Mabion S.A.

Financial statements for the financial year ended 31 December 2019

Konstantynów Łódzki, 8 April 2020.

STATEMENT OF COMPREHENSIVE INCOME

in PLN thousand, unless otherwise indicated	Note	2019	2018
Income from research and development services		-	-
Cost of services sold		-	-
Gross profit on sales		**-**	**-**
Research and development costs	8, 9	(40 710)	(44 931)
General administration costs	8	(24 207)	(21 005)
Other operating income	10	2 155	2 062
Other operating costs	10	(510)	(751)
Operating loss		**(63 272)**	**(64 625)**
Financial income	11	647	915
Financial costs	11	(1 113)	(5 160)
Gross loss		**(63 738)**	**(68 870)**
Income tax	12	-	-
NET LOSS		**(63 738)**	**(68 870)**
Other comprehensive income		**-**	**-**
TOTAL COMPREHENSIVE INCOME		**(63 738)**	**(68 870)**
Basic and diluted loss per share (in PLN per share)	**25**	**(4.64)**	**(5.26)**

The explanatory notes presented on pages 5 to 45 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

in PLN thousand	Note	31 December 2019	31 December 2018
Intangible fixed assets	13	1 448	748
Property, plant and equipment	13	71 688	71 697
Long-term receivables		110	110
Total fixed assets		**73 246**	**72 555**
Inventories	14	8 806	10 298
Trade and other receivables	15	2 841	2 606
Prepayments and accrued income		682	840
Cash and cash equivalents	16	27 970	58 418
Total current assets		**40 299**	**72 162**
TOTAL ASSETS		**113 545**	**144 717**
Share capital		1 372	1 372
Issued but unregistered share capital		1	-
Share premium		108 923	108 923
Other reserves		732	714
Accumulated losses		(132 608)	(68 870)
Total equity	**17**	**(21 580)**	**42 139**
Deferred income	18	44 728	32 656
Loans and borrowings	20	580	1 386
Finance lease	21	3 435	2 027
Total long-term liabilities		**48 743**	**36 069**
Repayable advances on distribution rights	19	44 381	43 969
Trade and other liabilities	22	20 908	16 770
Loans and borrowings	20	15 810	900
Deferred income	18	3 168	3 546
Finance lease	21	2 115	1 324
Total short-term liabilities		**86 382**	**66 509**
TOTAL LIABILITIES		**135 125**	**102 578**
TOTAL LIABILITIES AND EQUITY		**113 545**	**144 717**

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CASH FLOW STATEMENT

in PLN thousand	Note	2019	2018
Gross loss		**(63 738)**	**(68 870)**
Adjustments for items:			
Depreciation and amortisation	13	11 110	10 662
Interest income	11	(582)	(915)
Interest costs	11	751	1 923
Income from grants	18	(2 029)	(1 994)
Sales of fixed assets	10	13	-
Costs of the share-based incentive scheme	17	18	714
Change in assets and liabilities:			
Change in inventories		1 492	(3 139)
Change in trade and other receivables		(223)	(812)
Change in prepayments and accrued income		158	(711)
Change in trade and other liabilities		5 486	(4 496)
Change in deferred income		-	14 007
Change in repayable advances on distribution rights		412	(11 001)
Cash flows from operating activities		**(47 132)**	**(64 631)**
Proceeds from grants		13 742	8 775
Repayment of research and development grants	18	(169)	(228)
Repayable advances received on distribution rights	19	-	18 535
Interest received		570	770
Interest paid		(766)	(2 158)
Net cash flows from operating activities		**(33 755)**	**(38 938)**
Disposal of property, plant and equipment		54	
Acquisition of property, plant and equipment and intangible assets	13	(9 213)	(6 851)
(Increase)/decrease in other fixed assets		-	84
Net cash flows from investing activities		**(9 159)**	**(6 767)**
Proceeds from the issue of shares	17	1	174 790
Share issue costs	17	-	(10 337)
Proceeds from borrowings	20, 24	-	178 158
Proceeds from bank loans	20	15 000	15 000
Repayment of borrowings	20, 24	(882)	(178 404)
Repayment of bank loans	20	-	(75 000)
Repayment of finance lease principal		(1 653)	(1 121)
Net cash flows from financing activities		**12 466**	**103 086**
Net increase/(decrease) in cash and cash equivalents		(30 448)	57 380
Cash and cash equivalents – opening balance		**58 418**	**1 038**
Change in cash due to exchange rate differences		-	-
Cash and cash equivalents – closing balance		**27 970**	**58 418**

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STATEMENT OF CHANGES IN EQUITY

in PLN thousand	Note	Share capital	Issued but unregistered share capital	Share premium	Other reserves	Cumulative Losses	Total equity
As at 31 December 2018	17	1 180	-	2 549	-	(57 887)	(54 158)
Net loss / total comprehensive income		0	0	0	0	(68 870)	(68 870)
Transactions with shareholders:							
Coverage of net loss for the previous financial year	17	0	0	(57 887)	0	57 887	0
P series share issue	17	192	0	174 598	0	0	174 790
Costs of P series share issue	17	0	0	(10 337)	0	0	(10 337)
Issue of warrants under the share-based incentive scheme	17	0	0	0	714	0	714
As at 31 December 2018		1 372	0	108 923	714	(68 870)	42 139
Net loss / total comprehensive income		0	0	0	0	(63 738)	(63 738)
Transactions with shareholders:							
S series share issue	17	0	1	0	0	0	1
Measurement of the share-based incentive scheme	17	0	0	0	18	0	18
As at 31 December 2019		1 372	1	108 923	732	(132 608)	(21 580)

The explanatory notes presented on pages 5 to 45 are an integral part of these financial statements.

ADDITIONAL INFORMATION

1. Company

Mabion S.A. ("Mabion" or "Company") was established on 30 May 2007 as a limited liability company. The legal form of the Company changed on 29 October 2009 as a result of the transformation of the limited liability company into a joint-stock company established in accordance with the law of the Republic of Poland. Currently, Mabion is entered on the Register of Entrepreneurs of the National Court Register kept by the District Court for Łódź Śródmieście in Łódź, 20th Commercial Department of the National Court Register under KRS number 0000340462. The Company was assigned tax identification number NIP 7752561383 and statistical identification number REGON 100343056. The Company's registered office is Konstantynów Łódzki.

The Company's shares are listed on the Warsaw Stock Exchange.

Mabion is a biotechnology company developing and introducing biotech drugs based on the monoclonal antibody technology which today is the foundation of the fight against the most serious diseases thanks to its two unique features – specificity and safety. The drugs developed by the Company are targeted therapies, characterised by the ability to recognise the factor causing the disease and affect only it. Appropriate engineering of the structure of our drugs makes them resemble a particle of the patient's body and there is a significantly reduced risk that the immune system will treat the antibody as a foreign protein. Unlike chemical therapies or therapies based on proteins isolated from animal tissues, this guarantees very low toxicity and is an extremely important benefit for the patient. As a result, the Company creates biosimilar versions of biological drugs (as opposed to drugs based on chemical substances), focusing on those drugs which are accepted in the current market and which are reasonably close to the expiry of patent protection.

2. Basis of preparation

The financial statements of Mabion S.A. for the financial year ended 31 December 2019 have been drawn up in accordance with the International Financial Reporting Standards approved by the European Union ("IFRS") as at the reporting date.

The most important accounting policies that have been applied in these financial statements are presented in Note 4. The same policies were applied in each financial year, unless explicitly stated otherwise. The impact of new or amended standards and interpretations that have been issued but not yet approved and those that are effective as of 1 January 2019 is presented in Note 5.

The financial statements of Mabion S.A. have been prepared in accordance with the going concern principle (further information on the assumptions concerning the Company's ability to continue operations is provided in Note 3).

The financial statements have been drawn up in accordance with the historical cost principle.

Preparing the financial statements in accordance with IFRS requires using certain estimates which are significant from the accounting point of view. It also requires the management to make a subjective judgment on the application of the accounting principles adopted by the Company. Significant accounting estimates and judgments of the management are presented in Note 6.

The separate annual financial statements of Mabion S.A. include:

» statement of financial position as at 31 December 2019and the following statements for the financial year from 1 January to 31 December 2019:

» statement of comprehensive income;

» statement of changes in equity;

» cash flow statement;

» additional information containing a description of the adopted accounting principles and other explanatory information, including the statement of the President of the Management Board dated 8.04.2020 on the impossibility of obtaining an electronic signature.

3. Going concern principle

Since its establishment, the Company has focused on conducting research and development activities in order to develop and commercially market its products. As a result, the Company is incurring operating losses and is generating negative cash flows from operations. As at 31 December 2019, the Company generated a cumulative loss which resulted in negative equity. On 29 November 2019, the Extraordinary General Meeting of the Company adopted Resolution No. 4/XI/2019 concerning confirmation of further existence of the Company in connection with the circumstances provided for in Article 397 of the Code of Commercial Companies.

It is expected that this situation will reoccur in the foreseeable future. So far, the Company has financed its operating activities with funds received as part of shareholders' borrowings, capital issues, bank loans, grants, and proceeds from distribution partners.

As presented in Note 19, the Company's key distribution partner is Mylan Ireland Limited (hereinafter "Mylan"), the agreement with whom was signed on 8 November 2016. As a strategic partner, Mylan has agreed that, in return for the funds provided and strategic development support, it will receive distribution rights in Europe for the contracted countries after approval of the drug. During the reporting period and prior periods, the Company pursued a strategy of registering its product in the European Union and the European Economic Area at the European Medicines Agency (EMA) with the support of Mylan, on the basis of small batch production. In March 2020, based on the opinions of external consultants and recommendations of the Supervisory Board, and taking into account previous interactions with the EMA, the Company decided to change its registration strategy and to abandon the process of registration of a small scale (2x250L) drug. It was decided to proceed directly to the registration of the drug produced as part of a large-scale manufacturing process (2x2500L), which has its justification in terms of profitability of commercialization of MabionCD20. The result of this change is an expected delay in the possibility of registering the drug, which is also related to the impossibility of receiving, in the short term, the expected next payment from the distribution partner conditional on this event. The existing agreement with the distribution partner also provides for a possibility of termination after 2020 if the drug has not been registered by that time. Should MabionCD20 not be registered until 31 December 2020, Mylan will be entitled to terminate the agreement and in result, to demand the Company to return most of the advances presented in Note 19. In such a case, the Company will have to find a new distribution partner (or partners). The change in the registration strategy will also require the Company to provide additional funding for current liabilities and costs necessary to implement the updated strategy in the long term. The Company is planning to conduct a scientific advice procedure with the regulator in the near future to reduce the regulatory risk for subsequent registration applications. The knowledge gained in the current registration process will also be helpful and enable the Company to optimise future activities in this area. However, the process is longer than originally expected and goes beyond the current period provided for in the applicable agreement with Mylan. The Company, having changed its registration strategy, is maintaining direct contacts with the distribution partner and is taking steps to continue the existing agreement and to amend the relevant terms and conditions accordingly.

As at the balance -sheet date, the Company has funds at its disposal of PLN 30 million under the loan granted by Santander Bank Polska S.A. (formerly: Bank Zachodni WBK S.A., see also Note 20a). As at the balance-sheet date, the Company used part of the loan from Santander Bank Polska S.A. in the amount of PLN 15 million. The remaining portion of funds of PLN 15 million is available and is subject to the fulfilment of conditions provided for in the agreement, in particular the consent of the regulator (EMA) for the registration of MabionCD20. According to the agreement in force, the deadline for its completion and loan

repayment is July 2020. The Company has taken steps to establish and change the conditions, including the extension of financing to subsequent reporting periods.

On 24 October 2019, the Company concluded a loan agreement amounting to PLN 30 million in total with the European Investment Bank ("EIB") to finance the implementation of investment and research and development projects, including the development of the Company's R&D infrastructure and production capacity, for a maximum period of 5 years from the date of disbursement of individual tranches. The detailed conditions for the disbursement of the individual tranches are set out in the agreement, according to which the release of tranche A is subject to the submission to the EIB, by 30 September 2020, of a copy of the scientific opinion issued by the European Medicines Agency (Committee for Medicinal Products for Human Use) containing the recommendation on the marketing authorisation of MabionCD20. As at the balance-sheet date and as at the date of publication of these statements, the loan was not disbursed. The Company has taken steps to adapt the applicable agreement to the Company's current strategy for registration of its key drug, MabionCD20, including the conditions for disbursement of individual tranches, as well as the schedule. As at the date of these statements, the loan has not been drawn.

As described above, the extension of the registration process for Mabion CD20 may affect the continuation of the Mylan agreement and will require additional funding. The Company's strategy is to continue to work with Mylan and to obtain or maintain the required funding. The extension of the registration process poses a risk that the cooperation with Mylan will not be continued, the company will not obtain other partners and will not leverage the required financing. These factors indicate that there is significant uncertainty that may cast doubt on the company's ability to continue as a going concern in the foreseeable future.

As at the date of publication of these statements, the Company has letters of support from key shareholders (Twiti Investments Limited, Glatton Sp. z o.o., Polfarmex S.A.) which confirm their willingness and ability to continue financial support for the current operations of the Company in the near future covering the period of at least the next 12 months from the date of signing the financial statements. The potential financial support of the shareholders will ensure that the Company will be able to continue to finance and continue its operations.

In addition, on 16 March 2020, the Company received supporting documents from the Company's main (founding) shareholders, in which the shareholders declared that they would inject capital into the Company in an amount not lower than PLN 15 million in 2020. The Company's recapitalisation, in accordance with the shareholders' declaration, will take place in 2020 in tranches in response to the Company's financial needs. The recapitalisation may take place by taking up new issue shares or using debt instruments.

The amendment of the terms and conditions of current debt financing agreements and further acquisition of financing available on the market, including exclusivity agreements with future distribution partners or the support declared on 16 March 2020 by shareholders (both strategic and stock market participants) should provide the Company with the financing necessary to complete the registration process and commercialize MabionCD20. The Company has also taken steps to acquire a distribution partner for the US market and other markets not covered by existing the agreements. Additional information on the current status of work on MabionCD20 is presented in Chapter 4.2 of the Directors' Report on the Company's operations in 2019.

The success of the Company depends, in particular, on the provision of funds necessary to finance its operations, and on its ability to register and commercialize medicines. These financial statements have been prepared in accordance with the going concern principle, which stipulates that the Company will continue to operate in the foreseeable future. Therefore, no adjustments have been made to the financial statements which might be necessary had the going concern principle not be adopted by the Company.

4. Key accounting principles

a) Functional and presentation currency

The functional currency of the Company is Polish zloty. The financial statements are presented in thousands of Polish zloty, rounded to the nearest whole thousand, unless indicated otherwise.

b) Transactions and balances in foreign currencies

Transactions expressed in foreign currencies have been presented as at the transaction date in PLN using the exchange rate applicable as at that date. Cash assets and liabilities in foreign currencies were translated into PLN at the end of the reporting period using the exchange rate for that date set by the National Bank of Poland ("NBP").

Foreign exchange gains and losses on the settlement of transactions in foreign currencies, as well as those resulting from the periodic conversion of cash assets and liabilities, are recognised in the financial result.

Foreign currency non-cash items measured at historical cost are translated into PLN using the exchange rate of the National Bank of Poland as at the transaction date.

c) Recognition of income

In the years covered by these financial statements, the Company did not recognise income on sales from core activities. In the previous years, the Company generated income from the research services, mainly concerning drug development procedures. The total remuneration resulting from such agreements is allocated to individual elements of the order, which are settled separately. Income is recognised in the period in which a given element of the agreement was performed; each element of the agreement is implemented over a certain period.

The Company does not recognise other sales income from core activities at the current stage of its operations.

d) Grants

The Company receives financial assistance for the development and production of medicines. The grants are received in the form of cash provided in return for meeting, in the past and in the future, certain conditions relating to the Company's operations. Income from grants is disclosed when the Company has sufficient certainty that it will be able to meet the conditions for using the grants and that it will receive them.

If the conditions are not met, cash received from government authorities is reported as deferred income unless the terms of the grant agreement provide for an obligation to return the grant in the event of the occurrence or non-occurrence of future uncertain events beyond the Company's control.

Typically, such grants are linked to audit requirements imposed by the intermediary bodies. The Company's experience shows that the intermediary bodies paying out the grants exercise audit rights. The Company generally defers the recognition of the received grant as income until all aspects of the audit requirements have been met.

The Company receives grants for the acquisition of property, plant and equipment and for research and development work.

Grants relating to research and development costs are recognised in other operating income on a systematic basis over the period for which the entity recognises the related expenses to be compensated by the grant as costs.

Grants relating to depreciable property, plant and equipment are initially accounted for as deferred income and then recognised in other operating income over the depreciation period of the assets.

A situation in which a grant becomes repayable results in a change of estimates, and the return is recognised immediately first in the undepreciated deferred income, if any, and then in the current period's financial result.

e) Research and development costs

The costs of research are recognised as a cost of the period in the financial result when incurred and no intangible asset is recognised as a result of research activities in accordance with IAS 38.

Costs related to a later development phase are also charged to the financial result when incurred, unless all conditions listed below are met, in which case the costs of development work are activated in intangible assets: (i) it is technically possible to complete the intangible asset so that it is capable of being used or sold; (ii) the entity intends to complete the intangible asset and use or sell it; (iii) the intangible asset will generate probable future economic benefits; (iv) it is ensured that technical, financial and other resources are available to complete the development work and use or sell the intangible asset; (v) it is possible to determine reliably the expenditures incurred during the development work that are attributable to the intangible asset.

The criterion of technical feasibility shall be deemed not to have been met until the Company obtains approval of the medicine by the competent regulatory authority.

f) Repayable advances on distribution rights

The Company has entered into a number of strategic agreements on the commercialisation of its drugs by granting the contractor the exclusive right to sell the drug on specific markets. The parties to these agreements make advance payments to the Company on account of rights and licenses to be obtained after the drug has been admitted to trading. The Company classifies these advances as financial liabilities because it does not have the unconditional right to avoid the delivery of cash to settle the liability, as the reimbursement of these amounts depends on the occurrence or non-occurrence of certain future events or the resolution of uncertain circumstances that are beyond the Company's control. Such liabilities are measured initially at fair value, and subsequently at amortised cost. As the event that may trigger a repayment may occur at any time, the amortised cost is equal to the amount payable on demand. When the uncertainty is resolved, the related amounts will be reclassified to deferred income and recognised as part of the remuneration for the sale of distribution rights in accordance with IFRS 15.

g) Income tax

Income tax in the statement of comprehensive income includes the current part and the deferred part. Current and deferred tax is charged to the financial result of the period, except for situations when it concerns items recognised directly in equity or in other comprehensive income.

Current tax is the expected amount of income tax liability or receivable for a given year, calculated using tax rates applicable as at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities and their tax base. The amount of deferred tax is determined using the tax rates that are expected to apply at the time of realisation of an asset or settlement of a liability under tax regulations that have come into force or are generally effective at the end of the reporting period.

Deferred tax assets and liabilities are offset when the Company has an enforceable legal title to offset current tax assets and liabilities and if the deferred income tax assets and liabilities relate to income taxes imposed on the Company by the same tax authority.

Deferred tax assets on tax losses to be settled, unused tax relief and negative temporary differences are recognised up to the amount of probable future tax income, which will enable their realisation.

h) Property, plant and equipment and intangible fixed assets

Property, plant and equipment are measured at cost less depreciation and impairment losses.

The cost includes the purchase price of the asset and costs directly attributable to its purchase and preparation for its intended use.

Purchased software necessary for the proper functioning of operated equipment is capitalized as a part of the equipment.

Where an item of property, plant and equipment consists of separate significant parts with different useful lives, those parts are depreciated separately. When such part of an item of property, plant and equipment is replaced, the carrying amount of the removed part is derecognised and the new part is recognised in the cost of the asset.

Expenditures on property, plant and equipment are capitalised after their initial recognition if their cost can be reliably estimated and it is probable that the Company will obtain economic benefits from this item.

Expenditure incurred in connection with current repairs and maintenance is recognised in the financial result when incurred.

The basis for depreciation (i.e. the depreciable amount) is the cost of the asset less its residual value. Depreciation is calculated on a straight-line basis using depreciation rates that reflect the estimated useful life of the assets.

The Company adopted the following useful lives for particular categories of property, plant and equipment:

Land	not subject to depreciation
Buildings and structures	20 - 40 years
Machinery and equipment	2 - 14 years
Other property, plant and equipment	5 - 7 years
Intangible fixed assets	2 - 15 years

Fixed assets used under finance leases are depreciated over the lease term or the term of use, whichever is shorter.

Useful lives, depreciation methods and residual values of property, plant and equipment are updated at each balance-sheet date and adjusted prospectively if necessary.

i) Impairment of property, plant and equipment

The carrying amount of property, plant and equipment is assessed at the end of each reporting period for objective evidence of impairment. If there is such evidence, the Company estimates the recoverable value of individual assets or, if an asset does not generate cash inflows independently of other assets, the recoverable value of the cash-generating unit. At the current stage of its operations, the Company is a single operating unit focusing on the development and commercialization of MabionCD20, therefore the entire Company is considered a single cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the fair value of assets less costs to sell or value in use, whichever is higher.

An impairment loss is recognised for the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The amount of the impairment loss is allocated pro rata to each asset within the cash-generating unit and recognised in profit or loss for the period.

j) Inventories

As the Company is not yet engaged in production or sales of its products, the inventories include only materials that are used for research and development work. Materials are measured at the purchase price (i.e. the purchase price plus transaction costs), which corresponds to their net sales value. Inventories purchased for the purposes of research and development are not recognised in profit or loss at the time of purchase but at the time of use, because they are not specific to research and development activities and have other alternative uses. Short-term inventories are written off and their cost is recognised in profit or loss for the period.

The cost of inventories is determined by the 'first-in, first-out' method (FIFO).

k) Long-term receivables

Long-term receivables include deposits paid by the Company to the lessor under a finance lease agreement and deposits forming collateral for payments under concluded supply or service agreements. These receivables are non-interest bearing and therefore they are measured at fair value at the initial recognition. After initial recognition, receivables are recognised at amortised cost.

The company applies simplified methods of measurement for long-term receivables measured according to amortised cost if it does not distort the information contained in the statement of financial position, in particular when the period until the repayment of receivables is not long and the impact of discounting at the initial recognition is not significant. In such situations, the amortised cost is equal to the nominal value of the deposit.

l) Trade and other receivables

Trade and other receivables are initially measured at fair value. After initial recognition, such assets are measured at amortised cost, using the effective interest rate method, less impairment losses.

The Company applies simplified methods of measurement of receivables measured at amortized cost if it does not distort the information contained in the statement of financial position, in particular when the period until the repayment of the receivables is not long and does not exceed 12 months from the date of their occurrence. Such receivables are measured at their nominal value.

Receivables not constituting financial assets (e.g. VAT receivables) are measured at the amount due.

At the end of each reporting period, the Company checks for the occurrence of objective evidence of impairment of trade receivables and other receivables, which are financial assets. The amount of the write-down by virtue of impairment of a component of financial assets measured according to amortised cost is estimated as the difference between the balance-sheet value of the component of assets and the current value of estimated future cash flows discounted using the original effective interest rate. Impairment losses are charged to the financial result for a given period and reduce the carrying amount of receivables.

m) Prepayments and accrued income

Prepayments are recognised as assets at their nominal value at the time of payment. They are recognised in the financial result over the period of consuming economic benefits arising from the terms of the agreements.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits payable on demand and deposits with an initial maturity of up to 12 months. The Company applies simplified methods of cash and cash equivalents measurement and they are measured at nominal value if this does not distort the information contained in the statement of financial position.

o) Share capital

The share capital is included in the nominal value of issued shares. Shares are presented in the "share capital" item only after they have been entered in the court register. The share premium is shown in the "share premium" item.

Issued but unregistered shares are included in the capital in a separate item as 'issued but unregistered share capital'.

Each issue of Company's capital instruments addressed to creditors for the purpose of waiving all or part of the Company's financial liabilities, where the creditors are (direct or indirect) shareholders who at the same time act as shareholders, is settled by the conversion of the balance-sheet value of the debt into the Company's equity. The debt recognition is discontinued when and only when the criteria of IFRS 9 are met. The share capital is recognised in the amount resulting from the applicable local law, and the difference between the amount recognised as share capital and the carrying value of the derecognised contractual liability is presented in income or costs of the Company.

p) Deferred income

Deferred income includes mainly grants received (the relevant policy is presented in note 4d).

q) Trade and other payables

Trade and other liabilities constituting financial liabilities are initially measured at fair value. After initial recognition, they liabilities are recognised at amortised cost.

Other liabilities that are not financial liabilities are measured at the amount due.

r) Loans and borrowings

Loans and borrowings are initially recognised at fair value, less transaction costs. After initial recognition, they are recognised at amortised cost.

s) Lease

The Company is a lessee under finance lease agreements.

Lease agreements which transfer substantially all potential risks and benefits to the lessee are classified as finance lease agreements. A leased asset used under a finance lease is recognised as an asset at the inception of the lease, at the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. The corresponding liability under lease payments, less financing costs, is recognised in the statement of financial position under finance lease. Interest on the lease liability is charged to the income statement over the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability for each period. Each lease payment is apportioned between the liability and the financing costs. After initial recognition, leased assets are measured in accordance with the accounting principles applicable to own fixed assets (the detailed accounting policy is described in note 4h).

The Company took advantage of simplifications concerning short-term leases (up to 12 months) and leases where the underlying asset is of low value (up to PLN 20 thousand) and does not recognise financial liabilities and related assets under the right of use for these agreements. Lease payments on this account are recognised as costs on a straight-line basis over the lease term.

Adhering to IFRS 16 for the first time, the Company applied the following simplifications allowed by the standard: (a) it applied a single discount rate for the portfolio of leases with similar characteristics, (b) operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were treated as short-term leases.

t) Share-based payments

The Company has introduced a remuneration programme based on and regulated by own shares. The Company recognises the costs of the equity remuneration plan (payments in the form of equity instruments) in the costs of the Company's operations and, on the other hand, as an increase in equity.

In the case of incentive schemes for employees which are related to remuneration for their work, the value of warrants is charged to operating costs, respectively: a) in the comparative variant - to remuneration costs, b) in the calculation variant - to general administration costs. The issued warrants are presented on a separate account "Issue of warrants under the share-based incentive scheme", which is presented in the financial statements together with other reserves. The exercise of warrants by employees is connected with the issue of shares and settling the value of warrants disclosed in equity. The cash received is capitalised by the Company and is not recognised as income. The Company discloses information in the financial statements to enable the readers to understand the nature and scope of share-based payment agreements that existed in the period.

u) Cash flow statement

The Company recognises interest paid and interest received from operating activities in the cash flow statement.

5. Impact of new and amended standards and interpretations on the Company's financial statements

New standards and interpretations

In these financial statements, the following new standards and amendments to the existing standards that came into force on 1 January 2019 have been applied for the first time:

a) IFRS 16 Leases

The new IFRS 16 Leases sets out the principles for recognition, measurement, presentation and disclosure of leases. All lease transactions result in the lessee obtaining the right to use the asset, and the liability under the obligation to pay. Thus, IFRS 16 eliminates the classification of operating leases and finance leases in accordance with IAS 17 and introduces a single model for the accounting treatment of leases by lessees. The lessee shall recognise: (a) assets and liabilities for all leases entered into for more than 12 months, except when the asset is of low value; and (b) depreciation of the leased asset separately from interest on the lease liability in the income statement. In the prevailing part, IFRS 16 repeats the regulations from IAS 17 concerning accounting recognition of lease by the lessor. As a result, the lessor continues the classification into operating and finance leases and differentiates the accounting treatment accordingly.

Impact of IFRS 16 on the Company's financial statements

The Company has applied the requirements of IFRS 16 for periods beginning after 1 January 2019. The Company abandoned the restatement of comparative data for the financial year 2018, using a modified retrospective approach.

For leases recognised after 1 January 2019, the Company applied discount rates of 3.88% (determined as the lessee's marginal interest rate) to the measurement of liabilities under leases activated as at the date of first application of IFRS 16.

The Company used simplifications concerning short-term leases (up to 12 months) and leases where the underlying asset is of low value (up to PLN 20 thousand) and does not recognise financial liabilities and related assets under the right of use for these agreements. Lease payments on this account are recognised as costs on a straight-line basis over the lease term.

The implementation of IFRS 16 required making estimates and calculations that affected the measurement of the lease liabilities and the assets under the right of use. These included the following actions: (a) determining the agreements covered by IFRS 16, (b) determining the remaining term of lease for agreements concluded before 1 January 2019, (c) determining the marginal

interest rates used to discount future cash flows, (d) indicating the useful lives and determining the amortisation rates for the rights to use the assets as at the date of first application of IFRS 16.

When applying IFRS 16 for the first time, the Company applied the following simplifications allowed by the standard: (a) it applied a single discount rate for the portfolio of leases with similar characteristics, (b) operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were treated as short-term leases.

For leases previously classified as finance leases, the carrying amounts of the right to use components and liabilities under the lease as at 1 January 2019 are equal to those measured in accordance with IAS 17 as at 31 December 2018.

b) Amendments to IFRS 9: Prepayment features with negative compensation

As a result of the aforementioned amendment to IFRS 9, entities may measure financial assets with the so-called prepayment features with negative compensation at amortised cost or at fair value through other comprehensive income, if a specific condition is met – Instead of measuring at fair value through profit or loss.

c) Amendments to IAS 28 "Investments in associates and joint ventures"

The amendments to IAS 28 Investments in Associates and Joint Ventures explain that the impairment guidance contained in IFRS 9 applies to long-term interests in an associate or joint venture to which the equity method is not applied and which are part of the net investment in those entities (e.g. long-term loans). In addition, the Board has also published an example to illustrate the application of the requirements of IFRS 9 and IAS 28 to a long-term interest in an associate or joint venture.

d) IFRIC 23: Uncertainty over income tax treatments

IFRIC 23 clarifies the recognition and measurement requirements of IAS 12 when there is uncertainty about the recognition of income tax.

e) Annual amendments to IFRS 2015 - 2017

"Annual amendments to IFRS 2015-2017" introduce amendments to 4 standards: IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs".

The amendments provide explanations and clarifications to the recognition and measurement standards.

f) IAS 19 "Employee Benefits"

The amendments to the standard set out the requirements related to the accounting treatment of modifications, limitations or settlements of a defined benefit plan.

The Company has carried out an analysis of the impact of the above-mentioned new standards and interpretations on the financial statements, and as a result of which it recognised that they do not have a significant impact on the financial statements of the Company, because they did not have a significant impact on the presented and disclosed financial information or did not apply to transactions entered into by the Company.

New standards published and approved by the European Union, not yet in force

In these financial statements, the Company has not decided to apply the following published standards, interpretations or amendments to the existing standards before their effective date:

a) IFRS 17 “Insurance Contracts”

IFRS 17 "Insurance Contracts" was issued by the International Accounting Standards Board on 18 May 2017 and is effective for annual periods beginning on or after 1 January 2021. The new IFRS 17 Insurance Contracts will replace the current IFRS 4, which allows for different practices in the settlement of insurance contracts. IFRS 17 will substantially change the accounting for all entities that deal with insurance contracts and investment contracts. At the date of preparation of these financial statements, the new standard has not yet been approved by the European Union.

b) Changes in the Conceptual Framework of IFRS

In 2019, amendments to the IFRS Conceptual Framework were published, which will apply from 1 January 2020. The revised Conceptual Framework will be used by the Board and the Interpretations Committee in the future when developing new standards. Nevertheless, entities preparing financial statements may use the Conceptual Framework to develop accounting policies for transactions not covered by the current IFRS.

c) IFRS 3 "Business Combinations"

As a result of the amendment to IFRS 3, the definition of "business" was modified. The currently introduced definition has been narrowed down and is likely to result in more acquisition transactions being classified as asset acquisitions. Amendments to IFRS 3 are effective for annual periods beginning on or after 1 January 2020. As at the date of preparation of these financial statements, the amendment has not yet been approved by the European Union.

d) IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”

The Board published a new definition of the term 'materiality'. The amendments to IAS 1 and IAS 8 clarify the definition of materiality and increase consistency between the standards, but are not expected to have a significant impact on the preparation of financial statements. The amendment is mandatory for annual periods beginning on or after 1 January 2020.

e) Amendments to IFRS 9, IAS 39 and IFRS 7 related to IBOR reform

Amendments to IFRS 9, IAS 39 and IFRS 7 published in 2019 modify some of the detailed requirements for hedge accounting, mainly to ensure that the expected reference rate reform (IBOR reform) does not generally result in the termination of hedge accounting. The amendments to the standards are effective for annual periods beginning on or after 1 January 2020. As at the date of preparation of these financial statements, the amendment has not yet been approved by the European Union.

f) IFRS 14 “Regulatory Deferral Accounts”

This standard allows entities which prepare their financial statements in accordance with IFRS for the first time (on or after 1 January 2016) to recognise amounts resulting from operations with regulated prices, in accordance with the previously applied accounting principles. To improve comparability with entities that already apply IFRS and do not show such amounts, in accordance with published IFRS 14, amounts resulting from regulated activities should be presented in a separate item both in the statement of financial position as well as in the profit and loss account and the statement of other comprehensive income. IFRS 14 will not be approved by the European Union.

g) Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associates or joint ventures

The amendments solve the problem of the existing inconsistency between IFRS 10 and IAS 28. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". Where non-monetary assets constitute a "business", the investor reports a full profit or loss on the transaction. If the assets do not

meet the definition of a business, the investor recognises a profit or loss only to the extent of the share of other investors. The amendments were published on 11 September 2014. As at the date of preparation of these financial statements, the approval of this amendment is deferred by the European Union.

The Company intends to adopt the amendments to IFRS published, but not effective until the date of publication of these financial statements, in accordance with their effective date.

6. Major estimates and judgements

In applying the accounting policies described in note 4, the management makes estimates, judgements and assumptions relating to the recognition and measurement of particular assets and liabilities. The estimates and related assumptions are based on past experience, the management's expectations or other factors considered relevant. Actual results may differ from the estimates. Estimates and related assumptions require regular review. Changes in accounting estimates are recognized prospectively from the period in which they are made. The key estimates and judgements made by the management that have the most significant effect on the amounts recognized in the financial statements are as follows.

a) Deferred tax assets related to income tax relief

The Company conducts research and development and production activities mainly for the purposes of developing its main drug, MabionCD20. The Company has built a fully equipped research and development centre within the Łódź Special Economic Zone ("ŁSSEZ"). According to the Act on Special Economic Zones, business activity conducted within the area of a special economic zone under the obtained permit is exempt from corporate income tax up to the amount resulting from the available level of public aid and eligible costs incurred. The basis for the exemption is the amount of incurred eligible costs, which may not exceed the maximum value specified in the permit granted by the SEZ Board. Mabion is entitled to benefit from the relief until 31 December 2026, which is the last year of functioning of the LSEZ in accordance with the applicable law. In order to retain the right to the relief, the Company must meet the criterion of investment sustainability and the criterion of employment. As of 31 December 2019, the Company operated on the basis of three permits issued by the LSEZ. The investments covered by the permits issued in 2010 and 2012 have been completed and the Company's compliance with the conditions for obtaining the tax relief has been positively verified during audits conducted by the SEZ. At the end of 2016, the Company obtained the third permit, which concerns a new investment in the expansion of the existing drug production plant.

In 2010, the Company used PLN 552 thousand from the available tax relief. In relation to the remaining part of the available tax relief, because of uncertainty if tax profits will be generated before the expiry of tax reliefs (i.e. 31 December 2026), the Company did not recognise deferred tax assets on account of these reliefs. The amount of the tax relief available based on the incurred eligible costs (under the three above-mentioned permits), for which the deferred tax asset was not recognised, is PLN 46,858 thousand as at 31 December 2019 (PLN 46,863 thousand as at 31 December 2018). Using the tax relief is possible only in relation to the Company's future tax liabilities.

b) Depreciation of property, plant and equipment

Depreciation rates are based on the expected useful life of property, plant and equipment. Every year the Company verifies the adopted useful lives based on current estimates. Useful lives are determined with reference to the estimated periods during which the Company intends to derive future economic benefits from the use of the relevant assets. The Company also takes into account past experience with similar assets, if any. Also, the Company takes into account anticipated future events that may affect the useful life of assets, such as changes in technology.

c) Determining when the criteria for capitalisation of development costs are met

The criteria for capitalisation of development costs are presented in Note 3e. Due to the risks and uncertainties related to the process of obtaining a marketing authorisation, the Company currently does not meet the criteria for capitalisation of assets and therefore development costs are recognised as costs when incurred. In general, the Company expects to capitalise

development costs from the moment the medicine is approved by the relevant regulatory authority. At this point in time, the criterion of technical feasibility of completing the medicine – the most difficult criterion to demonstrate in the development process – is considered proven.

7. Operating segments

Mabion's activities focus on research and development of new biotechnology-based and biosimilar drugs through the use of modern genetic engineering techniques. The Company's activities include the implementation of its own projects involving the development, production and sales of medicines used to treat malignant diseases, as well as autoimmune and metabolic diseases. The Company is currently working on the development of several drugs biosimilar to original drugs (the so-called reference drugs) used to treat malignant diseases, as well as autoimmune and metabolic diseases. The highest priority drug is MabionCD20, which is also at the most advanced stage of development of all projects. The Company may simultaneously conduct research and development work on behalf of other entities.

In the period covered by these financial statements, the Company conducted its business activities only in Poland.

In view of the above, one business segment was identified. Financial information concerning this segment results directly from the statement of comprehensive income and the statement of financial position.

In 2018 and 2019, the Company did not generate income from the sales of products and services or goods and materials.

8. Costs by type

The table below shows the categories of generic costs:

in PLN thousand	2019	2018
Outsourced services	8 385	21 350
Costs of materials	15 108	7 583
Staff remuneration costs	11 409	8 922
Depreciation and amortisation	4 966	5 124
Drug registration costs	785	1 795
Other costs	57	157
Research and development costs by type	**40 710**	**44 931**
Costs of leasing and running the office	4 896	5 088
Staff remuneration costs	7 339	5 033
Depreciation and amortisation	6 144	5 538
Advisory services related to the conclusion of distribution agreements	732	893
Share-based management scheme	18	714
Lease, use and maintenance of equipment and costs of company cars	466	797
Taxes and charges	1 735	616
Audit and other advisory services	2 007	1 496
Other	870	830
General administration costs by type	**24 207**	**21 005**

The increase in remuneration costs in 2019 results mainly from a change in the employment (229 persons at the end of 2019, 196 at the end of 2018), employment structure, changes in the Management Board and the creation of the Company Social Benefits Fund.

Lower costs of outsourced services result from decreased demand in connection with the transition to the next stage of registration and reduction of costs of analytical and research services, and registration costs.

The increase in material costs results from the change in the production scale to 2x2500L and the related almost doubled (98% increase) consumption of basic, auxiliary materials and reagents, largely provided by the Sartorius group (mainly Sartorius Stedim Poland Sp. z o.o.).

The increase in the costs of taxes and fees in 2019 results mainly from the established provision for withholding tax (WHT) on account of the transaction carried out in 2018, and the lack of sufficient grounds for the application of preferential rules for collecting WHT on receivables paid out.

9. Research and development costs

in PLN thousand	2019	2018
MabionCD20	39 418	44 014
MabionEGFR	1 225	856
Other projects	67	61
Total research and development costs	**40 710**	**44 931**

Research and development costs are recognised as cost of the period in profit or loss when incurred, in accordance with IAS 38. Once the criteria set out in paragraph 57 of IAS 38 are met, development costs may be capitalised and recognised as an intangible asset.

In 2018, the Company elaborated the results of the clinical trial which confirmed the effectiveness of the therapy and submitted applications for registration of the drug in the European Union countries. In 2019, the registration procedure was conducted before the EMA, as part of which the Company prepared and presented to the regulator the data requested by it concerning the drug and the trials. The Company also conducted activities before the US FDA in order to confirm the drug's registration strategy in the USA. In 2020, the Company changed the regulatory strategy for the drug at the EMA by deciding to withdraw the existing registration applications and obtain a marketing authorisation directly the drug produced on a large commercial scale based on new applications.

Following a Main Pharmaceutical Inspectorate (MPI) inspection commissioned by the European Medicines Agency (EMA) on 23 and 25 July 2019, the Company received two GMP (Good Manufacturing Practice) certificates for the Scientific and Industrial Complex for Medical Biotechnology of Mabion S.A. in Konstantynów Łódzki.

10. Other operating income and costs

in PLN thousand	2019	2018
Profit on sales of fixed assets	9	-
Grants	2 029	1 994
Other	117	68
Total other operating income	**2 155**	**2 062**
Write-downs on current assets	(228)	(447)
Provision related to bringing the premises to their original state	-	(100)
Disposal of materials	(162)	-
Provision for compensation	(110)	-
Other	(10)	(204)
Total other operating expenses	**(510)**	**(751)**

Income from grants relates in particular to the part of grants received in previous years to purchase fixed assets in projects co-financed from EU funds, in the amount of PLN 1,951 thousand and PLN 1,957 thousand in 2019 and 2018, respectively, which was included in the financial result in particular periods in proportion to the value of depreciation of assets financed from grants. The amount of the grant of PLN 78 thousand relates to the received subsidy for employee training.

Write-downs on current assets in the amount of PLN 228 thousand concern:

» Inventories of materials in the amount of PLN 203 thousand, which were created in accordance with the accounting policy in force for materials with an expiry date of 31 March 2020.

» Doubtful receivables of PLN 25 thousand.

The provision for compensation in the amount of PLN 110 thousand relates to a lawsuit for payment of compensation for the effects of occupational disease.

The disposal of materials in the amount of PLN 162 thousand relates to the liquidation of materials after their expiry date for materials that are not suitable for alternative use.

11. Financial income and costs

in PLN thousand	2019	2018
Interest income	582	915
Other financial income	65	-
Total financial income	**647**	**915**
Interest costs	(751)	(1 923)
Negative net exchange rate differences	(279)	(2 711)
Other financial costs	(83)	(526)
Total financial costs	**(1 113)**	**(5 160)**

Negative net exchange rate differences in 2019 result in particular from unrealised exchange rate differences concerning the valuation of liabilities on account of repayable advances on distribution rights denominated in foreign currencies, described in note 19. In 2018, the Company recognised also negative unrealised exchange rate differences on this account.

12. Income tax

in PLN thousand	2019	2018
Current income tax	-	-
Adjustments for previous years	-	-
Deferred tax	-	-
Total income tax	-	-

The table below shows the reconciliation of the effective tax rate

in PLN thousand	2019	2018
Gross loss	(63 738)	(68 870)
(Charge)/tax benefit at 19% rate	12 110	13 085
Non-deductible expenses	(937)	(823)
Income not included in tax revenue	371	389
Amounts increasing the tax base	(86)	(2 854)
Amounts reducing the tax base	399	2 254
Temporary differences from which no deferred income tax asset was created*	(8 013)	(9 486)
Temporary differences from which no deferred income tax liability was created	(13)	101
Tax losses on which deferred income tax assets were not recognised - operations outside ŁSSE**	(1 216)	(407)
Non-deductible tax losses in future periods - zone activity**	(2 615)	(2 259)
Income tax	-	-

* The item includes in particular expenditures on research and development work, which are not yet included in the tax deductible costs in the current period.
** Tax losses resulting from operations in the LSEZ are not deductible in the future in accordance with applicable laws. Tax losses resulting from non-zone operations may be deducted in the next five years. The balance of unused tax losses resulting from operations outside the LSEZ is presented below.

The Company did not recognise any deferred income tax assets in the financial statements for the years ended 31 December 2019 and 2018. The Company recognised a deferred tax liability, which was fully offset by an excess of deferred tax assets.

The following amounts of assets from deductible tax losses in future periods, tax reliefs and negative temporary differences (at a 19% tax rate) were not recognised:

in PLN thousand	Expiry date:	2019	2018
Tax loss to be settled for 2019	end of 2024	1 216	-
Tax loss to be settled for 2018	end of 2023	407	407
Tax loss adjustment for 2018 following KIS interpretation	End of 2023	(61)	-
Tax loss to be settled for 2017	end of 2022	574	574
Tax loss to be settled for 2016	end of 2021	156	156
Tax loss to be settled for 2015	end of 2020	102	102
Tax relief (Note 6)	end of 2026	46 858	46 863
Negative temporary differences for which no deferred income tax asset was created	No time limit	43 051	35 038
Total unrecognised deferred tax asset		**92 303**	**83 140**

13. Property, plant and equipment and intangible fixed assets

Due to the fact that in 2019, there were significant increases in intangible assets related to the implementation of new IT systems, it was decided to present them in a separate of the report for both 2018 and 2019.

in PLN thousand	Land, buildings and structures	Plant and machinery	Other	Fixed assets under construction	Total
As at 31 December 2017					
Gross value	45 417	19 396	29 847	1 012	95 672
Depreciation	(3 115)	(7 653)	(12 987)	-	(23 755)
Net value as at 31 December 2017	**42 302**	**11 743**	**16 860**	**1 012**	**71 917**
Period ending on 31 December 2018					
Acquisition	-	-	-	10 395	10 395
Transfers	527	520	3 196	(4 243)	-
Depreciation for the period	(1 974)	(2 918)	(5 702)	-	(10 594)
Gross value of liquidated assets	(13)	(17)	(261)	-	(291)
Depreciation of liquidated assets	13	17	240	-	270
Net value as at 31 December 2018	**40 855**	**9 345**	**14 333**	**7 164**	**71 697**
As at 31 December 2018					
Gross value	45 931	19 899	32 782	7 164	105 776
Depreciation	(5 076)	(10 554)	(18 449)	-	(34 079)
Net value as at 31 December 2018	**40 855**	**9 345**	**14 333**	**7 164**	**71 697**

in PLN thousand	Land, buildings and structures	Plant and machinery	Other	Fixed assets under construction	Total
Period ending on 31 December 2019					
Acquisition	-	-	-	10 914	10 914
Transfers	2 228	771	2 693	(5 692)	-
Depreciation for the period	(1 987)	(2 796)	(5 993)	-	(10 776)
Gross value of liquidated assets	-	(7)	(389)	-	(396)
Depreciation of liquidated assets	-	7	242	-	249
Net value as at 31 December 2019	**41 096**	**7 320**	**10 886**	**12 386**	**71 688**
As at 31 December 2019					
Gross value	48 159	20 663	35 086	12 386	116 294
Depreciation	(7 063)	(13 343)	(24 200)	-	(44 606)
Net value as at 31 December 2019	**41 096**	**7 320**	**10 886**	**12 386**	**71 688**

in PLN thousand	IT systems	Intangible assets under construction	Total
As at 31 December 2017			
Gross value	69	331	400
Depreciation	(42)	-	(42)
Net value as at 31 December 2017	**27**	**331**	**358**
Period ending on 31 December 2018			
Acquisition	-	458	458
Transfers	507	(507)	-
Depreciation for the period	(68)	-	(68)
Gross value of liquidated assets	(3)	-	(3)
Depreciation of liquidated assets	3	-	3
Net value as at 31 December 2018	**466**	**282**	**748**
As at 31 December 2018			
Gross value	573	282	855
Depreciation	(107)	-	(107)
Net value as at 31 December 2018	**466**	**282**	**748**
Period ending on 31 December 2019			
Acquisition	-	1 033	1 033
Transfers	1 103	(1103)	-
Depreciation for the period	(333)	-	(333)
Gross value of liquidated assets	-	-	-
Depreciation of liquidated assets	-	-	-
Net value as at 31 December 2019	**1 236**	**212**	**1 448**
As at 31 December 2019			
Gross value	1 676	212	1 888
Depreciation	(440)	-	(440)
Net value as at 31 December 2019	**1 236**	**212**	**1 448**

Information on fixed assets constituting collaterals for bank loans is provided in Note 20.

A significant part of the investments in property, plant and equipment in 2019 was financed under lease agreements (see Note 21).

In the current reporting period, the Company sold property, plant and equipment worth PLN 54 thousand.

The liquidated property, plant and equipment were assets that were not suitable for further use in the Company's operations and had no significant resale value.

The Company's management has not identified any evidence of impairment of property, plant and equipment as at the balance-sheet date or in past periods. Most of the Company's property, plant and equipment were purchased within the last five years. At present, property, plant and equipment is used for the purposes of Good Manufacturing Practice ("GMP") certification. Ultimately, these assets will be used to produce MabionCD20 for commercial purposes.

14. Inventories

The balance of inventories includes only materials. The value of used-up inventories disclosed in the costs of research and development in 2019 was PLN 15,108 thousand (PLN 7,583 thousand in 2018).

The increase in the consumption of materials and the decrease in the balance of inventories at the end of 2019 is connected with the production carried out as part of research and development work on MabionCD20 on a scale of 2x2500 litres at the plant in Konstantynów Łódzki.

The Company recognised PLN 203 thousand under other operating costs as an impairment loss on inventories of materials, which were created in accordance with the accounting policy, and the Company utilised materials in the amount of PLN 162 thousand (see Note 10).

15. Trade and other receivables

in PLN thousand	31 December 2019	31 December 2018
VAT receivables	2 612	2 171
Trade receivables	9	7
Advances on materials and services	60	70
Deposits	105	108
Other receivables	55	250
Trade and other receivables	**2 841**	**2 606**

In 2019, no impairment allowances for trade receivables were recognised or reversed. As at 31 December 2019, there were no impairment allowances for trade receivables. As at 31 December 2018, there were impairment allowances in the amount of PLN 88 thousand due to the impairment of advance payments on materials and services. In 2019, impairment allowances on advance payments for materials and services were created in the amount of PLN 25 thousand. As at 31.12.2019, there are impairment allowances in the Company in the amount of PLN 113 thousand due to impairment of advance payments on materials and services.

For further information on credit risk, see Note 23.

16. Cash and cash equivalents

in PLN thousand	31 December 2019	31 December 2018
Cash on current accounts	1 035	89
Deposits	26 935	58 329
Total cash and cash equivalents	**27 970**	**58 418**

The credit rating of banks where deposits are kept and the concentration of credit risk is presented in Note 23.

17. Capital management and equity

a) Capital management

The purpose of capital management by the Company is to ensure the ability to continue as a going concern in order to generate a return on capital for shareholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Company is bound by the legal capital requirement under the Code of Commercial Companies ("CCC"), according to which the Company shall create supplementary capital to cover net losses in the amount of at least 8% of the profit for a given financial year for such capital, until the supplementary capital reaches at least one third of the share capital. Since the Company generates losses, so far it has not had to meet this requirement.

The Ordinary General Meeting of the Company, pursuant to Resolution No. 5/VI/2019, decided to cover the loss of 2018 in the amount of PLN 68,897 thousand from future profit.

In order to maintain an optimal capital structure, the Company may issue new shares, take out loans from shareholders, swap debt for equity or increase its debt.

As at 31 December 2019, the Company's equity shows a loss exceeding the sum of its supplementary capitals and reserves and one third of the share capital. Due to the circumstances provided for in Article 398 of the Code of Commercial Partnerships Companies, on 29 November 2019 the Extraordinary General Meeting of the Company adopted Resolution No. 4/XI/2019 concerning the Company's further existence.

b) Share capital and share premium

As at 31 December 2018 and as at 31 December 2019, the Company's equity consisted of 12,150,772 ordinary bearer shares (series D and H to P) and 1,570,000 registered shares with additional voting rights (series A to C and E to G), i.e. each registered share entitles its holder to two votes at the General Meeting; there are no other differences between the indicated series of shares. The nominal value of all shares is PLN 0.10 per share.

On 18 November 2019, in connection with the implementation of the Incentive Scheme for 2018 adopted by Resolution No. 25/VI/2018 of the Ordinary General Meeting of the Company of 28 June 2018, the subscription of ordinary S series bearer shares carried out in connection with the exercise of rights carried by B series subscription warrants by eligible persons was completed. S series ordinary bearer shares were issued as part of a conditional share capital increase and therefore no allocation of shares took place. The eligible persons took up a total of 9,500 S series ordinary shares at an issue price equal to the nominal price of PLN 0.10 per share, with a total value of PLN 950. The S series ordinary bearer shares were taken up in exchange for a cash contribution made in full before releasing the shares. The shares were released on 29 January 2020 (an event after the balance-sheet date). A total of 9,500 S series ordinary bearer shares of the Company with a nominal value of PLN 0.10 each were released. As at the date of publication of these financial statements, the increase in the share capital as a result of issuing the above-mentioned shares was not disclosed in the National Court Register.

On 29 November 2019, the Extraordinary General Meeting of the Company adopted Resolution No. 3/XI/2019 on the conditional increase of the share capital through the issue of 402,835 T series ordinary bearer shares with a nominal value of PLN 0.10 each, and with a total nominal value not exceeding PLN 40,283.50. The conditional share capital increase was effected in order to grant rights to take up T series shares to the European Investment Bank in connection with signing, on 24 October 2019, a loan agreement for EUR 30 million. The right to take up T series shares may be exercised until 29 November 2029. All T series shares may be paid up only by contribution in cash. The issue price of T series shares is PLN 0.10 per share. As at the balance sheet date, the right to take up T series shares was not granted.

The statement of changes in share capital and share premium is presented below:

in PLN thousand, except for the number of shares	Number of shares issued and fully paid up	Share capital (nominal value)	Issued but unregistered share capital	Share premium
As at 31 December 2017	**11 800 000**	**1 180**	**-**	**2 549**
Coverage of net loss for 2017	-	-	-	(57 887)
P series share issue	1 920 772	192	-	174 598
Costs of P series share issue	-	-	-	(10 337)
As at 31 December 2018	**13 720 772**	**1 372**	**-**	**108 923**
Coverage of net loss for 2018	-	-	-	-
S series share issue	9 500	-	1	-
Cost of S series share issue	-	-	-	-
As at 31 December 2019	**13 730 272**	**1 372**	**1**	**108 923**

c) Share-based payments

In accordance with the Resolution no 25/VI/2018 of 28 June 2018, the Ordinary General Meeting authorised the Management Board of the Company to issue not more than 125 000 A and B series subscription warrants, granting eligible employees the right to purchase 114 000 R series ordinary shares and 11 000 S series ordinary shares S, excluding the pre-emptive rights of the Company's current shareholders. The selling price of new shares will be PLN 91 for R series shares and PLN 0.10 for S series shares. Taking up the shares and exercising the rights carried out by warrants will be possible if the criteria set out in the Rules and Regulations of the Incentive Scheme for 2018-2021 ("Scheme"), which was approved by the Supervisory Board of the Company on 29 December 2018 on the basis of the authorisation of the OGM, are met. Alternatively, the warrants may be purchased by the Company for a fee to be redeemed.

On 12 February 2019, the Supervisory Board accepted the list of persons entitled to subscribe for the A and B series warrants for the years 2018 and 2019, and stated that the market condition (reaching minimum price per 1 share of the Company in public trading) for A warrants for the year 2018 has not been met. The Supervisory Board also confirmed that the employment condition for A and B warrants for the year 2018 was met and determined the final number of B series subscription warrants available to each of the eligible persons for 2018.

On 18 November 2019, in connection with the exercise by eligible persons of rights carried by B series subscription warrants under the Incentive Scheme, S series ordinary bearer shares were issued under a conditional share capital increase. The eligible persons subscribed for a total of 9,500 S series ordinary shares at an issue price equal to the nominal price of PLN 0.10 per share, with a total value of PLN 950.

On 30 January 2020, the Supervisory Board stated that the market condition (reaching minimum price per 1 share of the Company in public trading) for A warrants for the year 2019 has not been met. The Supervisory Board also confirmed that the employment condition for A and B warrants for the year 2019 was met. The Supervisory Board also determined the final number of B series subscription warrants to which each eligible person is entitled for 2019.

By the date of publication of these statements, the B series subscription warrants available under the Incentive Scheme for 2019 have not been issued. Moreover, in February 2020, the Supervisory Board of Mabion S.A. adopted, by way of resolutions, a list of persons eligible to take up A and B series subscription warrants for 2020 together with the maximum number of warrants that each of these persons may take up, provided that the criteria set out in the Incentive Scheme are met. According to the resolutions, the eligible persons are entitled to take up a maximum of 28,500 A series warrants and 500 B series warrants in total for 2020.

The table below presents details of the Programme and its valuation as at 31 December 2019:

	A Series Warrants			B Series Warrants		
Tranche for the year	2019	2020	2021	2019	2020	2021
Vesting date	12.02.2019	No	No	12.02.2019	No	No
End of the vesting period	31.01.2020	31.01.2021	31.01.2022	31.01.2020	31.01.2021	31.01.2022
Number of instruments granted	28 500 *	28 500 **	28 500 **	500	500 **	500 **
Exercise price	PLN 91.00	PLN 91.00	PLN 91.00	PLN 0.10	PLN 0.10	PLN 0.10
Share price as of 31 December 2019	PLN 77.00	PLN 77.00	PLN 77.00	PLN 77.00	PLN 77.00	PLN 77.00
Market vesting condition	Reaching the minimum price ***			No		
Minimum price	PLN 190.00	PLN 280.00	PLN 400.00	n\a	n\a	n\a
Date of Scheme approval ****	28.06.2018					
Non-market vesting condition	The person entitled to remain in business relationship and provide work or services for the Company for a period not shorter than 183 days in a given year covered by the Scheme					
Settlement	Company shares					
Expected volatility	44.50% (based on historical volatility of the Company's share prices for the last 2 years)					
First possible exercise date	14.02.2020	14.02.2021	14.02.2022	14.07.2020	14.07.2021	14.07.2022
Last possible exercise date	31.07.2022					
Risk-free rate	1.50% - 1.87%					
Dividend rate	0%					
Likelihood of leaving	17.77% per year					
Fair value of the warrant as at 31 December 2019	PLN 0.07	PLN 0.38	PLN 0.62	PLN 69.78	PLN 80.07	PLN 80.07
Valuation model	Binomial model					

* of which 23,300 for designated eligible persons and a reserve without designated eligible persons of 5,200 pcs.
** no indication of the eligible persons
*** the minimum price has been defined as the arithmetic mean of the Company's share prices on the Warsaw Stock Exchange calculated based on the volume weighted average daily prices in the last month of each year
**** beginning of the vesting period

On 12 February 2019, the Company's Supervisory Board approved the list of employees entitled to take up A and B series warrants for the years 2018 and 2019. Accordingly, the fair value valuation of the warrants was prepared as of 12 February 2019. As of 31 December 2019, only the expected number of warrants to be vested was updated based on appropriate Resolution of Supervisory Board dated 30 January 2020.

Due to the fact that as at the balance-sheet date, the list of employees entitled to participate in the Scheme was not determined by the Supervisory Board, the measurement of the fair value of the warrants (including the market condition) was prepared

based on certain assumptions. The fair value measurement of warrants will be updated for each future balance-sheet date until the date of establishing the list of eligible employees and the number of A and B series warrants for a given year (vesting date). The final valuation of the warrant fair value will be determined on the vesting date. As at subsequent balance-sheet dates, only the expected number of warrants to which the eligible persons will acquire rights will be updated (based on the estimated probability of leaving by the end of the vesting period).

A binomial option pricing model was used to measure the fair value of the warrant. As part of the valuation, the probability of achieving certain prices of the Company's shares in the future (changes in share prices on a monthly basis) was determined based on the historical volatility of the Company's share prices. The measurement was carried out in the process of backward induction, taking into account the market condition (reaching the minimum price) and the possibility of early exercise of options in accordance with the terms of the Scheme (based on the assumed assumptions regarding the minimum rate of return on warrants expected by eligible persons). The total cost of the Scheme at individual balance-sheet dates will be estimated on the basis of the most recent fair value measurements of the warrants and the probability of losing the warrant entitlement by the Scheme participants. The costs of the Scheme will be recognised over time in proportion to the vesting period for particular tranches of warrants.

In connection with failure to meet the market condition for A series warrants for 2018 (minimum price of PLN 130) before the date of defining the list of persons entitled to take them up by the Supervisory Board, this tranche of warrants was not included in the valuation of the Scheme as at 31 December 2019.

In case of failure to meet the market condition for warrants of A series for a given year, the Supervisory Board may grant a tranche of warrants not granted for this reason together with warrants of A series for the year in which the market condition was met. Due to the lack of certainty as to future decisions of the Supervisory Board in this respect, the estimation of the cost of the Scheme as at 31 December 2019 does not take into account the effect of shifting warrants not granted in a given year to subsequent years. This does not exclude the possibility of granting these warrants in subsequent periods in accordance with the applicable Rules and Regulations of the Scheme.

The valuation of the Incentive Scheme as at 31.12.2019 amounts to PLN 732 thousand and was increased by PLN 18 thousand compared to 31.12.2018, when it amounted to PLN 714 thousand.

d) Shareholding structure

As at 31 December 2019, the shareholding structure of Mabion S.A. was as follows (taking into account the S series shares which were subscribed for by the shareholders under the conditional capital increase of 18 November 2019 and released on 29 January 2020):

Shareholder**	Headquarters	Number of shares	% of share in the capital	% of votes held
Twiti Investments, Ltd.	Nicosia, Cyprus	2 380 072	17.33%	19.44%
Funds managed by Generali PTE S.A.	Warsaw, Poland	1 629 847	11.87%	10.65%
Polfarmex S.A.	Kutno, Poland	1 437 583	10.47%	12.55%
Funds managed by Nationale Nederlanden PTE S.A.	Warsaw, Poland	1 140 600	8.31%	7.45%
Fundusze zarządzane przez Investors TFI S.A.	Warsaw, Polska	1 097 769	8.00%	7.17%
Glatton Sp. z o.o.*	Łomianki, Polska	1 006 226	7.33%	6.58%
Celon Pharma S.A.*	Łomianki, Polska	620 350	4.52%	7.28%
Holders below 5% of the capital	n.a.	4 417 425	32.17%	28.87%
Total		**13 730 272**	**100.00%**	**100.00%**

* Entities controlled directly or indirectly by Mr Maciej Wieczorek (President of the Management Board of Mabion S.A. until 14 December 2016, from 16 February 2017 Member of the Supervisory Board of Mabion S.A., from 28 June 2018 Chairman of the Supervisory Board of Mabion S.A., from 16 March 2020, Deputy Chairman of the Supervisory Board of Mabion S.A.)

** Shareholders with a share of more than 5% are listed separately.

18. Deferred income

in PLN thousand	31 December 2019	31 December 2018
Grants on property, plant and equipment	10 143	12 095
Grants on research and development costs	22 156	8 511
Advance payment from Mylan for distribution rights to MabionCD20	14 007	14 007
Advance payment from Celon Pharma for services (development of antibody production technology)	1 590	1 590
Deferred income	**47 896**	**36 203**

The balance of the advance from Mylan relates to the portion of the advances received from Mylan for future exclusive distribution rights for MabionCD20 that were previously recognised as repayable advances on distribution rights and became non-repayable in 2018 as a result of meeting the conditions of the Agreement with Mylan.

Grants

In the past, the Company financed part of its operations with grants from the European Regional Development Fund managed by the following government institutions in Poland: the Regional Development Agency of Łódź (ŁARR), the Polish Agency for Enterprise Development (PARP) and the National Centre for Research and Development (NCBR).

These were three projects to fund R&D and/or implementation of MabionCD20, a technology to produce analogues of human hormone insulin (double cutting technology), and MabionHER2 medicine, which have been completed.

In 2017, the Company signed new funding agreements to finance research and development work and work related to the implementation of MabionCD20 into production, as well as research and development work on a drug to be used for EGFR, although no income was recognized in 2019, as the projects were not completed and settled, and therefore did not affect the Company's financial result.

In June 2018, the Company signed an agreement with the Minister of Investment and Economic Development for co-financing of the project entitled "Expansion of the Research and Development Centre of Mabion S.A. - research on a new generation of medicines" ("CBR") under Measure 2.1 Support for investment in R&D infrastructure of enterprises of the Operational Programme Intelligent Development 2014-2020 co-financed by the European Regional Development Fund. The total cost of the Project was set at PLN 172.88 million. Until 31.12.2019, the Company did not receive any cash under this grant.

These projects are described in more detail in the table below.

Name / project description	Name of the grant scheme	Total amount of grant awarded (in PLN thousand)	Total amount of the grant received until 31.12.2019 (in PLN thousand)	Total amount of the grant expected to complete the project (in PLN thousand)	Project period and status
Innovative technology for the production of therapeutic monoclonal antibodies used in lymphoma therapy (MabionCD20). The aim of the project was to create an innovative drug in the form of biosimilar humanized monoclonal antibody CD20, including the construction of a special biotechnology plant for the production of medicines.	Operational Programme Innovative Economy 2007-2013	39 655	35 896	-	1 July 2010 - 29 May 2015 **Status: Project completed**

Name / project description	Name of the grant scheme	Total amount of grant awarded (in PLN thousand)	Total amount of the grant received until 31.12.2019 (in PLN thousand)	Total amount of the grant expected to complete the project (in PLN thousand)	Project period and status
Innovative "double cutting" technology for obtaining modern analogues of human insulin hormone. The aim of the project was to develop an innovative, universal "double cutting" technology leading to obtaining insulin and its analogues, and their production.	Operational Programme Innovative Economy 2007-2013	24 087	9 492	-	1 May 2011 - 31 December 2017 **Status: Project completed**
Clinical development and registration of a humanized monoclonal antibody binding to HER2 receptor used in the therapy of breast cancer (MabionHER2). The project concerned research and development activities and the implementation of clinical trials.	INNOMED	10 000	28 *	-	1 June 2014 - 15 November 2018 **Status: Project completed**
Development and scaling of an innovative process of manufacturing a therapeutic recombinant monoclonal antibody to enable industrial implementation of the first Polish biotech drug for oncological and autoimmune therapies (MabionCD20).	Operational Programme Intelligent Development 2014 - 2020 "Fast Track"	27 094	21 562 *	5 385 *	1 November 2016 - 30 September 2020 **Status: Project in progress**
Development of a biotech drug by developing an innovative monoclonal antibody of IgG1 subclass with a reduced content of unfavourable glycosides against the reference drug - against EGFR. The project concerns research and development	Operational Programme Intelligent Development 2014 - 2020, InnoNeuroPharm sectoral programme	28 354	593 *	27 660 *	1 August 2017 - 31 July 2022 **Status: Project in progress**
Expansion of the Research and Development Centre of Mabion S.A. - research on the new generation of medicines. The aim of the project is to extend the Company's research and development facilities by preparing the necessary infrastructure: the building of the Research and Development Centre and the purchase of research equipment to conduct research on innovative drugs (the latest generation of biotech drugs, monoclonal antibodies).	Operational Programme Intelligent Development 2014 - 2020	63 247	-	63 247	20 January 2018 - 31 December 2021 **Status: Project in progress**

* includes reimbursement of grants in 2019 due to financial corrections

Grants are shown when the Company has sufficient certainty that it will be able to meet the conditions for grant use and that it will receive them.

In 2019, the Company did not conclude any new grant agreement.

The table below shows changes in grants in the years covered by these financial statements:

in PLN thousand	Grants on property, plant and equipment	Research and development grants	Grants under the LSEZ - development vouchers	Total grants
As at 31 December 2017	**14 052**	-	-	**14 052**
Inflows	-	8 739	37	8 776
Return	-	(228)	-	(228)
Included in the financial result	(1 957)	-	(37)	(1 994)
As at 31 December 2018	**12 095**	**8 511**	-	**20 606**
Inflows	-	13 664	78	13 742
Return	-	(19)	-	(19)
Included in the financial result	(1 952)	-	(78)	(2 030)
As at 31 December 2019	**10 143**	**22 156**	-	**32 299**

The grants on fixed assets were related to the MabionCD20 project (that is a grant for the construction of a production plant for MabionCD20), while the R&D grants concerned the double cutting technology development project, the MabionHER2 project, MabionCD20 scaling up, and the MabionEGFR project.

As at 31 December 2017, the Company had unfulfilled conditions and other contingent events concerning public aid granted for the MabionCD20 project. The Company is required to meet the sustainability criteria for three years after completion of the project, during which time it is to continue the subsidised activity without significant changes and within the original geographical boundaries. This condition expired on 14 April 2018. In the opinion of the Company's management, the Company has met the above condition.

Fixed assets for which the grant was obtained were put into use in 2015 and their depreciation started at that date. The related part of deferred income (grants) was also included in the financial result.

In 2019, the Company received grants to cover expenses incurred in two projects co-financed from EU funds (MabionCD20 scaling up and MabionEGFR project) in the total amount of PLN 13,664 thousand, and reimbursed grants of PLN 19 thousand due to incorrect classification of certain expenses identified during the audits. The amount of the grants received was recognised in deferred income in connection with the terms and conditions specified in the grant agreements, which are not fully controlled by the Company, and whose failure to meet them may result in an obligation to return the grants received.

Except for the above events, there have been no significant changes to the grants received by the Company.

The current portion of deferred income is the portion that the Management Board expects to be able to qualify as income within 12 months from the balance-sheet date. This applies in particular to:

a) grants for investments in fixed assets, which will be recognized as income in proportion to the value of depreciation write-offs on property, plant and equipment financed by the grants;

b) the advance payment received from Celon Pharma S.A. on account of remuneration for services related to the development of the production process of drugs or drug prototypes to be used by Celon Pharma S.A., to be provided by the Company.

The item of long-term deferred income includes the portion which is expected by the Management Board to be classified as income more than 12 months after the balance-sheet date. This applies in particular to:

a) grants for investments in fixed assets, which will be recognised as income in proportion to the value of depreciation write-offs on property, plant and equipment financed by the grants;

b) grants to cover the costs of research and development work, which will be recognised as income once the Company has sufficient certainty that it will be able to satisfy the conditions for using the grant;

c) the advance on distribution rights received from Mylan, in the amount of PLN 14,007 thousand, which according to the terms of the agreement with Mylan is not repayable, and which will be recognised as income after Mabion has obtained the marketing authorisation for Mabion CD20.

19. Repayable advances on distribution rights

The table below shows a list of all cooperation agreements signed, together with the amounts of advance payments received and the target sales markets covered by each agreement:

in PLN thousand			
Partner	**Market**	**31 December 2019**	**31 December 2018**
Mylan	Albania, Austria, Belgium, Bulgaria, Bosnia and Herzegovina, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Montenegro, Netherlands, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, United Kingdom, Switzerland, Norway and Liechtenstein	42 724	42 297
FARMAK	Ukraine, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan	1 065	1 075
ONKO	Turkey	468	473
Sothema Laboratories	Morocco, Algeria, Tunisia	98	99
Lyfis	Iceland	26	26
VMG	Costa Rica, El Salvador, Nicaragua, Panama, Honduras, Belize, Trinidad and Tobago, Dominican Republic	-	-
Total		**44 381**	**43 969**

The changes in the value of repayable advances on distribution rights in 2019 are due to changes in exchange rates as all the advances were denominated in foreign currencies (EUR or USD).

No advance payments were reimbursed in 2018 or 2019.

Advances received by the Company are repayable in the case of an event beyond the Company's control (i.e. failure to complete clinical trials conducted as part of development work and/or failure to issue a marketing authorisation for a specific market by a regulatory body), and have therefore been classified as financial liabilities. Since the moment of occurrence or non-occurrence of the above mentioned event is also beyond the Company's control, the liability is measured at the amount payable on demand.

In November 2016, the Company signed a strategic, long-term cooperation agreement with Mylan Ireland Limited (a 100% subsidiary of Mylan N.V., collectively referred to as 'Mylan'), a world leader in the production and distribution of medicines.

Under the Agreement, the Company received USD 15 million from Mylan for further development of MabionCD20. In exchange for the funds and strategic development support, Mylan will receive, after approval of the medicine, distribution rights in Europe for contractually defined countries. During the reporting period and previous periods, the Company pursued, with the support of Mylan, a strategy of registering its product in the European Union and EEA countries with the European Medicines Agency ("EMA") based on a small batch production. Due to the change in the Company's registration strategy and the abandonment of the small-scale drug registration process, as described in more detail in Note 3, the Company remains in direct contact with Mylan and takes steps to continue the existing agreement and amend the relevant terms of the agreement accordingly.

With respect to the sales of the drug in the US market, a potential partner of Mabion is Mylan, which has priority to enter into an agreement with Mabion to sell MabionCD20 in the US market. Mabion will be allowed to talk to other potential partners, but the Company will only be able to engage with a partner other than Mylan if Mylan waives its right of priority.

Moreover, in the years 2012-2015 the Company concluded a number of distribution agreements. On the basis of these agreements, individual contractors obtained the right of exclusive distribution of Mabion CD20 in the indicated target markets. Under these agreements, the Company received advance payments for their implementation, repayable in the event of a negative result of the drug registration process on a specific market. All such amounts were shown as financial liabilities.

20. Loans and borrowings

The structure of loans and borrowings is presented in the table below:

in PLN thousand	31 December 2019	31 December 2018
Bank loans and borrowings	15 000	-
Unpaid interest and debt on credit cards	2	17
Loans secured on assets	1 388	2 269
Total loans and borrowings	**16 390**	**2 286**

a) Bank loans

On 17 July 2018, the Company concluded with Santander Bank Polska S.A. (formerly Bank Zachodni WBK S.A.) an agreement for a revolving credit facility to finance the Company's operating activities, for a period of two years from the date of the agreement. The amount of the loan granted is PLN 30 million, while an amount of PLN 15 million may be disbursed after the fulfilment of formal and legal conditions and establishment of collaterals, and a further amount beyond PLN 15 million could be disbursed after the Company obtains a positive decision of the European Medicines Agency concerning registration ofMabionCD20. The interest rate on the Loan is variable and based on WIBOR 1M plus the Bank's margin determined on arm's length. The collateral for the Loan is a first-rank contractual mortgage up to an amount not exceeding PLN 45 million established on the Company's ownership right to the real estate in Konstantynów Łódzki and an assignment of receivables to the Bank under an insurance agreement for the buildings/structures on that real estate, a statement on submission to enforcement by way of a notarial deed pursuant to art. 777 § 1 (5) of the Code of Civil Procedure each time up to an amount constituting 150% of the amount of Loan, as well as sureties and other forms of collaterals granted by entities related to the Company (main shareholders of the Company). The agreement stipulates numerous obligations of the Company towards the Bank as well as situations constituting a breach of the agreement resulting, among others, in the possibility of its termination by the Bank. As at 31 December 2019, no collateral (covenant) was broken. All collaterals for the Loan was established within the period specified in the loan agreement. As of the balance sheet date, the Company used 50% of the loan, which is PLN 15 million. The agreement expires and the loan matures on 17 July 2020.

On 24 October 2019, the Company concluded with the European Investment Bank (hereinafter referred to as EIB) an unsecured loan agreement for financing the implementation of investment and research and development projects, including the

development of the Company's research and development infrastructure and production capacity, for a maximum period of 5 years from the date of disbursement of individual tranche s. The amount of the Loan is EUR 30 million and will be disbursed in three tranches once specific conditions are met. The Company has taken steps to adapt the applicable agreement to the Company's current strategy for the registration of the key drug, MabionCD20, in particular the new conditions for disbursing individual tranches as well as the schedule. The agreement provides for numerous obligations of the Company towards the EIB and situations constituting a breach of the agreement resulting, among others, in the possibility of its termination by the EIB. The disbursement of the tranches is subject to the fulfilment of the conditions provided for in the agreement, which include, among others, milestones in the scope of registration and commercialization of MabionCD20. The Company, after changing its strategy for the registration process, has taken steps to change the conditions in the applicable agreement.

The interest rate on the Loan is fixed and amounts to not more than 2.7% annually. The availability period of the Loan is 36 months from the date of the Financing Agreement.

On 29 November 2019, the Extraordinary General Meeting of the Company adopted Resolution No. 3/XI/2019 on the conditional increase of the share capital through the issue of 402,835 T series ordinary bearer shares with a nominal value of PLN 0.10 each, with a total nominal value not exceeding PLN 40,283.50. The conditional share capital increase was effected in order to grant rights to take up T series shares to the European Investment Bank in connection with signing, on 24 October 2019, the loan agreement for EUR 30 million. The right to take up T series shares may be exercised until 29 November 2029. All T series shares may be paid up only by contribution in cash. The issue price of T series shares is PLN 0.10 per share.

As at 31 December 2019, the Company has not drawn any tranche of the EIB loan and its debt on this account is PLN 0 (zero).

b) Loans from shareholders

In the current reporting period, the Company did not take any loans from shareholders or related entities. The balance of loans from shareholders and related entities as at 31 December 2019 was PLN 0 (zero).

c) Loans secured on assets

The Company is a party to several leaseback agreements to finance the purchase of laboratory equipment, which are treated as loans due to the fact that the purchases of equipment financed in this way was first fully paid for by the Company, and the lease agreements contain irrevocable offers to buy back the equipment being the subject of the agreement at the end of the lease period. These agreements are valid for a period from 3 to 4 years and are secured with blank promissory notes. The lessor has the right to fill in a promissory note up to the amount equivalent to all due but unpaid receivables to which the lessor is entitled under a given lease agreement, in particular receivables from lease payments, damages, contractual penalties or reimbursement of costs, including due interest, in case the Company fails to pay any of these receivables on the due date.

In January and June 2018, the Company drew the funds from two loans granted by Idea Getin Leasing S.A. in the amounts of PLN 208 thousand and PLN 93 thousand, respectively, to purchase computer hardware that the Company will use in connection with new IT systems implemented in the Company. Both loans are concluded for 2-year periods and are secured with blank promissory notes, agreements on transfer of ownership and registered pledges on equipment financed by the loans. The lender has the right to fill in a promissory note up to the equivalent of all amounts due but not paid under the loan agreement, in case the Company fails to settle any of the receivables on the due date.

In 2019, the Company did not conclude any new loan agreements secured on assets.

As at 31 December 2019, the total value of outstanding loans secured on assets was PLN 1,388 thousand.

21. Leases

a) Finance lease

The Company is a user of cars and laboratory equipment under finance lease agreements.

On 17 December, 2019 the Company entered into a lease agreement for office space in Łódź for the years 2020-2023 and recognised finance lease as at 31 December 2019.

The lease agreements concluded by the Company provide for a 3 to 5-year lease period. They are secured by blank promissory notes. The lessor has the right to fill in a promissory note up to the amount equivalent to all due but unpaid receivables to which the lessor is entitled under a given leasing agreement, in particular receivables under lease payments, compensations, contractual penalties or reimbursement of costs, including due interest, in the event that the Company fails to pay any of these receivables on the due date.

Changes in the interest rate as part of the calculation of the lease instalment amount are the reason for changes in the amount of lease instalments. All lease agreements, except for office space lease, include an option to purchase the leased item after the end of the lease period.

In the period covered by these financial statements, the Company concluded several new lease agreements, as a result of which it recognised items of property, plant and equipment worth PLN 1,930 thousand and a finance lease liability of PLN 1,930 thousand.

Depreciation of leased fixed assets in 2019 was PLN 1,731 thousand, and lease interest amounted to PLN 299 thousand PLN.

At the same time, in connection with the conclusion of an office space lease agreement for a period of 4 years, the Company recognised an amount of PLN 1,854 thousand in assets. The total value of fees during the term of the agreement will amount to PLN 2,053 thousand.

The total gross carrying amount of finance leases as at 31 December 2019 and 31 December 2018 is as follows: PLN 10,548 thousand and PLN 7,915 thousand, respectively. The table below presents information on the amount of future minimum lease payments and the current value of minimum lease payments as at 31 December 2019 and 31 December 2018.

in PLN thousand	Future minimum lease payments as at 31 December 2019	Current value of minimum lease payments as of 31 December 2019	Future minimum lease payments as at 31 December 2018	Present value of minimum lease paymentsas of 31 December 2018
Up to 1 year	2 321	2 115	1 377	1 304
From 1 to 5 years	4 041	3 435	2 375	2 027
Total	**6 362**	**5 550**	**3 752**	**3 331**

22. Trade and other liabilities

in PLN thousand	31 December 2019	31 December 2018
Trade liabilities	15 914	14 258
Social insurance and income tax on wages	943	799
Provision for unused leases	576	441
Other liabilities	3 460	1 272
Company Social Benefit Fund	15	-
Total trade and other liabilities	**20 908**	**16 770**

23. Financial risk management

The Company's activity is exposed to a number of financial risks, such as: market risk (in particular the risk of changes to the exchange rates and the risk of changes to cash flows as a result of interest rate changes), credit risk and liquidity risk, risk associated with registering Mabion CD20, and risk associated with the coronavirus pandemic.

The supervision and management of particular risks is the responsibility of Company's management. The Company does not have a formalized financial risk management system in place. The Company's management carries out the risk management process continuously in all major areas of the Company's activity. Due to the dynamic market situation, the Company's management manages the process of monitoring, auditing and revising potential risks on an ongoing basis, which consists of several stages:

- anticipating and identifying the potential risk groups, examining the risk in depth to actively prevent it;
- continuously monitoring and controlling the existing risk;
- avoiding the risk – refraining from certain high-risk activities;
- taking preventive actions – developing action plans and relevant procedures to be implemented immediately if a potential risk arises;
- keeping the risk within the predetermined limits or implementing risk minimization plans;
- reporting the identified risk and its nature;
- adhering to "Code of Best Practice for WSE Listed Companies".

This Note presents information on the Company's exposure to particular risks arising from the financial instruments held by the Company, as well as the objectives, policies and processes used to measure and manage those risks.

The table below shows the financial instruments held by the Company and their classification according to IFRS 9:

in PLN thousand	31 December 2019	31 December 2018
Loans and receivables		
Long-term receivables	110	110
Trade receivables	9	7
Cash and cash equivalents	27 970	58 418
Total financial assets	**28 089**	**58 535**
Liabilities measured at amortised cost		
Repayable advances on distribution rights	44 381	43 969
Trade liabilities	15 914	14 260
Accrued costs of clinical trials	-	-
Loans and borrowings	16 390	2 286
Finance lease	5 550	3 351
Total financial liabilities	**82 235**	**63 866**

a) Foreign exchange risk

Repayable advances on distribution rights (funds received from distribution partners)are denominated in foreign currencies which creates a foreign exchange risk exposure until funds are utilized (i.e. returned or transferred to deferred income depending on the outcome of uncertain future events).

Part of laboratory equipment and reagents for research and development is purchased by the Company in foreign currencies, mostly in EUR and USD. Adverse currency exchange rate changes (weakening of the PLN against foreign currencies) may affect the level of the Company's investment outlays and increase the cost of research and development which may have a negative impact on the Company's financial results. Since the Company intends to sell its drugs in international markets (mostly in euros and US dollars), the risk connected with exchange rate fluctuations is expected to be limited in the future once the drugs are commercialised.

The Company analyses the level of foreign exchange risk and the potential impact of the above changes on the results of the period on an ongoing basis. The Company's management did not deem it necessary to purchase any instruments limiting the impact of the changes arising from temporary exchange rate fluctuations on the financial results and equity.

The table below presents the Company's position in foreign currencies (translated into PLN) which is indicative of the exposure to the risk of currency exchange rate changes:

	Denominated in the following foreign currencies (after translation into PLN)			
in PLN thousand	Total	EUR	USD	Other foreign currencies
As at 31 December 2018				
Trade receivables	8	14	(5)	0
Cash and cash equivalents	17 464	51	17 390	23
Repayable advances on distribution rights	(43 969)	(1 673)	(42 297)	0
Trade liabilities	(3 075)	(2 087)	(75)	(914)
Net exposure - assets / (liabilities)	**(29 572)**	**(3 695)**	**(24 987)**	**(890)**
As at 31 December 2019				
Trade receivables	0	0	0	0
Cash and cash equivalents	14 009	14	13 979	16
Repayable advances on distribution rights	(44 381)	(1 657)	(42 724)	0
Trade liabilities	(3 385)	(2 606)	(339)	(440)
Net exposure - assets / (liabilities)	**(33 757)**	**(4 249)**	**(29 084)**	**(424)**

A fluctuation in foreign currency/PLN exchange rates of +/-5% was assumed to calculate the resulting increase/(decrease) in net loss. The analysis does not factor in concurrent changes of other variables, such as interest rates.

	Denominated in the following foreign currencies (translated into PLN)							
	2019				2018			
in PLN thousand	Total	EUR	USD	Other foreign currencies	Total	EUR	USD	Other foreign currencies
Rate increase by 5%	(1 687)	(212)	(1 454)	(21)	(1 479)	(185)	(1 249)	(45)
Rate decrease by 5%	1 687	212	1 454	21	1 479	185	1 249	45

b) Risk of cash flow changes as a result of interest rate changes

The Company has exposure to the risk of interest rate changes with respect to borrowings at variable interest rates and finance leases at variable interest rates. The risk is partially compensated by cash deposits with variable interest rates. The Company regularly analyses the level of the risk of interest rate changes in order to estimate the impact of specific interest rate changes on the financial results. The Company does not have any instruments limiting the impact of changes in interest rates on its cash flows and financial results.

The table below shows the exposure to the risk of changes in cash flows due to changes in interest rates:

in PLN thousand	31 December 2019	31 December 2018
Cash on bank accounts	27 970	58 418
Loans and borrowings	(16 390)	(2 286)
Finance lease	(5 550)	(3 351)
Net exposure - assets / (liabilities)	**6 030**	**52 781**

The table below presents the analysis of sensitivity to the risk of interest rate changes, which the Company believes would be reasonably possible as at the balance-sheet date:

in PLN thousand		
Increase/(decrease) in profit/loss and equity as a result of	2019	2018
increase in interest rates by 100 bps	60	528
decrease in interest rates by 100 bps	(60)	(528)

c) Credit risk

Credit risk is the risk of the Company suffering financial losses because of a failure on the part of a customer or supplier who is a party to a financial instrument to fulfil their contractual obligations. The Company's credit risk mostly results from cash and cash equivalents on bank accounts. The Company's management assessed that the credit risk connected with the portfolio of trade receivables and other receivables, both being financial assets, is marginal due to the relatively low level of these balances as of each reporting date. This is due to the fact that the Company still has insignificant sales and are mostly transactions with related parties (see Note 24).

The table below shows the exposure to credit risk:

in PLN thousand	31 December 2019	31 December 2018
Long-term receivables	110	110
Trade receivables	9	7
Cash on bank accounts	27 970	58 418
Total exposure	**28 089**	**58 535**

Cash and cash equivalents are deposited with in Santander Bank Polska SA, a financial institution with a BBB+ Long-term Issuer Default Rating ("IDR") by Fitch Ratings with a stable outlook, and Alior Bank SA, a financial institution with a BB Long-term Issuer Default Rating ("IDR") by Fitch Ratings with a stable outlook. The Company has considerable concentration of credit risk for cash and cash equivalents, i.e. usually at least 60%-70%of the balance is held in one financial institution. However, the Company's management believes that depositing cash at banks with a stable rating considerably limits the exposure to credit risk.

d) Liquidity risk

The Company does not generate current income, and until now its operations have been financed with funds obtained from the issue of shares, shareholder loans and private offers, state grants and EU funds, and from the sales of research and development services. In addition, the Company has obtained funds to finance its operations from the sales of rights to distribute MabionCD20 (Note 19). In 2018, the Company entered into a revolving credit facility agreement for the amount of PLN 30 million (details of the agreement are described in Note 20) and as at the balance-sheet date, used PLN 15 million. The loan is due in July 2020. The Company is taking active steps to extend the financing agreement for subsequent reporting periods with the bank financing the Company's operations.

On 24 October 2019, the Company entered into a loan agreement with the European Investment Bank to fund the implementation of investment and R&D projects, including the development of the Company's R&D infrastructure and production capacity, for a maximum period of 5 years from the date of disbursement of individual tranches. The amount of the loan is EUR 30 million and will be disbursed in three tranches once certain conditions are met. The Company has taken steps to adapt the applicable agreement to the Company's current strategy for registration of the key drug, MabionCD20, including in particular the conditions for disbursing the individual tranches, as well as the schedule.

On 16 March 2020, the Company's Management Board received supporting documents from the Company's main (founding) shareholders, according to which the Shareholders declared to recapitalise the Company with an amount not lower than PLN 15 million in 2020. The recapitalisation, in accordance with the Shareholders' declaration, will take place in 2020 in tranches in response to the Company's financial needs. The recapitalisation of the Company, in accordance with the declarations, may take place by taking up new issue shares or using debt instruments.

The Company actively monitors its environment as part of the prospects for obtaining new financing opportunities to cover expenses related to its basic R&D and investment activities. In particular, current activities are focused on leveraging support from the National Centre for Research and Development in the planned bridging clinical trial.

The Company's management monitors current forecasts for the Company's liquid assets and liabilities based on projected cash flows. The risk related to limited access to funding due to the global liquidity situation or the Company's financial position and the assessment of the potential for registration of the key drug MabionCD20 cannot be excluded. The risk associated with the impossibility of changing the terms and conditions of existing loan agreements, including for the possibility of disbursement of individual financing tranches, or changes in the terms and conditions of the agreement with Mylan, should be indicated here. Particular attention should be paid to the current situation caused by the pandemic and its impact on capital markets, as it may result in significant limitations on the sources of funding, including capital funding.

The table below presents undiscounted amounts of financial liabilities by their contractual maturities:

in PLN thousand	Carrying amount	Total	Under 6 months	6 – 12 months	1 – 2 years	2 – 5 years
As at 31 December 2018						
Repayable advances on distribution rights	43 969	43 969	43 969	-	-	-
Trade liabilities	14 260	14 260	14 160	100	-	-
Loans and borrowings	2 286	2 478	503	503	887	585
Finance lease	3 351	3 751	745	631	1 319	1 057
Total	**63 866**	**64 458**	**59 377**	**1 234**	**2 206**	**1 642**
As at 31 December 2019						
Repayable advances on distribution rights	44 381	44 381	44 381	-	-	-
Trade liabilities	15 914	15 914	15 914	-	-	-
Loans and borrowings	16 390	16 390	385	15 425	580	-
Finance lease	5 550	6 363	1 105	1 216	1 863	2 179
Total	**82 235**	**83 048**	**61 785**	**16 641**	**2 443**	**2 179**

e) Fair value of financial instruments measured at amortised cost

The Company does not have any financial instruments measured at fair value. For the purpose of the disclosure of the fair values in relation to the financial instruments measured at amortized cost, the Company has used the method based on the discounted cash flow.

The main items of financial instruments measured at amortized cost are: short-term bank borrowings, refundable prepayments for distribution rights, shareholders loan and secured borrowings.

The Company's management assessed that the fair value of these items approximates or equals their carrying values. The fair value measurements are classified into the level 2 fair value hierarchy (i.e. inputs other than quoted prices that are observable either directly or indirectly). The main input used to determine fair value of the bank borrowing is the current market interest rate of similar instruments of 3.89%. The fair value of the liability resulting from the repayable advances on distribution equal the carrying amount which is an amount payable on demand.

f) Risk related to the registration of Mabion CD20

Each case of registration of a biosimilar medicine is considered individually by market regulators, so the scope of requirements for technology, documentation, analysis and clinical development is not strictly defined. Therefore, it is not possible to precisely predict the scope and course of the research and development process and to accurately estimate the cost of development.

It cannot be ruled out that the actual costs of manufacturing and marketing of developed drugs (including MabionCD20) will be significantly higher than currently assumed. A significant increase in the costs of production and introduction of the developed drugs to the market may adversely affect the financial results achieved by the Company.

The dynamics of the industry, both in terms of regulations, as well as constantly developed or upgraded technologies, may result in the occurrence, among other things, of the following direct reasons for underestimating the cost of manufacturing and introducing the developed drugs to the market, including MabionCD20:

- changes in drug manufacturing regulations and the need to use more expensive technological solutions or create completely new ones;
- increase in the cost of purchase of raw materials and other input materials used in the manufacture of medicines resulting from the market situation or new guidelines;
- change of regulations concerning the analytical scope necessary to characterise the product, e.g. a need to perform additional costly analyses or to create new analytical methods or tools;
- more strict requirements for registration documentation, e.g. the need for additional tests and studies

The company, while developing its regulatory strategy for MabionCD20 on a 2x250L scale, from the very beginning had identified numerous risks that may affect the registration process and, consequently, the deadline for marketing MabionCD20 in Europe. Such factors include regulatory issues (e.g. misinterpretation of guidelines), organisational issues (e.g. inability to respond to the regulator within a specific timeframe, lack of specific data and analytical or manufacturing results, etc.) or quality issues (failure to achieve specific quality parameters for the drug). The ongoing monitoring and preventive actions undertaken by the Company were aimed at minimising the risk factors.

The original regulatory strategy was to obtain a marketing authorisation for the drug produced in a small-scale process (2x250L), and then to submit a variation to change it to a large, commercial scale authorisation. At the same time, the Company carried out works related to the validation of the batches produced in the scale 2x2500L. On 16 March 2020, the regulatory strategy was changed to a new one, to obtain a marketing authorisation for a drug directly as part of a large commercial scale. The scope and format of the new applications will be first consulted with representatives of the EMA under the scientific advice procedure, in order to adapt them to the Agency's expectations, which will streamline the registration procedure of the large, target scale application. In the opinion of the Company's Management Board, the change in the strategy is the most optimal path in terms of both cost and time for the registration of the product coming from the large-scale process and the possibility of commercialising MabionCD20 in the European Union.

Although the registration process is carried out in accordance with the adopted regulations and in line with specific guidelines, the regulators (both the EMA and the FDA) have a number of tools at their disposal which provide them with considerable decision-making freedom and the possibility of individual adaptation of solutions to the needs occurring in the regulator's assessment in a given registration procedure. The process of registration and authorisation of a medicine is multi-stage, which the final position of the regulator being developed throghout the whole process. Even if the regulator provides guidance and guidelines on the shape and scope of the data currently required, it cannot be ruled out that additional requirements for product approval may arise in the future.

g) Risk related to COVID-19 pandemic

In connection with the WHO (World Health Organization) announcement of the COVID-19 coronavirus pandemic worldwide, additional financial risks have been identified in relation to the liquidity disruption in the markets resulting from the spread of the COVID-19 virus and the consequent possible restriction of the Company's access to funding. In addition, potential shifts in administrative processes cannot be ruled out, including both in the area of decisions of the authorities regulating the authorisation of medicinal products and in the area of decisions of public authorities awarding and accounting for grants and subsidies or VAT refunds. At the time of submission of the statements, no information on the changes in the ongoing processes was received from these authorities.

In view of the persistent pandemic, there may be a risk of delays or suspension of work for an indefinite period of time resulting from the actual or potential constraints and restrictions indicated below:

- limited staff availability (quarantine, childcare in the event of school closures, risk of illness);
- limited mobility of the Company's employees - suspension of the participation of the Company's representatives in meetings and conferences, both foreign and domestic;
- suspension of meetings with external companies, including consultants;
- delays in deliveries resulting in the inability to conduct certain processes in the Company;
- a possibility of plant closure in order to limit the possible virus spread.

All the above mentioned phenomena may have a direct impact on the financial situation of the Company.

24. Related party transactions

The shareholders' structure is disclosed in Note17. There is no direct or ultimate controlling party.

In the period covered by these financial statements the Company has not recorded neither sales to nor purchases from the related parties on conditions other than arm's length terms.

Services contracted previously with Celon Pharma S.A. related to the development of a drug production process or drug prototypes for use by Celon Pharma S.A. has been deferred by mutual consent into future periods due to extraordinary workload relating to completion of research and development of MabionCD20. More information is presented in Note 18.

In 2019, the Company did not take out loans from shareholders or related entities. The balance of loans from shareholders and related companies as at 31 December 2019 was PLN 0 (zero).

In the reporting period ended 31 December 2019, the free of charge surety granted by Glatton Sp. z o.o. to the Company in 2018, in the amount up to PLN 45 million, was in force. The surety relates to the revolving credit agreement of 17 July 2018 concluded with Santander Bank Polska S.A. (formerly Bank Zachodni WBK S.A.) for a period of two years, to finance the Company's operations. In 2020, the Company signed an agreement on market terms which governs the rules for the repayable nature of the surety granted.

Key management compensation (including share-based payment and remuneration)

On 12 February 2019, the Supervisory Board of the Company granted an incentive award to Artur Chabowski and Sławomir Jaros in connection with the Company's acquisition of a grant from EU funds in 2018. The award in the total amount of PLN 140 thousand was paid out in March 2019, and the whole was recognised in the costs of 2018.

On 9 April 2019, the Company's Supervisory Board gave a positive opinion on the budget assumptions for the payment of awards to key employees and Members of the Management Board responsible for the process of preparing the registration documentation for MabionCD20.

In accordance with a Resolution of the Supervisory Board, the payment of the part of the award for the Members of the Management Board in the amount of PLN 200 thousand, constituting not more than 25%, was made by 2 May 2019. The remaining part of the award will be due after the date of a positive decision of the European Commission to admit MabionCD20 in the European Union. The Company recognised the cost of the awards paid and provisions for this in the reporting period ending on 31.12.2019. The amount of the estimated additional provision as of 31.12.2019 was PLN 218 thousand.

On 25 April 2019, Mr. Artur Chabowski tendered his resignation from the position of President of the Management Board of the Company. The resignation came into force on 30 June 2019. The Company's liabilities and the costs resulting from the agreements binding upon the parties have been appropriately disclosed in these financial statements.

The remuneration of members of the key management staff of the Company and its Supervisory Board is presented below:

in PLN thousand	2019	2018
Remuneration of Supervisory Board members	483	341
Remuneration of Management Board members	1 446	1 079
Share-based payments	-	109
Severance pay	135	-
Awards	200	-
Compensation for non-competition	290	-
Total short-term compensation	**2 554**	**1 529**
Provisions for awards	218	-
Valuation of warrants under the share-based incentive scheme	5	308
Total compensation of key management staff and Supervisory Board	**2 777**	**1 837**

In the item "Remuneration of Management Board members", the Company presents both remuneration under employment contracts and appointments.

25. Earnings / (Loss) per share

Basic earnings/loss per share are calculated by dividing the Company's result by the weighted average number of ordinary shares issued during the year, including shares issued but not yet registered.

	2019	2018
Net loss in PLN thousand	(63 738)	(68 870)
Weighted average number of ordinary shares issued (in thousands)	13 722	13 089
Basic loss per 1 share (in PLN per 1 share)	(4.64)	(5.26)

The weighted average number of shares used to calculate diluted earnings per share the same as for the basic earnings per share, as there are no diluted shares.

26. Contingent liabilities and contractual obligations

a) Contractual obligations

As at 31 December 2019, the Company had no contractual obligations to acquire property, plant and equipment, intangible assets or development work.

b) Contingent liabilities

The Company was not a party to any litigation, regulatory actions or arbitration which is expected by management to have a material adverse effect on the Company's financial position or operations and/or cash flow.

27. Events after the balance sheet date

On 13 January 2020, the Management Board informed that as a result of telephone consultations with the EMA, it plans to submit answers to the list of questions received by the Company on 13 December 2019, in January 2020. This was intended to enable the Company to proceed with its registration application at the meeting of the Committee for Medicinal Products for Human Use (CHMP) on 24-27 February 2020.

On 17 January 2020, Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities, "KDPW") made conditional registration in the securities depository, under ISIN code PLMBION00016, of 514,773 P series ordinary bearer shares of the Company and 9,500 S-series ordinary bearer shares of the Company, with a nominal value of PLN 0.10 each.

On 22 January 2020, a Type 3 BPD (Biosimilar Biological Product Development) meeting with the Food and Drug Administration (FDA) was held in relation to the registration and marketing authorisation of MabionCD20 in the USA. The purpose of the meeting was to obtain confirmation of the regulatory strategy for the possibility of applying for registration of MabionCD20 in the United States of America. During the meeting, a productive discussion was held on the data needed to apply for registration in the USA for all indications of the reference drug. The Company was invited to contact the FDA on a regular basis in order to smoothly pursue the activities aimed at filing an application for registration of the drug. On 14 February 2020, the Company received a summary of the BPD meeting from the FDA. The Company has started the analysis of the document and the conclusions and guidelines contained therein, as well as the assessment of their impact on the actions planned by the Company so far to register and admit the drug to trading in the USA. While the Type 3 BPD meeting is a stage of implementation of the activities aimed at obtaining registration of MabionCD20 in the USA, it does not guarantee a positive effect of these activities. The process of registration and approval of the drug for marketing in the USA is multi-stage and it cannot be ruled out that there will be additional requirements in the future, related to product approval by the FDA. The Company also informs that it is continuing its efforts to acquire a distribution partner for the US market, and in particular is continuing its talks with Mylan.

On 28 January 2020, the Company submitted answers to the list of questions received from the EMA in December 2019 concerning both registration applications, the basic application and the application in which the list of indications for the product did not include rheumatoid arthritis ("duplicate application").

On 13 February 2020, the Company received from the EMA a list of issues to be presented at the CHMP meeting, which was scheduled for 24-27 February 2020. The submission of oral explanations at a meeting of the Committee finally took place on 26 February 2020.

On 7 February 2020, the Company received the decision of the Minister of Development on the change of permit no. 301 to conduct business activity in the Łódź Special Economic Zone. By virtue of the above mentioned decision, at the request of the Company, the deadline for incurring investment expenses within the Zone within the meaning of § 6.1 of the Regulation of the Council of Ministers of 10 December 2008 on public aid granted to entrepreneurs operating on the basis of a permit to conduct business activity in special economic zones, in the amount of at least PLN 20 million, was extended from 31 December 2019 to 30 June 2021. The application for the above change resulted from a change in the Company's investment schedule. As of 31 December 2019, the expenses incurred under the investment covered by permit no. 301 amounted to PLN 2.8 million. At the same time, the investment completion date planned for 31 December 2021 did not change.

On 12 February 2020, the Company was informed about the decision of the Pabianice District Governor to change the building permit for the construction of the building under the investment titled "Science and Technology Centre for Advanced Medical Biotechnology of Mabion S.A." together with the necessary infrastructure in Konstantynów Łódzki. The change consists in increasing the cubic capacity of the building to the target size necessary for the Company to implement its investment plans, including increasing the Company's production and R&D capacity.

On 16 March 2020, the Company's Management Board decided to modify the regulatory strategy for MabionCD20 pursued in the procedures carried out with the EMA. The basic change aims at obtaining marketing authorisation for the drug at the EMA directly for a large commercial scale as opposed to the previously planned 2-step strategy, i.e. obtaining marketing authorisation

for a small scale production process – step 1, and then on the basis of a variation, a marketing authorisation for large commercial manufacturing – step 2. The Company's Management Board made this decision on the basis of the opinion of external consultants and recommendations of the Company's Supervisory Board received on 16 March 2020. The change of the strategy involves the withdrawal of registration applications submitted on 1 June 2018 and 6 May 2019. The new application, in which the target production scale will be evaluated by the Agency, will be submitted after obtaining validation and biosimilarity data for the product coming from the full-scale production. The existing large-scale analytical data indicate a reproducible quality and a high degree of biosimilarity, which, in the Company's opinion, significantly translates into the probability of abandoning additional, larger clinical trials. For procedural and formal reasons, the Company could not proceed with its previously submitted and pending applications supplemented by the additional large-scale data. At the time of deciding on the change in the strategy, work on the commencement of the 3rd large scale production validation batch was in progress. In the opinion of the Company's Management Board, changing the strategy was the most optimal path in terms of both cost and time as regards registering Mabion CD20 and the possibility of its commercialization in the European Union. The Company plans to complete the validation of the large-scale manufacturing process for the product in June 2020. The scope and format of the new applications will be consulted first with representatives of the EMA as part of a scientific advice procedure (consultations planned for April/May 2020) in order to adapt them to the Agency's expectations, which will streamline the registration procedure for a large scale, targeted application. The decision to withdraw applications for registration of MabionCD20 in the EMA did not affect the adopted schedule of work on the large-scale manufacturing and bridging trial validation as well as work on registering MabionCD20 in the US market. However, the current work schedule may be changed as a result of guidelines obtained from the regulator.

On 16 March, Mr. Dirk Kreder tendered his resignation from the position of Member of the Supervisory Board of the Company, and at the same time the Supervisory Board adopted a resolution to appoint him as President of the Management Board of the Company as of 16 March 2020. On the same day, Mr. Maciej Wieczorek resigned from the position of Chairman of the Supervisory Board of the Company. Mr. Maciej Wieczorek is still a Member of the Supervisory Board. At the same time, the Supervisory Board of adopted a resolution on electing Mr. Krzysztof Kaczmarczyk as Chairman of the Supervisory Board. Moreover, on that day, Mr. Józef Banach submitted his resignation from the position of Deputy Chairman of the Supervisory Board. Mr. Józef Banach is still a Member of the Supervisory Board. At the same time, the Supervisory Board of the Company adopted a resolution on the election of Mr. Maciej Wieczorek as Deputy Chairman of the Supervisory Board.

On 16 March 2020, the Supervisory Board held a meeting with representatives of the Management Board of the Company, at which a discussion took place on the financing of the Company's activities in light of the new regulatory strategy for MabionCD20 as part of the procedures carried out with the EMA. The Company's Management Board received supporting documents from the Company's main (founding) shareholders ("Shareholders"), according to which the Shareholders declared to inject capital in the Company in an amount not lower than PLN 15 million in 2020. The capital injection, in accordance with the Shareholders' declaration of 16 March 2020, will take place in 2020 in tranches, in response to the Company's financial needs. The recapitalisation of the Company, in accordance with the declarations received, may take place by taking up new issue shares or using debt instruments. The Management Board of the Company adopted supporting documents from the Shareholders and decided to start activities aimed at obtaining debt financing, which will enable effective implementation of the new strategy of registration of MabionCD20 with the EMA. In the opinion of the Company's Management Board, it should be possible to obtain external debt financing thanks to the strong support it received from the Company's major shareholders. The capital injection and debt financing should ensure that the drug will be admitted to trading both in the EU and in the USA. In addition, the Company does not preclude seeking and using other sources of funding such as grants, subsidies from the EU funds, targeted funds for new projects or other options depending on the Company's needs and capabilities.

On 16 March 2020, in connection with the epidemic emergency introduced in Poland and the COVID-19 pandemic announced by the WHO (World Health Organization) worldwide, the Management Board provided information on the possible impact of this situation on the Company's operations. The Management Board of Mabion S.A. ascertained that the Company's operations might be temporarily affected by reduced employee availability and, as a consequence, delays in research and development processes, due to the need to introduce home office for certain positions. The Management Board noted that it had a certain degree of control over the pace and continuity of manufacturing processes, but it could not be ruled out that the introduction of remote work in certain positions and possible disturbances in the supply chain integrity of certain components, materials, and machinery and equipment will temporarily slow down R&D and manufacturing processes, including the production of the

last of the three planned Mabion CD20 large-scale validation batches. At the same time, the Company's Management Board stressed that the Company's processes were focused on maintaining progress and completing work on Mabion CD20 validation, enabling to proceed to subsequent stages of research on the medicinal product manufactured on a large scale (i.e. stability and analytical similarity studies). As at the date of publication of the related current report and as at the date of publication of these financial statements, this work was progressing smoothly, according to the planned schedules, and the Management Board was not aware of any delays in the delivery of components, materials or machinery or equipment. However, it could not be excluded that such delays will occur in the future. The Management Board of the Company has also recognised the risks associated with the liquidity disruption in the markets resulting from the spread of COVID-19 and the consequent possible restriction of the Company's access to finance. Furthermore, it noted potential shifts in administrative processes, both in the area of decisions of the authorities governing the release of medicinal products to the market and in the area of decisions of public authorities granting and settling subsidies and grants or VAT refunds. The Management Board emphasised that both at the time of submitting the current report, as well as at the date of publication of these financial statements, it had not received any information from the above-mentioned authorities concerning the shift in the processes in progress. The continuing state of pandemic, including, among others, the reduction of passenger traffic may also result in a temporary need to reduce the Company's marketing activity in the area of business development, as well as the suspension of key business decisions as part of the conducted talks. Due to the dynamics of events, the Issuer's Management Board will monitor the situation on an ongoing basis. The Company has also declared that it would comply with all applicable administrative decisions. By the date of publication of these statements, the situation described above has not changed significantly.

8th April, 2020

Oświadczenie

Niniejszym oświadczam, że z uwagi na pandemię koronawirusa COVID -19 powodującą ograniczenia w przemieszczeniu pomiędzy krajami UE jak również wewnątrz Państwo Członkowskich UE nie udało się mi się w pełni zakończyć procedury uzyskania podpisu elektronicznego w terminie do zatwierdzenia Sprawozdania Finansowego za rok 2019 w związku z czym nie miałem możliwości podpisania sprawozdania finansowego.

Jednocześnie oświadczam że wedle mojej najlepszej wiedzy, roczne sprawozdanie finansowe za okres od 01.01.2019 roku do 31.12.2019 roku i dane porównywalne zostały sporządzone zgodnie z Międzynarodowymi Standarami Sprawozdawczości Finansowej, zatwierdzonymi przez Unię Europejską („MSSF") i odzwierciedlają w sposób prawdziwy, rzetelny i jasny sytuację majątkową i finansową Spółki oraz jej wynik finansowy.

Ponadto oświadczam, że sprawozdanie z działalności Spółki zawiera prawdziwy obraz rozwoju i osiągnięć oraz sytuacji Spółki, w tym opis podstawowych zagrożeń i ryzyka.

Statement

I hereby declare that, due to the COVID -19 coronavirus pandemic causing restrictions on movement between EU countries as well as within an EU Member State, I have not been able to complete the procedure of obtaining electronic signature in time for the approval of the 2019 Financial Statements and, as a result, I have not been able to sign the accounts.

At the same time, I declare that to the best of my knowledge, the annual financial statements for the period from 1 January 2019 to 31 December 2019 and the comparative data have been prepared in accordance with the International Financial Reporting Standards, adopted by the European Union ("IFRS") and they give a true and fair view of the Company's financial position and its financial performance.

Moreover, I declare that the report on the Company's activity contains a true view of the development, achievements and situation of the Company, including the description of basic threats and risks.

Dirk Kreder – Prezes Zarządu Mabion S.A./

President of Management Board of Mabion S.A.

The Management Board

President of the Management Board
Dirk Kreder

Member of the Management Board
Sławomir Jaros

Member of the Management Board
Grzegorz Grabowicz

Member of the Management Board
Jarosław Walczak

Konstantynów Łódzki, 8 April 2020.