

9.2. Translation of items denominated in foreign currency

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

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

(in thousands of PLN)

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

	31.12.2020	31.12.2019	31.12.2018	01.01.2018
EUR/PLN rate	4,6148	4,2585	4,3000	4,1709
USD/PLN rate	3,7584	3,7977	3,7597	3,4813
EUR average rate	4,4742	4,3018	4,2669	4,4244
EURO rate lowest in the period	4,3010	4,2520	4,1488	4,1709
EURO rate highest in the period	4,6188	4,3844	4,3616	4,4157

9.3. Property, plant and equipment

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

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

At the time of acquisition, property plant and equipment assets are divided into components, which are items of significant value for which a separate useful life can be attributed. General overhaul costs are also a component part.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset:

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

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

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

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

9.3.1 Non-current assets held for sale

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

9.4. Intangible assets

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

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

The assessment of definite or indefinite life is reviewed annually.

Research and development costs

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

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

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

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

9.5. Leases

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

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

Right-of-use-assets

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

Lease liabilities

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

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

Short-term leases and leases of low value assets

Not applicable.

9.5.1 Company as a lessor

The Company is not a party as a lessor.

9.6. Impairment of non-financial non-current assets

The assessment of whether there is any indication that a non-financial non-current asset, including a right-of-use asset, may be impaired is conducted at the reporting date. If any such indication exists, or if an annual impairment test is required, the recoverable amount of the asset or the cash-generating unit to which the asset belongs are estimated.

The recoverable value of an asset or a cash generating unit the is the higher of its fair value less costs of disposal or its value in use unless the asset does not generate cash inflows that are largely independent of those generated by other assets or groups of assets. The recoverable amount is determined for each individual asset. If the carrying amount of an asset is greater than its recoverable amount, an impairment loss occurs and a write-down of the determined recoverable amount is made. While assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specifically attributable to the asset. Impairment losses on assets used in continuing operations are recognised in those expense categories that correspond to the function of the asset that is impaired.

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

9.7. External borrowing costs

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

9.8. Shares in subsidiaries, associates and joint ventures

The Company does not hold shares in subsidiaries, associates and joint ventures.

However, any such interest and shares in subsidiaries, associates and joint ventures are stated at historical cost, net of impairment losses.

Subsidiaries are those entities over which the Company holds control.

Control is exercised by the Company when it:

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

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

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

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

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

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

9.9. Financial assets

Financial assets classified

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

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

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

Measurement at initial recognition

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

De-recognition

Financial assets are derecognised when:

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

Subsequent measurement

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

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

Debt instruments – financial assets measured at amortised cost

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

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

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

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

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

Debt instruments at fair value through OCI

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

(a) the financial asset is held according to a business model that is designed to both receive contractual cash flows and sell financial assets; and

(b) the contractual terms of the financial asset allow for generating cash flows on specified dates that are solely payments of principal and interest on the principal outstanding.

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

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

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

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

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

The Company classifies equity instruments listed on the EU regulated markets into the category of equity instruments at fair value through other comprehensive income.

Financial assets at fair value through profit or loss

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

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

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

9.10. Offsetting of financial assets and liabilities

In circumstances where the Company:

- has a legally enforceable right to set off the recognised amounts and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously,

the financial asset and the financial liability are offset while the net amount is reported in the statement of financial position.

9.11. Impairment of financial assets

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

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

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

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

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

9.12. Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs of each item of inventory include all costs of purchase, costs of processing and other costs incurred in bringing the inventory to its present location and condition – both for the current and previous year – and is accounted for as follows:

Raw materials

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

Finished goods and work in progress

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

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

9.13. Trade and other receivables

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

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

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

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

9.14. Cash and cash equivalents

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

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

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

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

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

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

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

9.16. Trade payables and other liabilities

Current trade payables are recognised at the amount payable.

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

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

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

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

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

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

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

A) Change in contractual terms

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

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

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

(a) currency conversion of a financial obligation, unless this provision has been specified in advance in the terms of the contract,

(b) a change of a lender,

(c) a significant extension of the financing period compared to the original financing period,

(d) a change of interest rate from floating to fixed and vice versa,

(e) a change in the legal form/type of a financial instrument.

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

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

B) Change in expected cash flows

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

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

9.18. Provisions

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

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

9.19. Employee benefits

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

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

9.20. Income

9.20.1 Revenue from contracts with customers

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

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

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

Recognition of the contract with the customer

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

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

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

Recognition of performance obligation

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

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

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

Determination of the transaction price

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

Variable consideration

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

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

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

Transaction price allocation to performance obligations

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

Performance obligation fulfilment

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

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

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

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

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

Contract assets

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

Receivables

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

Contract liabilities

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

Right of return liability

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

9.20.1 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset in "Income from governement grants" or "Grants".

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

9.20.2 Interest

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

9.20.3 Dividends

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

9.21. Taxes

9.21.1 Current income tax

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

9.21.2 Deferred tax

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

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

- except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss nor taxable profit or tax loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised:

- except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- in respect of negative deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

9.21.3 Value added tax

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

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

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

9.21.4 Uncertainty related to the recognition of income tax

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

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

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

9.22. Net earnings per share

Net income per share for each period is calculated by dividing the net income for the period by the weighted average number of shares in the reporting period.
The Company does not present diluted earnings/loss per share as there is no reason to do so. If options are issued under the employee schemes, this operation might have a dilutive effect.

(in thousands of PLN)

10. Revenue from contracts with customers

10.1. Revenue by segments

	Year ended 31 December 2020		
	Generic medicine segment	Innovation segment	Total
Good or service			
Revenue from sales of medicines	129 058	0	129 058
Other sales	2 639	0	2 639
Government grants	0	21 874	21 874
Revenue from sale of licences	6 422	0	6 422
Total revenue from contracts with customers	**138 118**	**21 874**	**159 992**
Geographic information			
domestic	94 110	21 874	115 984
export	44 008	0	44 008
Total revenue from contracts with customers	**138 119**	**21 874**	**159 992**

	Year ended 31 December 2019		
	Generic medicine segment	Innovation segment	Total
Good or service			
Revenue from sales of medicines	98 895	0	98 895
Other sales	1 843	0	1 843
Government grants	0	20 658	20 658
Revenue from sale of licences	12	0	12
Total revenue from contracts with customers	**100 750**	**20 658**	**121 408**
Geographic information			
domestic	90 104	20 658	110 762
export	10 646	0	10 646
Total revenue from contracts with customers	**100 750**	**20 658**	**121 408**

	Year ended 31 December 2018		
	Generic medicine segment	Innovation segment	Total
Good or service			
Revenue from sales of medicines	114 937	0	114 937
Other sales	3 815	0	3 815
Government grants	0	21 453	21 453
Revenue from sale of licences	5 033	0	5 033
Total revenue from contracts with customers	**123 785**	**21 453**	**145 238**
Geographic information			
domestic	93 431	21 453	114 884
export	30 354	0	30 354
Total revenue from contracts with customers	**123 785**	**21 453**	**145 238**

10.2. Assets and trade liabilities

Non-applicable.

11. Operating segments

For management purposes, the Company has been segmented based on products manufactured and services provided. The following operating segments have been established:

The generic medicine segment includes all the operating activities by which the Company produces and sells medicines already registered and authorised for marketing.

The innovation segment includes all the activities that aim to develop a documentation portfolio which is intended to on the basis of which a medicine could be registered or marketed at the medicine pre-registration stage.

The Management Board monitors the operating results of the segments separately in order to make decisions regarding the allocation of resources, to assess the effects of this allocation and the results of operations. The basis for assessing a segment's performance is profit or loss from operations, which to some extent, as explained in the table below, is measured differently from profit or loss from operations in the financial statements. The Company's financing (including finance costs and revenues) and income tax are monitored at the Company level and there is no allocation to individual segments.

There are no transactions between segments.

(in thousands of PLN)

	year ended 31 December 2020		year ended 31 December 2019		year ended 31 December 2018		year ended 31 December 2020	year ended 31 December 2019	year ended 31 December 2018
	Generic medicine segment	Innovation segment	Generic medicine segment	Innovation segment	Generic medicine segment	Innovation segment	Total	Total	Total
Sales of medicines	129 058	0	98 895	0	114 937	0	129 058	98 895	114 937
Other income	2 639	0	1 843	0	3 815	0	2 639	1 843	3 815
Government grants	0	21 874	0	20 658	0	21 453	21 874	20 658	21 453
Revenue form salesoflicences	6 422	0	12	0	5 033	0	6 422	12	5 033
Segment income total, including:	138 118	21 874	100 750	20 658	123 785	21 453	159 992	121 408	145 238
domestic	*94 109*	*21 874*	*90 104*	*20 658*	*93 431*	*21 453*	*115 983*	*110 762*	*114 884*
export	*44 008*	*0*	*10 646*	*0*	*30 354*	*0*	*44 008*	*10 646*	*30 354*
Total expenses:	111 073	52 787	95 673	47 777	88 230	34 538	163 860	143 450	122 768
Including	28 343	3 423	18 082	2 797	14 676	940	31 767	20 879	15 615
Including other costs	82 730	49 364	77 591	44 980	73 554	33 598	132 094	122 571	107 153
Segment profit/loss	27 045	-30 914	5 076	-27 119	35 555	-13 085	-3 868	-22 042	22 470
Other operating income	719	0	1 593	0	517	0	719	1 593	517
Other operating costs	524	0	793	0	1 261	0	524	793	1 261
Profit/loss from operating activity	**27 240**	**-30 914**	**5 877**	**-27 119**	**34 811**	**-13 085**	**-3 673**	**-21 242**	**21 726**
Finance income							142	1 836	3 431
Finance costs							2 056	1 058	1 706
Gross profit/loss							**-5 588**	**-20 463**	**23 451**
Income tax, including							-4 671	-9 498	5 129
- current income tax							0	57	6 350
- deferred income tax							-4 671	-9 554	-1 221
Net profit/loss							**-917**	**-10 966**	**18 322**

ANTI-TRUST CONCERNS

Pursuant to Article 72 of the Pharmaceutical Law Act (Dz. U. - Journal of Acts – 2020, item 944), in Poland, only registered pharmaceutical wholesalers are allowed to conduct the wholesale trade in medicines and medical products. There are about 300 of them, however, the Company only trades with a dozen or so entities. The revenues presented below are recognised under the generic segment.

	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Net income form sales of medicines:			
Pharmaceutical wholesaler A	28 276	26 107	26 643
Pharmaceutical wholesaler B	16 572	16 969	16 499
Pharmaceutical wholesaler C	20 194	21 378	23 363

	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2018
Trade receivables:				
Pharmaceutical wholesaler A	10 386	13 178	11 448	10 989
Pharmaceutical wholesaler B	5 386	6 007	4 323	9 149
Pharmaceutical wholesaler C	1 512	5 267	5 237	4 994

(in thousands of PLN)

12. Income and expenses

12.1. Other income from operating activities

OTHER INCOME FROM OPERATING ACTIVITIES	2020	2019	2018
a) other, of which:	719	1 592	517
- proceeds from sale of property, plant and equipment	427	679	277
- other incomefrom operating activities	292	463	239
- release of provisions	0	450	0
- grants:Project completed	0	0	0
Total other income from operating activities	719	1 592	517

12.2. Other costs in operating activities

OTHER COSTS ON OPERATING ACTIVITIES	2020	2019	2018
a) provisions established for:	0	0	872
- allowance for for medicines which might have to be pulled off the market	0	0	650
- other provisions	0	0	222
b) other, including,:	524	793	389
- allowance for expected credit losses	0	0	312
- costs of discontinued projects	0	629	0
- drug donation	13	22	25
- others	511	142	52
Other operating costs	524	793	1 261

12.3. Interest income

FINANCE INCOME FROM INTEREST	2020	2019	2018
a) from loans, including:	0	18	0
- to associated parties	0	18	0
b) from other interest	142	1 818	3 431
- from deposits and participation units in investment funds	142	1 818	3 431
- including: realised	142	1 589	2 232
- including: not realised	0	229	1 199
- including to be realised within three months	0	229	1 199
Total finance income from interest	**142**	**1 836**	**3 431**

12.4. Finance costs

INTEREST	2020	2019	2018
a) on loans and borrowing	310	0	0
b) other interest	357	318	1 303
- to associated entities	0	0	0
- to other entities	357	318	1 303
- including interest on leases	276	306	535
Total finance costs from interest	**667**	**318**	**1 303**

(in thousands of PLN)

OTHER FINANCE COSTS	2020	2019	2018
a) negative exchange rate costs, of which: :	638	740	403
- paid	638	701	381
- due	0	39	22
b) provisions for	0	0	0
c) other, of which:	751	0	0
Total other finance costs	**1 389**	**740**	**403**

12.5. Expenses by nature

EXPENSES BY NATURE	2020	2019	2018
a) depreciation and amortisation	31 767	20 879	15 615
b) raw materials and consumables used	32 011	23 355	28 176
c) third party services	10 285	15 216	17 688
d) taxes and duties	1 540	1 650	1 588
e) wages and salaries	25 396	23 444	14 769
f) social security and other social costs, including pensions	6 133	5 494	3 422
g) other expenses by nature	7 364	8 432	7 910
h) R&D costs	49 364	44 980	33 598
Total expenses by nature	**163 860**	**143 450**	**122 768**

12.6. Employee benefits expense

EMPLOYEE BENEFITS EXPENSE	2020	2019	2018
Wages and salaries	25 396	23 444	14 769
Social security	4 826	3 672	2 323
Pension costs	0	0	0
Contributions to ECPs (PPK, Employee Capital Plans)	78	11	0
Post-employment benefits	0	0	0
Share-based payment expense	0	0	0
Other employee benefit costs	1 229	1 810	1 099
Total employee benefits expense, of which:	**31 529**	**28 938**	**18 191**

13. Income tax

13.1. Tax contribution

The major components of the tax contribution for the years ended 31 December 2020, 31 December 2019 and 31 December 2018, respectively have been tabled as follows::

	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Recognised in profit or loss	**-4 671**	**-9 498**	**5 129**
Current income tax	0	57	6 350
Deferred income tax	-4 671	-9 554	-1 221
Tax contribution presented in profit or loss	-4 671	-9 498	5 129
Total income			
Deferred income tax	6 630	1 131	3 088
Tax duties on net profit (loss) from equity instruments in fair value through other comprehensive income	6 630	1 131	3 088
Tax income (tax duty) presented in other comprehensive income	6 630	1 131	3 088

(in thousands of PLN)

13.2. Reconciliation of the effective tax rate

There follows a reconciliation of the income tax on profit / (loss) before tax at the statutory tax rate to the income tax calculated at the Company's effective tax rate for the year ended 31 December 2020, 31 December 2019 and 31 December 2018, respectively:

	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Gross profit (loss) from continuing operations before tax	-5 588	-20 463	23 451
Gross profit (loss) from discontinued operations before tax	0	0	0
Gross profit (loss) before tax	-5 588	-20 463	23 451
Tax at the statutory tax rate of 19% (2019: 19%) in Poland	-1 062	-3 888	4 456
Adjustments on current income tax from previous periods	0	0	0
Tax losses not presented	0	0	0
Tax allowance for R&D projects	4 137	6 214	3 683
Utilisation of previously unrecognised tax losses	0	0	0
Non-deductible permanent expenses	528	604	526
Non-taxable permanent income	0	0	0
Write-off of unused tax assets	0	0	3 830
Other	0	0	0
Tax at an effective tax rate of 2020: 83% % 2019: 46%, 2018: 22%)	-4 671	-9 498	5 129

13.3. Deferred income tax

Deferred income tax has resulted from the following items:

	Statement of financial position				Statement of profit and loss/Statement of comprehensive income		
					year ended		
	31 December 2020	31 December 2019	31 December 2018	1 January 2018	31 December 2020	31 December 2019	31 December 2018
Positive temporary differences							
- Non-current assets under lease conditions	16 826	6 672	7 743	5 257	10 154	-1 071	2 486
- Valuation of financial investments	0	436	3 086	2 842	-436	-2 650	244
- Valuation of shares in Mabion S.A.	6 768	41 662	47 618	63 871	-34 894	-5 956	-16 253
- Profit sparing income	2 541	0	3 610	0	2 541	-3 610	3 610
Total deferred tax provision	**4 966**	**9 267**	**11 791**	**13 674**	**-4 301**	**-2 525**	**-1 883**
Negative temporary differences							
- Lease liabilities	12 513	4 625	5 648	3 231	7 888	-1 023	2 417
- Accruals and deferred income	2 263	2 144	1 082	1 028	119	1 062	54
- Employee benefits provisions	2 306	1 493	1 213	991	813	280	222
- Other	0	0	0	20 160	0	0	-20 160
- Other R&D projects (excluding salaries)	116 172	124 032	81 396	51 164	-7 860	42 636	30 232
- Tax loss from 2020	35 887	0	0	0	35 887	0	0
Total deferred tax assets	**32 136**	**25 136**	**16 974**	**14 549**	**7 000**	**8 161**	**2 425**
Write-down of deferred tax assets	**0**	**0**	**0**	**0**			
Net deferred income tax assets	**27 170**	**15 870**	**5 184**	**875**			
Deferred income tax expense					-11 300	-10 686	-4 309
Change charged to equity (valuation of Mabion S.A.)					-6 629	-1 132	-3 088
Change charged to the profit and loss account					-4 671	-9 554	-1 221

(in thousands of PLN)

14. Non-current assets classified as held for sale

The Company has not identified any assets held for sale.

15. Social assets and the Company Social Benefits Fund liabilities

The Act on the Company Social Benefits Fund of 4 March 1994 stipulates that the Company Social Benefits Fund be created by companies which employ more than 50 full-time employees. The Company has created such a fund and makes periodic write-offs in the amount of the basic write-off. The purpose of the Fund is to finance social activities, loans granted to its employees as well as other social costs.

The liabilities under the Fund stand as at 31 December 2020 at PLN 469 thousand, as at 31 December 2019 at PLN 165 thousand, as at 31 December 2018 PLN 186 thousand and as at 1January 2018 PLN 402 thousand, respectively.

16. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period adjusted by the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential equity instruments into ordinary shares, e.g. adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares.

The earnings and share data used to calculate basic and diluted earnings per share are set out below: There were no other transactions in ordinary shares or potential ordinary shares between the balance sheet date and the date of these financial statements.

	2020	2019	2018
Net profit from continuing operations	-917	-10 966	18 322
Profit/loss from discontinued operations	-	-	-
Net profit	-917	- 10 966	18 322
Net profit attributable to ordinary equity holders adjusted for the effect of dilution per share	-917	-10 966	18 322
Weighted average number of ordinary shares to calculate profit per basic EPS	45 000 000	45 000 000	45 000 000
Dilution effect:	-	-	-
Share options	-	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution per share	45 000 000	45 000 000	45 000 000
EARNINGS PER SHARE	**-0,02**	**-0,24**	**0,41**

17. Dividends paid and declared for payment

The dividend on ordinary shares for 2019, paid on 17 June 2020, was PLN 3,600,000.

The dividend on ordinary shares for 2018 was PLN 10,800,000, of which PLN 7,200,000 was paid on 8 May 2019, while PLN 3,600,000 was offset against a loan grantem to a shareholder (For 2017, the dividend, paid on 21 June 2018, came to PLN 7,650,000).

The value of the dividend per ordinary share paid for 2019 was PLN 0.08.

The value of the dividend per ordinary share paid for 2018 was PLN 0.24 (2017: PLN 0.17).

(in thousands of PLN)

18. Property, plant and equipment

2020

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (BY NATURE)									
In 000 of PLN									
	- land	- buildings, real property premises and civil engineering works	- equipment and machinery	-motor vehicles	- other plant, equipment and machinery	property in lease (right to use property)	- construction in progress	- advances on plant, property and equipment	Total plant, property and equipment
a) Gross property, plant, equipment at the start of the reporting period	6 352	54 941	131 997	16 307	18 285	3 986	95 395	12 708	339 972
b) increase resulting from:	0	118 561	27 071	624	24 861	0	79 363	18 663	269 143
- purchase	0	0	15 432	624	11 800	0	79 363	18 663	125 882
- transfer	0	118 561	11 639	0	13 061	0	0	0	143 261
c) decrease resulting from:	0	0	331	1 828	0	0	143 261	13 761	158 850
- sale	0	0	331	1 828	0	0	0	0	1 828
d) gross property, plant and equipment at the end of the reporting period	6 352	173 502	159 068	15 103	43 146	3 986	31 497	17 610	450 264
e) total depreciation (write-off) at the start of the reporting period	0	11 358	66 420	7 506	7 916	1 141	0	0	94 341
f) depreciation for the period (on)	0	2 145	15 628	2 603	5 391	571	0	0	26 338
g) total depreciation (write-off) at the end of the reporting period	0	13 503	82 048	10 109	13 307	1 712	0	0	120 679
h) impairment write-offs at the start of t he reporting period	0	0	0	0	0	0	0	0	0
- increase	0	0	0	0	0	0	0	0	0
- decrease	0	0	0	0	0	0	0	0	0
i) impairment write-offs at the end of t he reporting period	0	0	0	0	0	0	0	0	0
j) other (sale)	0	0	331	1 828	0	0	0	0	2 159
k) net property, plant and equipment at the end of the reporting period	6 352	159 999	77 021	6 822	29 839	2 274	31 497	17 610	331 414

The carrying amount of machinery and equipment used as at 31 December 2020 under lease agreements and lease agreements with option to purchase amounts to PLN 16 826 thousand.

(in thousands of PLN)

2019

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (BY NATURE)									
In 000 of PLN									
	- land	- buildings, real property premises and civil engineering works	- equipment and machinery	- motor vehicles	- other plant, equipment and machinery	property in lease (right to use property)	- construction in progress	- advances on plant, property and equipment	Total plant, property and equipment
a) gross property, plant, equipment at the start of the reporting period	5 838	54 831	112 284	12 995	15 601	3 986	44 006	19 078	268 619
b) increase resulting from	514	110	19 713	6 118	2 684	0	95 395	12 708	137 242
c) decrease resulting from:	0	0	0	2 806	0	0	44 006	19 078	65 890
- sale	0	0	0	2 806	0	0			2 806
d) gross property, plant and equipment at the end of the reporting period	6 352	54 941	131 997	16 307	18 285	3 986	95 395	12 708	339 971
e) total depreciation (write-off) at the start of the reporting period	0	9 197	52 770	7 860	4 090	570			74 487
f) depreciation for the period (on)	0	2 161	13 650	2 452	3 826	571			22 660
g) total depreciation (write-off) at the end of the reporting period	0	11 358	66 420	10 312	7 916	1 141			97 147
h) impairment write-offs at the start of t he reporting period	0	0	0	0	0				0
- increase	0	0	0	0	0				0
- decrease	0	0	0	0	0				0
i) impairment write-offs at the end of t he reporting period	0	0	0	0	0				0
j) other (sale)	0	0	0	2 806	0				2 806
k) net property, plant and equipment at the end of the reporting period	6 352	43 583	65 577	8 801	10 369	2 845	95 395	12 708	245 630

The carrying amount of machinery and equipment used as at 31 December 2019 under lease agreements and lease agreements with option to purchase amounts to PLN 6 672 thousand.

(in thousands of PLN)

2018

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (BY NATURE)									
In 000 of PLN									
	- land	- buildings, real property premises and civil engineering works	- equipment and machinery	- motor vehicles	- other plant, equipment and machinery	- property in lease (right to use property	- construction in progress	- advances on plant, property and equipment	Total plant, property and equipment
a) gross property, plant, equipment at the start of the reporting period	4 615	53 828	101 933	11 624	3 160	3 986	2 575	13 451	195 172
b) increase resulting from	1 223	1 003	10 351	2 528	12 441	0	44 006	19 078	90 630
c) decrease resulting from:	0	0	0	1 157	0	0	2 575	13 451	17 183
- sale	0	0	0	1 157	0	0			1 157
d) gross property, plant and equipment at the end of the reporting period	5 838	54 831	112 284	12 995	15 601	3 986	44 006	19 078	268 619
total depreciation (write-off) at the start of the reporting period	0	7 214	39 779	7 361	2 070				56 424
f) depreciation for the period (on)	0	1 984	12 991	1 657	2 019	570			19 221
g) total depreciation (write-off) at the end of the reporting period	0	9 198	52 770	9 018	4 089	570			75 645
h) impairment write-offs at the start of t he reporting period	0	0	0	0	0				0
- increase	0	0	0	0	0				0
- decrease	0	0	0	0	0				0
i) impairment write-offs at the end of t he reporting period	0	0	0	0	0				0
j) other (sale)	0	0	0	1 157	0				1 157
k) net property, plant and equipment at the end of the reporting period	5 838	45 633	59 514	5 134	11 512	3 416	44 006	19 078	194 132

The carrying amount of machinery and equipment used as at 31 December 2018 under lease agreements and lease agreements with option to purchase amounts to PLN 7 743 thousand.

19. Right-of-use assets

The Company has lease contracts for various items of production machinery, laboratory equipment and vehicles. The lease period is 36 months. In addition, the Company rents space in three properties under lease agreements with a three-year notice period. Throughout the term of the lease agreement, its term and the amounts of payments have not been not changed. As at 31 December 2020, 31 December 2019 and 31 December 2018, the lease liabilities amounted to: PLN 23 643 thousand, PLN 4 625 thousand and PLN 5 648 thousand, respectively. The property in lease value came to: PLN 16 826 thousand, PLN 6,672 thousand and PLN 7,743 thousand, respectively.

	Equipment and machinery	Motor vehicles	Right to use assets	Other property,plant and equipment	Total right of use assets
	Net value	Net value	Net value	Net value	Net value
As at 1 January 2018	4 149	1 108	3 986	0	9 243
As at 31 December 2018	3 095	1 232	3 416	0	7 743
As at 31 December 2019	3 308	519	2 845	0	6 672
As at 31 December 2020	3 249	179	2 274	11 124	16 826

(in thousands of PLN)

20. Intangible assets

2020

CHANGES IN INTANGIBLE ASSETS (BY NATURE)							
	a	b	c		d	e	Total intangible assets
	completed development project costs	goodwill	concession agreements, patents, licenses and other, including		other intangible assets	advances on intangible assets	
				- software			
a) gross intangible assets at the start of the period	5 440	0	7 853	3 884	0	0	13 293
b) increase - purchase	0	0	45 065	388	0	0	45 065
c) decrease	0	0	0	0	0	0	0
d) gross intangible assets at the end of the reporting period	5 440	0	52 918	4 272	0	0	58 359
e) total amortisation (write-off) at the start of the reporting period	1 360	0	5 771	2 918	0	0	7 131
f) amortisation for the period (on)	1 360	0	8 772	816	0	0	10 133
g) total amortisation (write-off) at the end of the period	2 720	0	14 543	3 734	0	0	17 264
h) impairment at the start of the reporting period	0	0	0	0	0	0	0
- increase	0	0	0	0	0	0	0
- decrease	0	0	0	0	0	0	0
i) impairment (write-offs) at the end of the reporting period	0	0	0	0	0	0	0
j) net intangible assets at the end of the reporting period	2 720	0	38 376	538	0	0	41 097

(in thousands of PLN)

2019

CHANGES IN INTANGIBLE ASSETS (BY NATURE)							
	a	b	c		d	e	Total intangible assets
	completed development project costs	goodwill	concession agreements, patents, licenses and other, including		other intangible assets	advances on intangible assets	
				- software			
a) gross intangible assets at the start of the period	5 440	0	6 532	2 564	0	0	11 972
b) increase (of)	0	0	1 303	1 303	0	18	1 321
c) decrease (in)	0	0	0	0	0	0	0
d) gross intangible assets at the end of the period	5 440	0	7 835	3 867	0	18	13 293
e) total depreciation (write-off) at the start of the period	0	0	4 562	2 268	0	0	4 562
f) amortisation for the period (on)	1 360	0	1 209	650	0	0	2 569
g) total amortisation (write-off) at the end of the period	1 360	0	5 771	2 918	0	0	7 131
h) impairment write-offs at the start of the period	0	0	0	0	0	0	0
- increase	0	0	0	0	0	0	0
- decrease	0	0	0	0	0	0	0
i) impairment write-offs at the end of the period	0	0	0	0	0	0	0
j) net intangible assets at the end of the period	4 080	0	2 064	949	0	18	6 162

(in thousands of PLN)

2018

CHANGES IN INTANGIBLE ASSETS (BY NATURE)							
	a	b	c		d	e	Total intangible assets
	completed development project costs	goodwill	Concession agreements, patents, licenses and other, including		other intangible assets	advances on intangible assets	
				- software			
a) gross intangible assets at the start of the period	0	0	6 278	2 309	0	0	6 278
b) increase (of)	5 440	0	254	254	0	0	5 694
c) decrease (in)	0	0	0	0	0	0	0
d) gross intangible assets at the end of the period	5 440	0	6 532	2 564	0	0	11 990
e) total amortisation (write-off) at the start of the period	0	0	3 639	1 904	0	0	3 639
f) amortisation for the period (on)	0	0	923	364	0	0	923
g) total amortisation (write-off) at the end of the period	0	0	4 562	2 268	0	0	4 562
h) impairment write-offs at the start of the reporting period	0	0	0	0	0	0	0
- increase	0	0	0	0	0	0	0
- decrease	0	0	0	0	0	0	0
i) impairment write-offs at the end of the period	0	0	0	0	0	0	0
j) net intangible assets at the end of the period	5 440	0	1 970	295	0	0	7 410

INTANGIBLE ASSETS	31 December 2020	31 December 2019	31 December 2018	1 January 2018
a) completed development project costs	2 720	4 080	5 440	0
b) goodwill	0	0	0	0
c) concession agreements, patents, licences and other, of which:	38 376	2 064	1 970	2 639
- software	538	949	295	405
d) other intangible assets	0	0	0	0
e) advances on intangible assets	0	18	0	0
Total intangible assets	**41 097**	**6 162**	**7 410**	**2 639**

(in thousands of PLN)

21. Investment in other entities

The Company has identified the following investment in equity instruments as at fair value through other comprehensive income.

As stated in the current announcement 1/2021 of 5 January 2021, the Financial Statement of Mabion S.A. for the year ended 31 December 2020 will be published on 15 April 2021.

LONG-TERM FINANCIAL ASSETS	31 December 2020	31 December 2019	31 December 2018	1 January 2018
a) in subsidiaries	0	763	753	753
- shares in ADR Sp. z o. o	0	763	753	753
b) in associates	0	0	0	0
c) in other entities	12 872	47 767	53 723	69 976
- shares in Mabion S.A.	12 872	47 767	53 723	69 976
Total long-term financial assets	**12 872**	**48 530**	**54 475**	**70 729**

22. Other non-financial assets

CURRENT ACCRUALS AND DEFERRED INCOME	31 December 2020	31 December 2019	31 December 2018	1 January 2018
a) deferred expenses, of which:	660	525	675	462
- the difference between the value of the financial assets received and the liability payable	0	0	0	0
- insurance	91	250	230	378
- other	569	275	445	84
b) other accruals, of which:	2 810	519	1 340	641
- VAT payable	2 810	519	1 340	641
Other non-financial assets	**3 470**	**1 044**	**2 015**	**1 103**

23. Employee benefits

23.1. Retirement benefits and other post-employment benefits

Retirement benefit amounts are paid to the Company's retiring employees in the amounts specified by the Labour Code. Consequently, based on its valuation, the Company establishes a provision for the present value of its liability for retirement benefits to be paid out in the 12 months after the balance sheet date.

23.2. Employment termination benefits

No provision for termination benefits has been established by the Company.

24. Inventories

As at 31 December 2020, 31 December 2019 and 31 December 2018, there were no inventories valued at net selling price. As at 31 December 2020, inventories were reduced by a write-down of PLN 200 thousand.

INVENTORIES	31 December 2020	31 December 2019	31 December 2018	1 January 2018
a) raw materials	15 513	18 766	16 370	11 463
b) unfinished products and work in progress	3 164	3 830	3 012	3 780
c) finished products	9 136	7 466	4 224	2 805
d) goods	0	0	0	0
e) advances for materials and services	1 947	0	0	309
Total inventories	**29 760**	**30 062**	**23 606**	**18 357**

No category of inventory was recognised as collateral for loans or borrowings during the year ended 31 December 2020, 31 December 2019 and 31 December 2018.

(in thousands of PLN)

25. Trade receivables and other receipts

	31 December 2020	31 December 2019	31 December 2018	1 January 2018
Trade receivables	32 528	39 489	32 004	30 836
Other receipts from third parties	7 957	3 729	7 561	2 897
Including: Split payment	3 801	13	0	0
Of which: other receipts from associates	0	0	0	8
Total receivables (net)	**40 485**	**43 218**	**39 565**	**33 733**
Provision for expected losses	0	312	312	0
Receipts gross	40 485	42 906	39 253	33 733

26. Other financial assets

Within other current financial assets, the Company reports:

- As at 1 January 2018:
  - participation units in open investment funds investing in corporate bonds of Polish companies in the amount of PLN 102 583 thousand
- As at 31 December 2018:
  - participation units in open-end investment funds investing in corporate bonds of Polish companies in the amount of PLN 47 886 thousand
- As at 31 December 2019:
  - cash deposited with the bank on a 6-month deposit at fixed interest rate in the amount of PLN 45 436 thousand
- As at 31 December 2020, the Company had no cash on deposit with a bank.

As part of non-current other financial assets, as at 1 January 2018, 31 December 2018, 31 December 2019 and 31 December 2020, the Company recognises deposits paid for building leases.

27. Cash and cash equivalents

Cash at bank earns interest at variable interest rates whose value is dependent on the interest rate paid on one-day bank deposits. Short-term deposits are made for various periods ranging from one day to one month, depending on the Company's current cash requirements, and earn interest at the relevant interest rates.

The fair value of cash and cash equivalents as at 1 January 2018, 31 December 2018 , 31 December 2019 and 31 December 2010 is equal to their book value and amounts to PLN 98 772 thousand, PLN 100 112 thousand, PLN PLN 21 256 thousand and PLN 43 978 thousand, respectively.

28. Share capital and capital reserves

28.1. Share capital

28.1.1 Nominal share value

All issued shares have a nominal value of PLN 45,000,000 and have been fully paid up.

28.1.2 Rights of shareholders

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

(in thousands of PLN)

28.1.3 Significant shareholders

Shareholder	Number of shares	% in equity	Votes	% in all votes
Maciej Wieczorek via Glatton Ltd*	**30 003 300**	**66,67%**	**45 003 300**	**75,01%**
Funds managed by Generali PTE S.A.	**4 619 182**	**10,26%**	**4 619 182**	**7,70%**
Other shareholders	**10 377 518**	**23,06%**	**10 377 518**	**17,30%**
Total	**45 000 000**	**100%**	**60 000 000**	**100%**

* Glatton Ltd owns 15.000.000 registered preference shares.

28.2. Capital reserves

Capital reserves were established from the share premium in the amount of 234 451 688.73, which was reduced by the share issue costs recognised as a reduction of the supplementary capital, as well as from the distribution of the profit surplus over the dividend paid.

28.3. Other capital reserves

There are no other capital reserves.

28.4. Revaluation reserve

The Company has created a revaluation reserve as a result of the recognition of investments in equity instruments as measured at fair value through other comprehensive income. Within this item, the Company recognises changes in the fair value of Mabion S.A. shares relative to the Mabion S.A. listing price on the Warsaw Stock Exchange.

28.5. Undistributed profit/(loss) and restrictions regarding divident payment

Pursuant to the requirements of the Commercial Companies Code, the Company is required to create reserve capital to cover losses. At least 8% of the profit for a given financial year, as shown in the Company's financial statements, is transferred to this category of capital reserve until it has reached at least one-third of the share capital. The use of supplementary and reserve capital is decided by the General Meeting of Shareholders; however, a portion of the reserve capital equal to one-third of the share capital may only be used to cover the loss shown in the financial statements and is not distributable for other purposes.

As at 31 December 2019, there are no other restrictions regarding the payment of dividends.

29. Current liabilities

	Effective interest rate %	31 December 2020	31 December 2019	31 December 2018	1 January 2018
Current liabilities		**16 323**	**2 036**	**1 484**	**2 090**
Leases	5%	3 485	2 036	1 484	2 090
Current account overdraft	2,42%	12 838	0	0	0
Non-current liabilities		**9 158**	**2 589**	**4 164**	**5 203**
Leases	5%	9 158	2 589	4 164	5 203

As at 31 December 2020, the Company has a revolving one-year credit line in the form of an overdraft facility. The agreement for this service was signed in June 2020. The credit facility bears a variable interest rate of 2.42% per annum as at 31 December 2020.

(in thousands of PLN)

30. Accrued amounts and deferred income from government grants

Accrued amounts and deferred income from government grants	31 December 2020	31 December 2019	31 December 2018	1 January 2018
- non-current	**39 672**	**32 775**	**27 494**	**23 416**
- for equipment	39 672	32 775	27 494	23 416
- current	**45 775**	**23 737**	**21 793**	**15 709**
- advances received for development projects	42 666	20 628	18 684	12 600
- funds received for equipment	3 109	3 109	3 109	3 109
Total	**85 447**	**56 512**	**49 287**	**39 125**

31. Provisions

PROVISIONS	31 December 2020	31 December 2019	31 December 2018	1 January 2018
a) opening balance	200	650	0	0
b) increase (on)	0	0	650	0
c) decrease	0	450	0	0
- release	0	450	0	0
- utilisation	200	0	0	0
d) closing balance	0	200	650	0

MOVEMENTS IN PROVISIONS	31 December 2020	31 December 2019	31 December 2018	1 January 2018
a) stan na początek okresu	0	550	550	550
- rezerwa na koszty prawne	0	550	550	550
b) zwiększenia	0	0	0	0
c) wykorzystanie (z tytułu)	0	550	0	0
- rezerwa na koszty prawne	0	550	0	0
d) rozwiązanie (z tytułu)	0	0	0	0
e) stan na koniec okresu	0	0	550	550

32. Trade payables, other liabilities and accruals

32.1. Trade payables, other liabilities and accruals

	31 December 2020	31 December 2019	31 December 2018	1 January 2018
Trade payables	20 480	9 309	9 437	6 955
- of which accrued expenses	2 063	1 944	432	1 028
Lease liabilities	12 643	4 625	5 648	7 293
Investing liabilities	25 633	9 221	3 523	4 194
Other liabilities	24 380	0	0	0
Loans and borrowings expense	12 838	0	0	0
Employee benefit liabilities	4 709	1 659	1 400	1 396
- of which liabilities for unused annual leave	2 302	1 493	1 213	991
Other non-financial liabilities (resulting from statutory and legal settlements)	1 226	959	644	735
Income tax expense	0	0	0	984
Total	**101 908**	**25 773**	**20 652**	**21 557**
- current	68 370	23 184	16 488	16 355
- non-current	33 538	2 589	4 164	5 203

The remaining liabilities of PLN 24 380 thousand and PLN 5 133 thousand, respectively, shown under investing liabilities, as at 31 December 2020, relate to the annual payments to be made by the end of September 2025 for the acquisition in 2020 of licences recognised within intangible assets.

33. Contingent liabilities

33.1. Litigation

As at 31 December 2019 the Company was involved in three court cases in Poland filed by companies in the GlaxoSmithKline group (hereinafter: GSK):

1) case filed and proceeded before the Regional Court in Warsaw, XXVI Commercial Division, under reference number XXVI GC 394/13;

2) case filed and proceeded before the Regional Court of Warsaw, XXII Division of EU Trademarks and Community Designs, under reference number XXII GWzt 77/15;

3) case filed and proceeded before the Regional Court in Warsaw, XX Commercial Division, under reference number XX GC 889/19.

As refers to the first action, GSK requested that the Company be ordered to cease manufacturing, marketing, storing, offering and advertising of inhalation medicines contained in an inhaler similar to the Plaintiffs' inhaler, and demanded that the inhalers be destroyed together with information, advertising and promotional materials.

As refers to the second action, GSK sought an order that the Company cease and desist from manufacturing, marketing, including exporting, importing, storing, offering and advertising of inhalation medicines used in the treatment of asthma and Chronic Obstructive Pulmonary Disease (COPD) in an inhaler that allegedly uses a confusingly similar in colour and shape to the Plaintiffs' inhaler.

As refers to the third action, GSK claimed infringement of their proprietary copyright and of the principles of fair competition.

In all of the above cases, the Company contested the alleged infringements, and subsequently requested that the action be dismissed in its entirety, on the basis that the Plaintiffs' intention was to unjustifiably extend the protection provided by the industrial property law, which had enabled them to maintain a significant share of the market.

On 12 January 2020, following tripartite discussions between GSK, Glenmark Group ("Glenmark") and the Company (hereinafter collectively, "the Parties"), the Parties reached a settlement agreement. As a result of the settlement, the Parties were obliged to withdraw from the numerous legal proceedings involving the pharmaceutical drug Salmex marketed in Poland and in European markets, which were covered by the distribution agreement between CELON Pharma S.A. and Glenmark Pharmaceuticals Europe Limited, and which was valid for the Czech Republic, Denmark, Finland, Germany, Iceland, Ireland, Italy, Luxembourg, Malta, Gibraltar, the Netherlands, Norway, Romania, Slovakia, Sweden and the United Kingdom.

As refers to Salmex, the Settlement stipulations state that both the Company and Glenmark are allowed to sell the medicine Salmex, contained in a packaging bilaterally agreed upon, in Poland and on certain selected European markets, at no risk of infringing intellectual property rights.

In conclusion, it should be assumed that, in the opinion of the Management Board, the Company's activities on foreign markets are conducted in full compliance and respect of the relevant competition rules, and the Company's business model does not infringe third-party rights.

As at 31 December 2020, 31 December 2019 and 31 December 2018, respectively, there were no material proceedings, other than those presented above, pending before a court or another authority competent for arbitration proceedings or a public administration body, which would involve the Company's liabilities or debt claims.

33.2. Tax settlement

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

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

(in thousands of PLN)

33.3. Purchase commitments and other future commitments

As at 31 December 2020, the Company's commitments to incur future expenditures on property, plant and equipment amounted to PLN 15 000 thousand.

As at 31 December 2019, the Company's commitments to incur future expenditures on property, plant and equipment amounted to PLN 10 181 thousand.

As at 31 December 2018, the Company's commitments to incur future expenditures on property, plant and equipment amounted to PLN 4 166 thousand.

34. Information on related entites

34.1. Significant shareholding entity

At 31 December 2020, Glatton Ltd. is the owner of 66.67% of the shares (as at 31 December 2019 and 31 December 2018: 75.01%).

As at 31 December 2020, 31 December 2019 and 31 December 2018, there were no transactions not conducted at arm's length. In addition, none of the Company's relationships with the joint operations are strategic to the Company.

34.2. The associate

Non applicable.

34.3. The joint venture in which the Company is a partner

Non applicable.

34.4. Joint ventures

Non applicable.

34.5. Terms and conditions of related entity transactions

NAME	31.12.2020	31.12.2019	31.12.2018
1. ADR Sp. z o.o.			
- loans granted	0	0	0
- receipts	0	0	0
-liabilities	0	0	0
- sale	0	0	0
- purchase	0	0	0
2. Glatton Sp. z o. o			
- loans granted	350	5 550	0
- receipts	0	0	0
-liabilities	0	0	0
- sale	0	0	0
- purchase	0	0	0
3. Neitec Sp. z o. o			
- loans granted	0	0	0
- receipts	31	29	22
-liabilities	0	0	0
- sale	0	0	0
- purchase	40	60	0

(in thousands of PLN)

NAME	31.12.2020	31.12.2019	31.12.2018
1. Urszula Wieczorek			
- loans granted	0	0	0
- receipts	0	0	0
-liabilities	216	324	432
- sale	0	0	0
- lease	108	108	108

Throughout the years 2018-2020, the Company did not enter into transactions with related parties on terms other than arm's length.

Loans were granted and repaid during the financial year and are not presented in profit or loss as at 31.12.2020 and 31.12.2019.

34.6. Loan to a Board member

Non applicable.

34.7. Other transactions involving members of the Management Board

Non applicable.

34.8. Remuneration of the Company's Management

34.8.1 Remuneration paid or payable to members of the Management Board and members of the Supervisory Board of the Company

	2020	2019	2018
The Board (employment contract and managerial contract)	846	573	538
The Board - B2B contracts	441	0	0
Supervisory Board for performance	174	30	30
Other Supervisory Board remuneration	247	244	234

Mr Maciej Wieczorek is the sole shareholder of Glatton Ltd (majority shareholder and parent company of the Company). In 2019, Glatton Ltd received PLN 7,200,847.44 from the dividend paid out by Celon Pharma S.A. from the Company's profit for 2018.

On 10 July 2015, the Extraordinary General Meeting of the Company adopted a resolution to grant the Supervisory Board Members remuneration for their function in the amount of PLN 1,200 gross per meeting, regardless of their function. In 2019, 5 meetings were held.

In 2019 and 2018, Supervisory Board Members were also rewarded for reasons other than their Supervisory Board performance.

In 2019 and 2018, the members of the Supervisory Board did not receive awards or benefits, including those arising from the Company's equity-based incentive or bonus schemes. The members of the Supervisory Board did not hold positions in the authorities of subordinated entities.

35. The objectives and principles of the Company's financial risk management

In the course of running business, the Company is exposed to various financial risks: currency risk, interest rate risk, price risk, credit risk and liquidity risk. The Board of Directors reviews and establishes policies for managing each of the aforementioned risks.

Foreign exchange risk related to changes in exchange rates

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

(in thousands of PLN)

Interest rate risk

Interest rate risk arises primarily from the Company's cash and borrowings, which are based on floating interest rates, which, in turn, may expose the Company to the risk of changes in cash flows resulting from rising interest rates. The Company monitors market conditions and interest rate levels on an ongoing basis.

Price risk and risk associated with medicine reimbursement policies

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

Credit risk

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

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

Liquidity risk

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

The Company's research, development and implementation projects have been and currently are co-financed by domestic and Community public funds, such as the Innovative Economy Operational Programme as well as programmes implemented and managed by the NCRD. As regards projects in progress, the Company makes every effort to ensure that they are carried out in accordance with the terms and conditions stipulated in the funding agreements, in particular to the extent arising from the material and financial schedules. To the best of the Company's knowledge, there are no circumstances which could result in an obligation to return the aid received for the implementation of projects carried out with public funds. However, the risk resulting from the powers of relevant national and Community authorities and institutions to control the Company in terms of ensuring the correctness of project implementation, as well as the project objectives realisation and utilisation of the granted funds or their part, cannot be discounted. Investors should consider that a possible order for repayment in whole or in part could act detrimentally on the Company's business, financial performance or its future.

31 December 2020

	Liabilities due in the period:				
	within 3 months	from 3 to 12 months	from 1 to 3 years	over 3 years	Total
Trade payables	20 480	-	-	-	20 480
Bank loans	-	12 838	-	-	12 838
Leases	551	2 934	8 202	956	12 643
Investing liabilities	20 500	5 133	-	-	25 633
Other liabilities	-	-	11 549	12 831	24 380
Total	**41 531**	**20 905**	**19 751**	**13 787**	**95 974**

(in thousands of PLN)

31 December 2019

	Liabilities due in the period:				
	within 3 months	from 3 to 12 months	from 1 to 3 years	over 3 years	Total
Trade payables	9 309	-	-	-	9 309
Leases	364	1 672	1 734	855	4 625
Investing liabilities	9 221	-	-	-	9 221
Total	**18 894**	**1 672**	**1 734**	**855**	**23 155**

31 December 2018

	Liabilities due in the period:				
	within 3 months	from 3 to 12 months	from 1 to 3 years	over 3 years	Total
Trade payables	9 437	-	-	-	9 437
Leases	301	1 183	2 812	1 315	5 648
Investing liabilities	3 523	-	-	-	3 523
Total	**13 261**	**1 183**	**2 812**	**1 315**	**18 608**

1 January 2018

	Liabilities due in the period:				
	within 3 months	from 3 to 12 months	from 1 to 3 years	over 3 years	Total
Trade payables	6 955	-	-	-	6 955
Leases	521	1 569	3 190	2 014	7 293
Investing liabilities	4 194	-	-	-	4 194
Total	**11 670**	**1 569**	**3 190**	**2 014**	**18 442**

36. Fair value measurement of the Company's assets and liabilities

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as at 31 December 2020.

	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*
Assets measured at fair value:	31.12.2020			
Quoted debt instruments				
Non-listed equity instruments				
Quoted equity instruments		12 872		
Other financial assets			13	
Cash and cash equivalents			43 978	
Financial assets for which fair value is disclosed:				
Trade receivables and other receipts			32 528	
Loans granted				
Financial liabilities measured at fair value				
Financial liabilities for which fair value is disclosed:				
Trade payables			20 480	
Interest-bearing loans and borrowings, of which:			12 838	

(in thousands of PLN)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as at 31 December 2019.

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:	31.12.2019			
Quoted debt instruments				
Non-listed equity instruments				763
Quoted equity instruments		47 767		
Other financial assets			45 436	
Cash and cash equivalents			21 256	
Financial assets for which fair value is disclosed:				
Trade receivables and other receipts			39 177	
Loans granted				
Financial liabilities measured at fair value				
Financial liabilities for which fair value is disclosed:				
Trade payables			9 309	
Interest-bearing loans and borrowings, of which:				

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as at 31 December 2018:

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:	31.12.2018			
Quoted debt instruments				
Non-listed equity instruments				753
Quoted equity instruments		53 723		
Other financial assets		47 886		
Cash and cash equivalents			100 112	
Financial assets for which fair value is disclosed:				
Trade receivables and other receipts			31 691	
Loans granted				
Financial liabilities measured at fair value				
Financial liabilities for which fair value is disclosed:				
Trade payables			9 437	
Interest-bearing loans and borrowings, of which:				

(in thousands of PLN)

Poniższa tabela przedstawia poszczególne klasy aktywów i zobowiązań w podziale na poziomy hierarchii wartości godziwej, na dzień 1 stycznia 2018 roku:

	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*
Assets measured at fair value:	01.01.2018			
Quoted debt instruments				
Non-listed equity instruments				753
Quoted equity instruments		69 976		
Other financial assets		102 583		
Cash and cash equivalents			98 772	
Financial assets for which fair value is disclosed:				
Trade receivables and other receipts			30 836	
Loans granted				
Financial liabilities measured at fair value				
Financial liabilities for which fair value is disclosed:				
Trade payables			6 955	
Interest-bearing loans and borrowings, of which:				

37. Financial instruments

The Company has classified financial instruments (financial assets and financial liabilities) as:

1) Held for trading,

2) Held to maturity, and

3) Available for sale.

The Company has classified the following as financial assets and liabilities held for trading:

1) Lease liabilities

2) Liabilities on loans and borrowings as well as trade liabilities.

37.1. Fair value of financial instrument categories

The book value of the financial instruments held by the Company generally approximates fair value.

In accordance with IFRS 7.20A, the Company discloses an analysis of profit or loss in the statement of comprehensive income which arises from ceasing to recognise financial assets measured at amortised cost, and which is shown separately as profit or loss, which results from ceasing to recognise those financial assets. Therefore such disclosure is unnecessary.

38. Capital management

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

The Company manages its capital structure and makes adjustments in light of changes in economic conditions.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

There were no changes to the objectives, policies and processes in place during the financial years ended 31 December 2019 and 31 December 2018.

(in thousands of PLN)

The Company monitors its capital position using the leverage ratio, which is calculated as net debt divided by total capital plus net debt.

39. Employment structure

As at 31 December 2019, 440 persons were employed by the Company. Information about the average employment in the Company (by professional group) in 2019 by nominal number of employees is presented in the following table:

INFORMATION ON EMPLOYMENT, FULL-TIME POSITIONS	2020	2019	2018
Management	1	2	2
Salaried staff	363	324	254
Manual labour staff	103	114	41
Total employees	**467**	**440**	**297**

The basis for employment of persons performing work for the Company is an employment contract. Employment based on specific project contracts and contracts for specific work is a form of employment used by the Company in cases of increased demand for specialist services in regard with specific projects.

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

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

The Company'sManagement Board's Member, Iwona Giedronowicz , is employed by the Company under an employment contract.

40. The effects of the COVID-19 epidemic

Risks related to the SARS-COV-2 epidemiological situation

The financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. The Company's Management Board is not aware of any circumstances indicating a threat to the Company's going concern.

The pandemic which has been in existence for over a year is such a significant event in the operations of any entity that even if, in the judgement of the head of the entity, it has not had a material impact on the entity, nor will its impact be likely to be material in the future, it is reasonable, for the sake of transparency, to assess the risks it has generated.

In the Company's core business, no risks are foreseen to interfere with its activity. There is no risk to its operations although there may be a need to increase the number of employees, especially in the production departments. We have observed sickness leave occurrence higher than usual and, consequently, the efforts to better manage the production process and employees have been intensified.

As at the date of this report, there have been no events that would affect the need to make an adjustment to the Company's accounts in the financial year ended 31 December 2020.

In May 2020, the Company's management signed an agreement with the Company's servicing bank for an overdraft facility, which provides liquidity in the current situation. The Company has decided not to take advantage of any form of state support under the so-called "crisis shield" measures.

Making a conservative valuation of non-current and current assets of the Company, it has been decided not to make any write-downs. Additionally, there is no need to take into account any unused production capacity in the valuation of the finished product.

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

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

Employees, where possible and appropriate, have been enabled to use work-from-home solutions. Each Company's premises have been equipped with additional stands with personal disinfection materials while the employees who are the first line of contact with the public have been additionally trained. As regards the marketing and promotion of medicinal products, the burden of operational activities was appropriately redirected from inaccessible medical outlets to pharmacies and pharmacy chains, thus satisfying the need to ensure the continuity of activities aimed at effective marketing of manufactured medicinal products, and simultaneously ensuring safe working conditions for the employees. The scope of activities was uniquely supported by marketing tools using modern communication technologies while maintaining the ability to measure the activity of representatives.

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

In the Board's assessment, the impact of the COVID19 epidemiological effect on the risk in raw materials provision is considered:

- marginal (provided that the supply restrictions last no longer than 3 months) while being neutral to the Company's current operations, with no financial consequences,
- minor, (provided that supply restrictions last no longer than 3-6 months) with no significant impact on the Company's current operations, while minor distribution problems might occur within individual weeks, with no financial consequences
- medium, (provided that supply restrictions last no longer than 6 months) with some possible impact on future operations in the area of work planning and a possible delay of orders within settled months, with no financial consequences,
- significant, (provided that supply restrictions last no longer than 12 months) possible future product shortages and disruption of work planning as well and ensuring interrupted sales order execution within quarters, with certain financial consequences resulting from later dates of receivables but with no impact on the Company's liquidity.

In addition to this general risk assessment, it should be emphasised that, as of today, the key components for the Company's most important products, that is Salmex and Ketrel, which are responsible for about 80% of the Company's sales, are secured for a period of about over 9 months.

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

41. Events after the reporting period

The NCRD's recommendation for funding of a project on the development of a therapeutic medicine based on GPR40 receptor agonism in the treatment of neuropathic pain

On 18 January 2021 (which makes it an event after the balance sheet date), the National Centre for Research and Development recommended for funding the project: 'Development and implementation of an innovative therapeutic based on GPR40 receptor agonism in the treatment of neuropathic pain (GRAPPA) for clinical trials and the Company's own activities", which the Company had submitted to the competition under the Operational Programme of Intelligent Development 2014-2020 section 1.1, sub-section 1.1.1.

The total cost of the project had been established at approximately PLN 42.3 million; the recommended amount of funding is PLN 22.2 million.

Chronic pain conditions tend to increasingly accompany common civilisation diseases and physical injuries. Recent scientific findings have confirmed that the GPR40 agonism is crucial in modifying inflammatory and neuropathic pain. The ultimate goal of this project is to evaluate a drug candidate, in Phase II clinical trials, for the treatment of neuropathic pain. The compound CPL207208 is a specific GPR40 receptor agonist. The compound is being developed by the Company for the treatment of type II diabetes and diabetic neuropathies and has successfully completed Phase I clinical trials. The final funding amount for the project may be subject to change. The Company informed about the above event in current report no. 2/2021, dated 18 January 2021.

Patent obtained for GPR40 receptor agonists and their use in the treatment of type II diabetes in the US

On 18 January 2021 (a post balance sheet event) the Company was informed that it had been granted a patent covering GPR40 receptor agonists and their use in the treatment of type II diabetes in the USA. The patent was granted by the United States Patent and Trademark Office and guarantees full legal protection of the compounds covered by the patent and their use in the treatment of the aforementioned diseases in the United States.
The Company is developing GPR40 (CPL'280) for the treatment of Type II diabetes and diabetic neuropathies and the compound has successfully undergone Phase I clinical trials. The patent protection contributes to lowering the risk involved in the project and increases the value of the potential commercialisation of the Company's products in the areas of interest covered by the patent protection. The Company reported on the above event in current report No. 3/2021, dated 18 January 2021.

NCRD's recommendation for funding of the project on an inhaled drug candidate for the treatment of inflammatory and fibrotic lung diseases, including COVID-19 complications

On 10 February 2021. (post balance sheet event) the Company was informed that its application for funding of a project "In vivo validation, toxicological development and implementation into clinical trials and the Company's own activities of an inhalation drug candidate for the treatment of inflammatory and fibrotic lung diseases including COVID-19 complications", submitted to the competition under the Operational Programme of Intelligent Development 2014-2020 section 1.1, sub-section 1.1.1, was recommended by the National Centre for Research and Development to be co-financed.

The total cost of the project had been established at approximately PLN 46.9 million and the recommended amount of co-financing is PLN 27.2 million.

The objective of the project is to provide non-clinical and clinical confirmation of the efficacy and safety of compound CPL116, a novel JAK/ROCK kinase inhibitor developed by the Company for inhalation administration in the indications of asthma, chronic obstructive pulmonary disease (COPD) and idiopathic pulmonary fibrosis (IPF). Chronic inflammatory and fibrotic respiratory diseases affect millions of people worldwide. Inhalation administration is expected to reduce the dose and the occurrence of side effects. The scope of work under the project includes the development of an Active Pharmaceutical Ingredient (API) in GMP standard (Good Manufacturing Practice) and conducting preclinical studies to confirm the efficacy and pharmacokinetic profile of the drug after inhalation administration. In the subsequent stages, the Company is planning to develop a formulation using a modern dry powder inhaler (DPI) and conduct toxicological studies in inhalation administration of the compound. The final stage of work will cover the evaluation of the inhalation drug within the framework of Phase I and II clinical trials. The final amount of the project funding may be subject to change. The Company informed about the above event in current report No. 7/2021, dated 10 February 2021.

An agreement on the termination of collaboration with an existing partner for development, manufacturing and commercialisation of an inhalation drug in the US

On 2 March 2021 (an event after the balance sheet date), the Company signed an agreement with Lupin Atlantis Holdings S.A. (hereinafter: "Lupin") regarding the termination of the cooperation previously carried out under the agreement dated 4 February 2015 on cooperation in the development, production and commercialisation of an inhalation drug containing a combination of salmeterol and fluticasone for the markets of the USA and Australia, Canada, Mexico and South Africa (the "License and Development Agreement", the "Agreement").

The Agreement provided for Lupin to undertake all the necessary steps to obtain the approval by the US Food and Drug Administration (FDA) for the product licensed in the US and to conduct the entire registration process as well as to communicate with the FDA and bear the responsibility for completing all post-registration requirements in the licensed territory. In connection with the Agreement, the Company also had a supply agreement with Lupin under which the Company was required to supply Lupin with a pharmaceutical product approved for marketing in the US by the FDA as well as in Australia, Canada, Mexico and South Africa. The termination of the above-mentioned agreements does not entail any claims against the Company, and at the same time it enables the Company to start searching for new partners to cooperate in the above-mentioned markets. The Company informed about the above event in current report No. 12/2021, dated 2 March 2021.

Licence agreement with Glenmark Pharmaceuticals Ltd.

On 2 March 2021, the Company entered into a licence agreement with Glenmark Pharmaceuticals Ltd. of India ("Glenmark") to collaborate in the process of registration, sale and distribution of a product that is a combination of fluticasone and salmeterol in a dry powder inhaler (sold in Poland under the name Salmex) in the following markets: Saudi Arabia, The United Arab Emirates, Kuwait, Qatar, Bahrain, Oman, Libya, Algeria, Morocco, Iraq, South Africa, Mexico, Peru, Ecuador, Argentina, The Caribbean Islands, The Philippines, Malaysia, Thailand, Singapore and Hong Kong.

The agreement is for a period of 10 years from the date sales commence in each respective market, with the possibility of extension. The agreement gives Glenmark the exclusive right to sell the product in the above markets while it grants to the Company the exclusive right to manufacture the product for sale in the above markets.

The Company also has a licence agreement for the above-mentioned product with Glenmark Pharmaceuticals Europe Ltd. based in the UK, with respect to 15 European countries. The Company informed about the above-mentioned event in current report No. 13/2021, dated March 2, 2021 (subject to correction of the content of the report dated 3 March 2021).

Share capital increase

On February 16, 2021, following a prior recommendation of the Management Board, the Extraordinary General Meeting adopted a resolution to amend the Company's Articles of Association.

The EGM authorized the Management Board of the Company to increase the share capital by issuing new shares with a total nominal value of up to PLN 1,500,000.

A resolution was also adopted on the issue, in order to implement Incentive Programs for Members of the Management Board and other persons of key importance for the Company, series A subscription warrants depriving the existing shareholders' pre-emptive rights, entitling them to take up series C shares and a conditional increase in the share capital by issuing series C shares depriving the existing shareholders of the subscription right and the related amendment to the Company's Articles of Association.

All details of the adopted resolutions were published by the Company in the current report no. 9/2021.

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