



SELVITA S.A.
CONSOLIDATED SEMIANNUAL
REPORT (SUMMARY)

H1
2017

September 11, 2017

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BASIC INFORMATION ON THE CAPITAL GROUP

Parent Entity

Business name of the Company	Selvita Spółka Akcyjna
Registered office	ul. Bobrzyńskiego 14, 30-348 Kraków
Company ID (REGON)	120515330
Tax ID (NIP)	679-29-42-955
Legal form	Joint-Stock Company
Website	www.selvita.com

Related Entities

Business name of the Company	BioCentrum spółka z ograniczoną odpowiedzialnością
Registered office	ul. Bobrzyńskiego 14, 30-348 Kraków
Company ID (REGON)	356815670
Tax ID (NIP)	676-226-47-81
Legal form	Limited Liability Company
Website	www.biocentrum.com.pl
Shareholders	100% shares held by Selvita S.A.

Business name of the Company	Selvita Services spółka z ograniczoną odpowiedzialnością
Registered office	ul. Bobrzyńskiego 14, 30-348 Kraków
Company ID (REGON)	122456205
Tax ID (NIP)	676-245-16-49
Legal form	Limited Liability Company
Shareholders	100% shares held by Selvita S.A.

Business name of the Company	Selvita Inc.
Registered office	Cambridge, Massachusetts, USA
Company File No.	5700516
Legal form	Corporation
Shareholders	100% shares held by Selvita S.A.

Business name of the Company	Selvita Ltd
Registered office	Cambridge, Great Britain
Company No.	9553918
Legal form	Limited Liability Company
Shareholders	100% shares held by Selvita S.A.

Business name of the Company	Ardigen Spółka Akcyjna
Registered office	ul. Bobrzyńskiego 14, 30-348 Kraków
Company ID (REGON)	362983380
Legal form	Joint-Stock Company
Shareholders	Selvita S.A. holds 51,23% of shares and 57,25% votes at the shareholder meeting* <small>*Data includes increase of Ardigen's share capital from 182.332 PLN to 254.832 PLN in connection with the issue of shares series E and F which was registered in the National Court of Register on 4.09.2017.</small>

Affiliated Entity

Business name of the Company	Nodthera Ltd
Registered office	137a George Street Edinburgh EH2 4JY, Edynburg, Szkocja
Shareholders	Selvita S.A. holds 1.910.000 shares entitling to 38,90% votes at the shareholder meeting <i>*Data includes increase of Nodthera's Ltd share capital, which is in a process of registration in the register of companies</i>
Share capital	4.410.000 GBP* <i>*Data includes increase of Nodthera's Ltd share capital, which is in a process of registration in the register of companies</i>
Date of incorporation	July 2016 r.

All entities within the Selvita Group are consolidated. From the last periodic report, there were no changes in the organization of the Selvita's Capital Group except for the changes resulting from the increase in the share capital of Ardigen S.A. and Nodthera Ltd, referred to above.

The Core Business of the Capital Group

The activities of the Capital Group cover three main business segments:

- **Innovative segment** – research and development activities implemented through in-house research projects on innovative drugs,
- **Service segment** – R&D services provided to external clients, in particular to pharmaceutical and biotechnology industry,
- **Bioinformatics segment (Ardigen S.A.)** – bio-data science and complementary advanced software services to support data-driven Life Science and Healthcare organizations.

FINANCIAL HIGHLIGHTS

SELVITA GROUP (consolidated data)								
Item	PLN thousands				EUR thousands			
	From 01.01.2017 to 30.06.2017	From 01.01.2017 to 30.06.2017 (excl. incentive program)	From 01.01.2016 to 30.06.2016	From 01.01.2016 to 30.06.2016 (excl. incentive program)	From 01.01.2017 to 30.06.2017	From 01.01.2017 to 30.06.2017 (excl. incentive program)	From 01.01.2016 to 30.06.2016	From 01.01.2016 to 30.06.2016 (excl. incentive program)
Sales revenue	31 311	31 311	22 664	22 664	7 332	7 332	5 189	5 189
Grant income	7 819	7 819	5 662	5 662	1 831	1 831	1 296	1 296
Revenue from sales of R&D projects	20 285	20 285	-	-	4 750	4 750	-	-
Other operating revenues	245	245	208	208	57	57	48	48
Total operating revenue	59 660	59 660	28 534	28 534	13 970	13 970	6 533	6 533
Total operating expenses	-49 128	-48 545	-32 789	-28 747	-11 504	-11 367	-7 507	-6 581
Depreciation and amortization	-2 416	-2 416	-1 660	-1 660	-566	-566	-380	-380
Profit/loss on operating activities (EBIT)	10 532	11 115	-4 255	-212	2 466	2 603	-974	-49
Profit/loss before income tax	8 575	9 158	-3 634	409	2 008	2 145	-832	94
Net profit/loss	8 280	8 863	-3 722	321	1 939	2 075	-852	73
EBITDA	12 948	13 531	-2 594	1 448	3 032	3 168	-594	332
Net cash flow from operating activities	15 814	15 814	1 131	1 131	3 703	3 703	259	259
Net cash flows from investing activities	-10 933	-10 933	-8 262	-8 262	-2 560	-2 560	-1 891	-1 891
Net cash flows from financing activities	5 540	5 540	4 285	4 285	1 297	1 297	981	981
Total net cash flow	10 422	10 422	-2 845	-2 845	2 440	2 440	-651	-651
Number of shares	13 771 229	13 771 229	13 443 343	13 443 343	13 771 229	13 771 229	13 443 343	13 443 343
Profit (loss) per share attributable to majority shareholders (in PLN/EUR)	0,58	0,62	-0,26	0,04	0,14	0,15	-0,06	0,01
Diluted profit (loss) per share attributable to majority shareholders (in PLN/EUR)	0,58	0,62	-0,25	0,04	0,14	0,15	-0,06	0,01
Book value per share attributable to majority shareholders (PLN/EUR)	4,65	4,65	3,51	3,51	1,10	1,10	0,79	0,79
Diluted book value per share attributable to majority shareholders (PLN/EUR)	4,65	4,65	3,43	3,43	1,10	1,10	0,78	0,78
Declared or paid dividend per share (PLN/EUR)	-	-	-	-	-	-	-	-

MANAGEMENT BOARD'S COMMENTS ON FACTORS AND EVENTS AFFECTING THE FINANCIAL RESULTS

Increase and Dynamics of Revenues and Financial Results

In the first half-year of 2017 Selvita Capital Group (hereinafter referred to as 'Selvita', 'Selvita Group' or the 'Group') achieved positive financial result on operations and on bottom line level (net profit). The mentioned profit resulted mainly from continuing profitable operations both within the scope of services as well as innovations segments. Crucial influence on revenue and profit dynamics in H1 2017 had SEL24 program commercialisation which is described extensively farther in the report.

H1 2017 is the last half-year when the Group recognised in its profit and loss statement costs of management incentive program which was commenced in 2015. Costs recognised in H1 2017 amounted to PLN 583 thousand. The cost of the mentioned program is recognised on an accrual basis and does not result in any cash expenditures. In order to maintain comparability of the financial data for the current period with the data from the previous periods, the comments presented below are based on data that does not account for the costs of the incentive program.

Group's operating profit in H1 2017 amounted to PLN 11,115 thousand and Group's net profit amounted to PLN 8,863 which means net profitability (calculated as the net profit divided by total operating revenues) at the level of 15%. The fact that the Group's net profit was lower than operating profit was a result of: loss on financial operations in the net amount of PLN 1,243 thousand, Nodthera's (Selvita S.A. affiliate, which investment is valued on a basis of equity method) general and administrative (G&A) expenses for the period in the amount of PLN 714 thousand and negative impact of current and deferred tax in the amount of PLN 296 thousand.

In H1 2017 Selvita Group recognised total operating revenue in the amount of PLN 59,660 thousand, which means an 109% increase comparing to H1 2016 when total operating revenue amounted to PLN 28,535 thousand. In H1 2017 sales revenue (excluding subsidies on other operating revenue) amounted to PLN 31,311 thousand, which means dynamics pace at the level of 38% compared to H1 2016, in which sales revenue (excluding subsidies and other operating revenue) amounted to PLN 22,664 thousand. In H1 2017 the Group introduced the new line in the consolidated profit and loss statement – "Revenue from sales of R&D projects" – in which revenue from invoiced SEL24 upfront payment was presented. Costs of SEL24 program (which have been capitalised in balance sheet since 1 January 2015) decreased by SEL24 capitalised grants attributable to the mentioned costs were presented in operating expenses in "Cost of R&D projects sold" line.

Commercial revenue of the innovation segment in H1 2017 amounted to PLN 28,362 thousand, which means a 337% increase in comparison to the corresponding period of the previous year, when those revenues amounted to PLN 6,490 thousand. Innovations segment's operating profit (EBIT) for H1 2017 amounted to PLN 8,699 thousand. High dynamics of commercial revenue of innovation segment and its operating profit in H1 2017 is mainly a result of SEL24 program commercialisation. Impact of that transaction on Group's financial result is presented in the report below.

The second profitable segment of the Group's operations is services segment. In 2017 the Group concentrates on intensive services segment growth as a result of business portfolio extension, penetrating of new markets and acquisition of more valuable and longer FTE and integrated contracts. Revenue from services provided to external customers by services segment in H1 2017 amounted to PLN 19,615 thousand, which means growth of 31% compared to H1 2016, when external revenue of services segment amounted to PLN 14,925 thousand. Services segment's operating profit (EBIT) for H1 2017 amounted to PLN 1,183 thousand, which means 253% increase in comparison to H1 2016 EBIT which amounted to PLN 335 thousand.

In H1 2017 bioinformatics segment external revenue amounted to PLN 3,619 thousand, which means an increase of 190% in comparison to external revenue for H1 2016, which amounted to PLN 1,250 thousand. Bioinformatics segment generated in H1 2017 operating profit in the amount of PLN 1,232 thousand comparing to operating loss generated in H1 2016 in the amount of PLN 495 thousand.

In H1 2017 grant income increased by 38% in comparison to the corresponding period of the previous year – from PLN 5,662 thousand to PLN 7,819 thousand. Grant income amount presented in the financial statements do not includes the amount that was deferred in the balance sheet in parallel to the deferred costs of R&D development works. An increase in the grant income comparing to the corresponding period of the previous year indicates growth in expenditures on new innovative projects executed under the new grant perspective.

SEL24 program commercialization

On 28 March 2017 Selvita signed with Berlin-Chemie AG (part of Menarini Group) SEL24 program commercialisation contract. Impact of that transaction on Selvita's operating profit is presented below.

In H1 2017 the Group implemented new accounting policy for SEL24 transaction and further R&D deals recognition that results in separate presentation of revenues and costs of such transactions in profit and loss statement. Due to the above financial result of SEL24 commercialisation consist of invoiced "upfront payment" (presented in operating revenue) reduced by costs of SEL24 program which have been capitalised since 1 January 2015 and presented in balance sheet net of capitalised grants attributable to those costs (both presented in operating expenses).

Profit on SEL24 commercialisation recognised in H1 2017 amounted to PLN 12,956 thousand and included:

<i>[PLN thousand]</i>	H1 2017
„Upfront payment”	20,285
Capitalized subsidies attributable to SEL24 program	6,586
Capitalized costs of SEL24 program	(13,341)
Capitalized expenditures on SEL24 patents	(574)
H1 2017 profit from transaction	<u>12,956</u>

The value of the contracted portfolio of orders for the year 2017 resulting from commercial contracts and subsidy agreements signed as of the end of August 2017 ('Backlog'), amounts to PLN 94,996 thousand, of which:

- Services PLN 35,944 thousand
- Innovations PLN 37,439 thousand
- Bioinformatics PLN 5,790 thousand

- Subsidies PLN 15,823 thousand

and is 70% higher than the backlog for the year 2016 announced in August last year. The subsidies backlog does not account for the amount of PLN 3,663 thousand, which constitutes grant income to be accounted for in the balance sheet in parallel to the capitalised costs of R&D development works.

The Group's Assets and the Structure of Assets and Liabilities

The value of the Group's assets as of the end of H1 2017 amounted to PLN 100,904 thousand and increased by PLN 11,783 thousand compared to the end of 2016 (PLN 89,121 thousand). At of the end of H1 2017 the highest value tangible assets items are: fixed assets amounting to PLN 27,188 thousand (mainly laboratory equipment) and deferred income tax asset in the amount of PLN 9,949 thousand. Compared to the amounts as of 31 December 2016 the value of tangible assets decreased by PLN 356 thousand. This is mainly the effect of SEL24 program commercialization (sale of previously capitalized development works) equalized by purchase of new tangible assets (including impact of planned depreciation expenses).

Since 1 January 2015 Selvita has been activating the costs of unfinished development work, further to meeting the criteria to disclose expenditure on the KIND-P1 project in balance sheet assets as costs of unfinished development work. The value of these assets at the end of H1 2017 amounted to PLN 2,948 thousand and it is presented as "unfinished development work" in the amount of PLN 941 thousand i.e. reduced by PLN 2,006 thousand which is the value of the deferred grant income attributable to the mentioned deferred costs. After SEL24 program commercialization balance sheet line of "unfinished development work" contains amounts attributable only to SEL120 program.

The assets structure demonstrates the Group's high liquidity, which is confirmed by the following ratios:

	30/06/2017	31/12/2016
Liquidity indicator		
current assets/current liabilities including short-term provisions and accruals (excl. deferred revenues)	3,32	3,54
Increased liquidity indicator		
(current assets-inventory)/current liabilities including short-term provisions and accruals (excl. deferred revenues)	3,23	3,44

Cash surpluses not used in the operating activities are invested in safe financial instruments: bank deposits.

The main item in the Selvita Group's equity and liabilities is equity, which amounted to PLN 64,882 thousand as of 30 June 2017 and increased by PLN 9,171 thousand compared to 31 December 2016. The second largest source of funding are short-term liabilities and provisions which amounted to PLN 21,430 thousand at the end of H1 2017. The highest value liabilities items are: trade liabilities, deferred revenues and short-term provisions.

Current and Foreseen Financial Situation

The Group's financial position as of the report date is very good. As of 30 June 2017 the value of the Group's cash amounted to PLN 39,517 thousand and as of 11 September 2017 the value of the Group's cash amounted to PLN 37,957 thousand.

The Group meets its obligations on time and maintains a sustainable cash flow ensuring its liquidity. Income from share issuance in 2014 and cash generated from operations in previous periods allow the Company to execute its planned investments, in particular the development of new innovative projects at the research and preclinical phases and purchasing new laboratory equipment and infrastructure.

Major off-balance-sheet items

Major off-balance-sheet items are described in note 27 to the condensed consolidated financial statements.

Position of the Board regarding the feasibility of implementing previously announced forecasts

The Company has not published any forecasts of 2017 financial results.

INFORMATION ON THE GROUP'S ACTIVITY IN H1 2017

R&D Activities (Innovative Segment)

In H1 2017, Selvita Group successfully continued research projects, both these performed as part of internal pipeline, as well as projects performed in cooperation with external partners i.e. the Cancer Metabolism Platform collaboration with Merck KGaA.

TARGETED THERAPEUTICS PLATFORM TTP

SEL24

SEL24 is intended for the treatment of patients with relapsed/refractory AML based on unique mechanism of action – dual inhibition of PIM and FLT3 kinases responsible for cancer proliferation and progression. In March 2017 Selvita S.A. and Berlin-Chemie AG, a company of the Menarini Group, entered into a global license agreement for SEL24. According to the agreement, Selvita will grant Menarini Group an exclusive license to further research, develop, manufacture and commercialize SEL24 worldwide. Selvita has received an upfront payment, and will be eligible to receive milestone and royalty payments upon further development of the product. Before Menarini will takeover the ongoing Phase I/II trial in acute myeloid leukemia (AML) patients, what is planned for December 2017, Selvita will stay in a role of the study sponsor and Menarini will reimburse Selvita for all the incurred expenses related to the study.

SEL120

SEL120 is a project aimed at development of selective CDK8 inhibitors as a treatment in oncological disorders. In the first half of 2017, Selvita in cooperation with Aptuit Srl initiated series of studies for the IND data package for SEL120 project. This package includes both the toxicology and safety pharmacology testing in compliance with guidelines of ICH (International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use) and GLP (Good Laboratory Practice), as well as large-scale GMP (Good Manufacturing Practice) synthesis of the compound.

In addition Selvita has signed a partnership agreement with Leukemia & Lymphoma Society the largest voluntary health organization dedicated to funding research, finding cures and ensuring access to treatments for blood cancer patients. Under the terms of the agreement, LLS will provide up to \$3.25 million funding, through its Therapy Acceleration Program® (TAP), dedicated to support financially and scientifically innovative programs with

a potential to change current treatment standards for patients with blood cancer. This partnership offers a unique opportunity to work with world renowned researchers, specialists and experts in the field of hematological cancers.

Preclinical development of SEL120 is according to planned schedule and phase I clinical trial is expected to start in H2 2018. Selvita continued studies supporting unique mechanism of action in AML, showing high and differential activity of SEL120 candidate molecule on leukemia stem cells. Additional studies provided novel evidence for differential activity in selected subsets of breast cancer cells and synergistic mode of action with PD-1 immune checkpoint antibodies in vivo.

OTHER PROJECTS IN TARGETED THERAPEUTICS PLATFORM

Novel projects aimed at therapeutic molecules targeting oncogenic pathways have been integrated within Targeted Therapeutics Platform. Strategically a major focus is on development of compounds which explore phenomenon of synthetic lethality and epigenetic modulators in cancer. In synthetic lethality, active molecules target specific proteins and exert anticancer efficacy only in the context of specific mutations. Such approach guarantees unprecedented safety and specificity, and is now possible considering rapid development of essential know-how and expertise in areas of bioinformatics and validation of novel targets in oncology at Selvita. One of the revealed protein targets is BRM/SMARCA2. Inhibition of this protein results in synthetic lethality in the presence of oncogenic mutations in SMARCA4 which are common in NSCLC at frequency over 8%. Selvita has developed unique technology which enables identification and specificity studies on novel BRM/SMARCA2 inhibitors. Identified first-in-class BRM/SMARCA2 inhibitors are at the stage of hit to lead chemical expansion. In parallel within the Platform there are ongoing development studies where protein targets and general strategy is confidential at this stage.

Additional activities in the platform involve further development studies aimed at profiling advanced lead molecules targeting MNK1/MNK2 kinases. There are ongoing in vivo studies including immunooncology animal models, which are essential for determination of optimal clinical strategy in this project.

CANCER METABOLISM AND IMMUNOMETABOLISM PLATFORM

Projects in fields of cancer metabolism and immunometabolism have been grouped into one research platform. Research is ongoing in three big projects:

1. **Inhibition of adenosine related tumor immunosuppression** is a group of projects in the field of immunooncology. Most advanced are works on dual A2A/A2B receptor antagonists. Chemical series discovered and expanded in H1 2017 are in lead optimization stage and have been validated in immunooncology relevant animal models – tumor growth inhibition was and increased activation and infiltration of lymphocytes into tumor was observed. Nomination of clinical candidate is planned in 2018. Inhibitors of enzymes of extracellular adenosine synthesis pathway (CD39 and CD73) are at earlier stages of discovery: in H1 2017 HTS derived chemical matter has been identified and chemical expansion (hit optimization) has been initiated.
2. **Inhibitors of serine synthesis and one carbon metabolism pathways** is an internal program targeting one of the most important metabolic pathways providing cancer cells the resistance to stress conditions in tumor microenvironment and proliferative advantage. Selvita focuses on discovery of serine hydroxymethyltransferase (SHMT2) inhibitors. Upregulation of SHMT2 has been described in many types

of cancer. In H1 our chemical series were in hit-to-lead stage, with studies in animal models planned for upcoming months.

3. **Partnership with Merck KGaA in cancer metabolism:** a continuation of previous Merck Serono partnership in 2013-15, aims at development of new anticancer drugs targeting particular biological targets associated with aberrant metabolic pathways in cancer cells (cancer metabolism). Dependence of specific metabolic pathways (e.g. glutaminolysis or glycolysis) is a common feature of many types of cancer, therefore, such drugs have potentially very broad application spectrum. In cooperation with partner several biological targets have been selected, and research work have different degrees of advancement (from target validation to lead optimization). The project, in addition to funding, has substantial scientific and infrastructural support from the partner, which is the research and development department of one of the top 25 global pharmaceutical companies. Conducted research work is in accordance with the schedule.

IMMUNOLOGY AND IMMUNOONCOLOGY PLATFORM (IMIO)

Immunooncology Platform aims to develop innovative, next generation immunotherapeutics to provide effective treatment for patients with the most aggressive and resistant malignancies. The research is focused on discovery of a few novel therapeutics for new molecular targets with first-in-class potential. The initiatives are at an early stage of drug discovery. The current main research area of the Company is STING-dependent signaling pathways. It engages natural proinflammatory defense mechanisms of the human immune system to promote recognition and selective killing of tumor cells with anticancer vaccine potential preventing recurrence of the disease. As a result of screening and rational computer-aided design, small molecule modulators have been identified for the STING signaling pathway with confirmed activities in human *in vitro* cellular models. Parallel development of immunooncology assays specific to projects needs is in progress. Gradual expansion of the Platform project portfolio also involves development of in house DNA-encoded screening libraries.

INFLAMMASOME INHIBITORS

Within the IMIO Platform Selvita continues its research in the SEL212 project commercialized in 2016 through a spin-off to Nodthera. Collaboration with Nodthera is based on the research findings from SEL212 project originally developed by Selvita. It aims to discover small molecule inhibitors of the inflammasome protein complex responsible for regulating of active proinflammatory cytokines formation - interleukin 1 β and interleukin 18. Excessive activation of inflammasome NLRP3 plays an important role in the pathogenesis of a number of diseases that are a significant burden on current health systems such as type 2 diabetes, gout, rheumatoid arthritis, Alzheimer's disease or cancer. The main goal of the project is to discover and develop innovative inhibitors of the NLRP3 inflammasome. As part of the research collaboration with Nodthera, a new agreement was signed in July 2017, replacing the original contract terms established during company's founding. The renegotiation of the collaboration terms was related to the necessity to provide Nodthera more flexibility after an increase of the share capital, as well as with the fact that at its current development stage, SEL212 program does not require the involvement of the FTE at the level needed in previous stages of development. Selvita will hold 38,90% shares in Nodthera Ltd after subsequent registration of increased share capital which is now proceeded in the register of companies.

OTHER PROJECTS

The Company's pipeline includes also smaller projects or projects that are at an early stage, in addition to the abovementioned and Selvita will keep investors informed about their results.

Service Segment

BIOLOGY DIVISION

During the first half of 2017 the Contract Biology Division provided services within the scope of biological and biochemical research, as well as testing services for customers within the field of chemistry, pharmacy and biotechnology. Contract Biology Division laboratories specialize in certified testing conducted in accordance with GLP and GMP standards in the fields of pharmacodynamic and cytotoxicity testing, developing and validating biochemical, bioanalytical, cellular testing and analytical methods. Another well-developed branch is providing services in the field of recombinant protein production, implemented by the Protein Chemistry Laboratory.

For the Analytical Laboratory the first half of 2017 was a time of continuing research in well-established service areas targeted at pharmaceutical clients and those from the agrochemical industry. Most importantly, long-term projects related to stability testing, initiated in previous years, were continued. In the field of pharmacy, active ingredient and ancillary material release tests were also carried out as per the specifications and methods previously validated at the Selvita Analytical Laboratory. Developmental research and validation of methods was performed for large Polish pharmaceutical companies and, most importantly, foreign customers. It should be noted that within the field of R&D projects most works are currently carried out using the FTE cooperation model. This is in line with the Division's long-term strategy related to increasing the percentage share of this type of projects among the total orders executed.

Among the smaller projects completed during the first half of this year we should mention extending cooperation with one of the big global pharmaceutical companies within the scope of biological and low molecular weight pharmaceutical products release testing for the European market. This resulted in changes introduced into the laboratory's infrastructure, streamlining quality control and the GMP quality control system. Moreover, the Cellular and Molecular Biology Laboratory initiated cooperation with two Israeli biotechnology companies. In both cases projects pertained to the development and optimization of biochemical tests that would allow to determine the activity of candidate drugs impacting the metabolism of neoplasms and immuno-oncology drugs.

At the same time ongoing orders concerning the genotoxicity analysis of compounds used both in the pharmaceutical, as well as the agrochemical industry were continued. This research was done in accordance with the Good Laboratory Practice (GLP) standards for customers from Poland and Europe. The Laboratory also continued cooperation with biotechnology companies from the United Kingdom, Sweden, Hungary and the USA in different fields of research related to analyzing safety and efficacy of low molecular weight drugs and protein-derived drugs.

It should also be stressed that during this period researchers from the Cellular and Molecular Biology Laboratory were actively involved in complex research projects executed for pharmaceutical companies from Europe and Asia. The first one is a typical drug-discovery project based on Structure-Activity Relationship analyses, where researchers were responsible for developing a number of biochemical and cellular tests currently used in the process of developing a new drug.

An unambiguous success the Laboratory achieved in the first half of 2017 was receiving the funding recommendation granted by the Małopolskie Entrepreneurship Center (Małopolskie Centrum Przedsiębiorczości) for the project entitled “Developing an in vitro research platform for biosimilar antibodies with therapeutic properties”, worth approximately PLN 3.6 million and obtaining funding in the amount of PLN 2.5 million from the funds of the Regional Operating Program of the Małopolskie Voivodship for the years 2014-2020. As part of the funded project, the Laboratory is developing a number of biophysical, biochemical and cellular in vitro tests that are to allow for comparative analysis of the affinity and activity of monoclonal antibodies from the TNF α inhibitors and VEGF groups. This project is planned for the years 2017 and 2020.

In the first half of 2017, similar as in corresponding past periods, the main source of revenue of the Biochemical Laboratory were projects related with the manufacturing, purification and characterization of recombinant proteins. During the reporting period, apart from services related to the production of proteins for external customers, the Laboratory also performed genotoxicity testing based on a bacterial system. The above-mentioned testing was performed mostly for customers from Western Europe and the USA, representing global biotechnological and pharmaceutical corporations and smaller companies involved in the processes related to the discovery of new drugs. It should be noted that in the first half of 2017 new orders were acquired for testing related to the crystallographic analysis of proteins, the so-called “from gene to protein structure” analyses for European clients from the pharmaceutical industry, where a large portion is carried out as a research segment at the Biochemistry Laboratory for integrated projects carried out also at other divisions of Selvita.

The main goal of the Contract Biology Department during subsequent quarters will be to increase market penetration, especially in the USA, taking special account of the offer targeting pharmaceutical/biotechnological clients looking for integrated solutions for innovative drug development projects.

CHEMISTRY DIVISION

An upward trend continued in the first half of 2017 at the Contract Chemistry Division.

The most important services in this Segment include:

- research and development projects leading to the discovery of new drugs, including computational chemistry, medical chemistry, organic chemistry, analytical chemistry and biological testing of the developed molecules with a potential pharmacological potential;
- optimization of chemical technologies: development of new, efficient and cost-effective, as well as environmentally-friendly synthesis processes, alternative technologies for obtaining chemical substances, scalability of chemical processes for industrial purposes, optimization and parametrization of technology for registration purposes;
- contract synthesis of chemicals in a scale of milligrams up to kilograms: pharmaceutical substances, new flavoring compounds and agrochemical compounds, pollutants, degradation products and analytical standards for registration purposes, new polymorphic forms of known organic substances and other chemical compounds for specialist application;

- chemical analysis, investigating the structure and qualitative and quantitative chemical composition of compounds and mixtures in accordance with the requirements of pharmaceutical, chemical and agrochemical markets.

During the first half of 2017 the Company informed about two new large integrated projects (carried out in cooperation with an Italian pharmaceutical company and a Big Pharma company), as well as about a chemical project, all based on the FTE model, in current reports due to the value of those projects and their significance for the development of service activities and increase of the added value level of the services provided by the Company:

- On March 9 2017 an important agreement was signed between the Company and an Italian pharmaceutical company, concerning the performance of an integrated research and development project that will be carried out jointly by the Contract Biology Division and Contract Chemistry Division of the Company. The Agreement has been concluded for a period of three years, between April 1 2017 and March 31 2020; its value amounts to EUR 1,422,000 (PLN 6,135,361.20 when converted using the exchange rate 1 EUR = 4.3146 PLN).
- On May 3 2017 Selvita S.A., Selvita Inc. and Selvita Services sp. z o.o. concluded an annex to the order constituting part of framework agreement with one of the global biotechnological companies with its headquarter in the United States of America; this agreement was concluded by and among those parties on May 6 2015 and it pertained to the provision of chemical support for the Customer's research projects. The goal of the project is to develop a new, low molecular weight pre-clinical candidate in the therapeutic field defined by the Customer. The Annex was concluded for a period of three years and its maximum value amounts to USD 3,110,062.50 (PLN 12,014,171.44 when converted using the exchange rate 1 USD = 3.8630 PLN).
- On May 18 2017 the Company received an order under the framework agreement concluded between the Company and one of the 20 biggest global pharmaceutical companies with its seat in Europe. This order pertained to the performance of an integrated research and development project. The project constituting the object of the Order shall be executed over 13 months from its conclusion and its value shall amount to EUR 805,000 (PLN 3,397,100.00 when converted using the exchange rate 1 EUR = 4.22 PLN). The goal of the project is to develop a new, small molecular pre-clinical candidate in the therapeutic field defined by the Customer. The Order opens broad development opportunities for the cooperation with that Customer, with whom the Company has been working since 2011, performing smaller service projects within the field of Contractual Chemistry and Biology.

Smaller FTE contracts have also been signed with new customers and cooperation with existing customers in the pharmaceutical sector (Big Pharma), biotechnological sector, chemical sector and agrochemical sector, as well as with academic institutions has been extended. Most projects included research and development works meant to develop new pharmacologically active molecules, new synthetic processes and technologies. Currently approx. 80% of the revenues from chemical services provided stems from increasingly larger FTE contracts and integrated projects. In the coming years the share of integrated projects in the revenues should move towards reaching a level of 50% of all the projects, at the cost of limiting mainly the low-margin fixed price projects.

The customer base of the Services Segment is well diversified in terms of market segments, industries and geographical locations. In order to retain an upward trend employees of the Company are and will be actively involved in sales efforts in Europe, Israel and the USA during conferences, fairs, customer visits and the visits of potential business partners at the Company's seat. Sales activities are constantly carried out in the United States of America, in Europe (France, Italy, Germany, Switzerland, Belgium, Austria, UK, Poland) and in Asia (Israel, Japan).

Moreover, during the first half of 2017 representatives of the Company took part in prestigious industry conferences. The most interesting events from that period, as far as the operations of Contractual Chemistry are concerned, included the following:

- Biotech evening event, USA, San Francisco, 01.19.2017
- National Manufacturing & Supply Chain Conference & Exhibition, Ireland, Dublin, 01.31.2017
- New Approaches in Medicinal Chemistry II, UK, Stevenage, 02.01.2017
- BIO Wales, UK, Cardiff, 03.07-08. 2017
- Spring Meeting: Small Molecules and Biologicals in Cancer Immunotherapy, the Netherlands, Utrecht, 03.17. 2017
- FlandersBio-Janssen Pharmaceutica Partner Day, Belgium, Antwerp, 03.09. 2017
- BIO Europe Spring, Spain, Barcelona, 03.20-22. 2017
- 3rd RSC-BMCS symposium on mastering medicinal chemistry, UK, Cardiff, 03.22. 2017
- World Neuroscience Innovation Forum, UK, London, 03.27. 2017
- The future of Swedish & Danish Life Science, Sweden, Lund, 04.08. 2017
- ACS National Meeting and Exhibition, USA, San Francisco, 04.02-06.2017
- German Biotechnology Days 2017, Germany, Hannover, 04.05-06. 2017
- Swiss Biotech Day, Switzerland, Basel, 05.04. 2017
- 6th Annual Advances in Chemical Sciences Symposium , USA, Boston, 05.05. 2017
- The Road to the Clinic for Small Molecule, Germany, Heidelberg, 05.10. 2017
- Biomed Israel Innovation Conference, Israel, Tel Aviv, 05.23-25. 2017
- 10th Annual Global Discovery to Development Innovation Forum, UK, London, 05.24-25. 2017
- 1st RSC Anglo-Nordic Medicinal Chemistry Symposium, Denmark, Copenhagen, 06.12-14. 2017
- Annual Drug Discovery Leaders' Summit, Germany, Berlin, 06.12-13. 2017

The current number of contracts and the business negotiations under way allow to anticipate a further strong upward trend at the Contract Chemistry Department.

In the first half of 2017 our team of scientists at the Contract Chemistry Department was extended. In May 2017 we opened a branch in Poznań, which increased Selvita's access to highly qualified scientific staff from the north of Poland.

Team competence, access to world-class research instrumentation and continuous improvement of the Company's operating standards (technical, quality, infrastructural, sales) are reflected in more and more recognition for the Company's services in the international market of research and development services within the field of discovering new drugs and chemical substances. In turn, this is reflected in the continuous growth of interest in high-margin services of the Segment, the value and profitability of contracts signed and the increase of employment and revenues.

In subsequent years the Services Segment shall continue its current strategy, focusing its development within the area of service activities in the pharmaceutical, biotechnological, agrochemical and chemical market.

It is planned to continue driving the focus on operational activities, leading to an increase of the functioning efficiency, work quality and optimum use of resources, which were considerably extended during the previous years.

As the demand for the particular services grows, the Company shall continue investment in specialized research equipment, including laboratories adopted for the provision of research and development services.

Considering the current contracts and pending business negotiations, further intensive development and increases of the Company's scale of operations are to be expected in the coming years.

ARDIGEN S.A. (BIOINFORMATICS AND PRECISION MEDICINE)

In the first half of 2017 Ardigen has fully executed the operating plan assumed for that period, both in the services sector, as well as the research and development sector.

For the services sector the first half of the year is a time of intensive marketing and sales efforts. The "VALUE as a SERVICE" marketing campaign planned for that period was carried out in North California. Marketing activities were focused on biotechnological companies. In January Ardigen took an active part in the Personalized Medicine Word Conference at Mountain View, California, where the company presented its offer in its own booth. Apart from that a researcher from the Company gave a presentation on the topic of "Artificial Intelligence for Personalized Medicine". In February the Ardigen team took part in the Molecular Medicine Tri-Conference in San Francisco, also opening their own booth. During both events Ardigen had access to more than 4000 participants. Numerous mailing campaigns were carried out during that time, in parallel with an AdWords marketing campaign. These activities increased the recognition of the Ardigen brand significantly in the North Carolina region, a strategic market for the bio-IT services of the Company. Proof of this was provided by extending the portfolio of customers up to 12 companies, including four big pharmaceutical companies, as well as increasing the number of sales leads that will result in contracts in future periods. The projects executed by Ardigen allow the company to obtain unique competences at the interface between molecular biology, bio-IT and AI.

The first half of 2017 is also a time of intensive work concerning the Company's own research and development projects. They are focused on the strategic direction of Ardigen, which is the creation and marketing of the Company's own diagnostic products (Dx) and therapeutic products (Tx), supporting the idea of precision medicine and personalized medicine. The R&D team combines knowledge and competences in the field of oncology, molecular biology, bio-IT and AI, at the same time focusing on oncological immunotherapy, microbiome and metabolomics. Interdisciplinary work is being done concerning diagnostic tests and therapeutics that respond to the need to increase the effectiveness of oncological treatment. Planned products feature a globally innovative aspect, at the same time achieving sales potential in the global market.

Activities meant to establish contacts with potential partners for the development and marketing of new products are undertaken in conjunction to the internal R&D works. To this end Ardigen takes part in international partnering conferences. During the first half of 2017 the Company took part in the Bio International Convention in San Diego, USA and the Bio Trinity in London, UK. Direct contact with the main biotechnology centers allows the company to keep the R&D works in line with global trends.

Another event worth of notice is the Investment of the Year award Ardigen received from the Jury of the 10th Investment Forum in Tarnów on April 24 2017. This is a sign of the recognition for the company's very high potential for introducing innovative Polish products into the global markets in a field that is so very important for the society, namely the fight against cancer.

Moreover, on June 17 2017 Ardigen was accepted into the Polish Coalition for Personalized Medicine. Active involvement in the works of the coalition will allow Ardigen to use its experience to implement the idea of personalized medicine in Poland.

Employment details

Further to a dynamic development in the period discussed in the report, the Group significantly increased its staffing, especially in the R&D department and Contract Chemistry Department. The staffing level grew from 360 employees in August 2016 to 404 employees in August 2017.

Information on Selvita S.A. Shareholding Structure

As at the date of publication of the Report, the shareholder structure of Selvita S.A. including shareholders holding at least 5 % of votes at the Meeting of Shareholders, is as follows:

Shareholder	Shares	% of shares	Votes	% of votes
Paweł Przewięźlikowski	4 979 728	36,16%	8 479 728	47,58%
Bogusław Sieczkowski	923 984	6,71%	1 473 984	8,27%
Tadeusz Wesołowski (directly and indirectly)	1 132 713	8,23%	1 132 713	6,36%
Nationale Nederlanden PTE S.A.	950 000	6,90%	950 000	5,33%
Remaining shareholders	5 784 804	42%	5 784 804	32,46%
Total	13 771 229	100,00%	17 821 229	100,00%

FINANCIAL INFORMATION

Consolidated Profit and Loss Statement

FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017	01/01/2017 - 30/06/2017 PLN	01/01/2016 - 30/06/2016 PLN
Continued operations		
Sales revenue	31 310 814	22 664 216
Grant income	7 819 418	5 662 141
Other operating revenues	244 786	208 169
Revenue from sales of R&D projects	20 284 538	-
Total operating revenue	59 659 556	28 534 526
Change in stock of goods	-	-
Depreciation and amortization	(2 415 788)	(1 660 292)
Consumption of materials and supplies	(8 670 111)	(5 805 199)
External services	(7 570 326)	(4 631 686)
Employee benefit expense	(20 714 516)	(14 331 642)
Taxes and charges	(297 013)	(228 151)
Other expenses	(1 539 309)	(1 922 442)
Cost of goods and materials sold	-	(113 611)
Cost of R&D projects sold	(7 328 770)	-
Other	(8 728)	(53 614)
Total operating expenses excluding impact of share-based incentive program	(48 544 561)	(28 746 637)
Profit (loss) on operating activities excluding impact of share-based incentive program	11 114 995	(212 111)
Share-based incentive program	(583 000)	(4 042 535)
Profit (loss) on operating activities	10 531 995	(4 254 646)
Financial income	123 469	1 033 487
Financial expenses	(1 366 352)	(412 456)
Other	-	-
Profit (loss) on business activities	9 289 112	(3 633 615)
Equity method valuation of investments in associates	(713 682)	-
Profit (loss) before income tax	8 575 430	(3 633 615)
Income tax expense	(295 510)	(88 052)
Net profit (loss) on continued operations	8 279 920	(3 721 667)
Discontinued operations		
Profit (loss) on discontinued operations	-	-
Net profit (loss)	8 279 920	(3 721 667)
Net profit loss attributed to:		
Majority shareholders	8 014 225	(3 466 217)
Non-controlling shareholders	265 695	(255 450)
Other comprehensive income:		
Foreign subsidiaries results translation differences	135 007	(42 900)
Total other comprehensive income (loss)	135 007	(42 900)
Total comprehensive income (loss)	8 414 927	(3 764 567)
Total comprehensive income (loss) attributed to:		
Majority shareholders	8 149 232	(3 509 117)
Non-controlling shareholders	265 695	(255 450)
Earnings per share (expressed in gr per share)		
With continued and discontinued operations:		
Basic	58.20	(26.0)
Diluted	58.20	(25.0)
With continued operations:		
Basic	58.20	(26.0)
Diluted	58.20	(25.0)

Consolidated Balance Sheet

AS OF 30 JUNE 2017	30/06/2017	31/12/2016
	PLN	PLN
ASSETS		
Fixed assets		
Tangible fixed assets	27 187 992	21 832 609
Investment property	-	-
Goodwill	280 740	280 740
Other intangible assets	135 015	132 699
Unfinished development works	941 306	6 226 898
Investments in associates	2 316 355	3 120 772
Deferred tax assets	9 948 744	9 662 724
Other financial assets	90 000	-
Other assets	196 038	196 038
Total fixed assets	41 096 190	41 452 480
Current assets		
Inventory	1 572 543	1 403 263
Trade and other receivables	15 684 412	15 681 811
Construction contracts receivables	541 645	637 849
Other financial assets	50 000	60 000
Current tax related assets	222 587	-
Other assets	2 220 165	790 997
Cash and other monetary assets	39 516 792	29 094 669
	59 808 144	47 668 589
Non-current assets held for sale and discontinued operations	-	-
Total current assets	59 808 144	47 668 589
Total assets	100 904 334	89 121 069

Consolidated Balance Sheet (cont.)

AS OF 30 JUNE 2017	30/06/2017	31/12/2016
	PLN	PLN
EQUITY AND LIABILITIES		
Equity		
Share capital	5 377 337	5 377 337
Surplus from sale of shares above par value	25 480 805	25 480 805
Own shares	-	-
Supplementary capital	18 778 935	14 890 223
Other reserve capitals	11 172 000	10 589 000
Foreign subsidiaries results translation differences	92 376	(42 631)
Previous years profit (loss)	(4 612 862)	(3 640 312)
Net profit (loss)	8 014 225	2 720 211
Provisions related to non-current assets held for sale and discontinued operations presented directly in equity	-	-
Equity attributed to majority shareholders	64 302 816	55 374 633
Equity attributed to minority shareholders	579 590	336 824
Total equity	64 882 406	55 711 457
Long-term liabilities		
Long-term credits and loans	4 386 608	4 791 517
Other financial liabilities	2 425 006	3 028 017
Retirement provision	61 438	61 438
Deferred income tax provision	481 999	214 039
Long-term provisions	-	-
Deferred income	7 236 633	6 381 589
Other liabilities	-	-
Total long-term liabilities	14 591 684	14 476 600
Short-term liabilities		
Trade and other liabilities	9 838 959	7 883 012
Construction contracts liabilities	137 597	176 244
Short-term credits and loans	892 729	858 529
Other financial liabilities	866 987	945 908
Current tax liabilities	-	-
Short-term provisions	6 272 119	3 599 968
Deferred income	3 421 853	5 469 351
Other liabilities	-	-
Total short-term liabilities	21 430 244	18 933 012
Total liabilities	36 021 928	33 409 612
Total equity and liabilities	100 904 334	89 121 069

Consolidated Cash Flow

	01/01/2017- 30/06/2017	01/01/2016- 30/06/2016
	PLN	PLN
<i>Cash flows from operating activities</i>		
Net profit (loss)	8 279 920	(3 721 667)
Adjustments		
Equity method valuation of investments in associates and joint ventures	804 417	-
Depreciation and amortization	2 426 857	1 660 292
Exchange gains (losses)	-	-
Interest and profit-sharing (dividends)	37 420	12 261
Profit (loss) on investing activities	-	-
Change in receivables	(160 463)	4 684 534
Change in inventory	(169 280)	(149 290)
Change in short-term liabilities and provision excluding credits and loans	1 917 300	324 710
Change in grants	(6 456 042)	(5 678 348)
Change in deferred revenue	(458 522)	(59 951)
Change in provisions	2 672 151	302 586
Change in other assets	5 801 542	(241 474)
Income tax paid	536 157	(4 481)
Contribution in kind of non-controlling shareholders	-	-
Share-based incentive program	583 000	4 042 535
Other	-	(40 281)
Cash flows from operating activities	15 814 457	1 131 425
<i>Cash flows from investing activities</i>		
Proceeds from sale of property, plant and equipment	-	-
Purchase of tangible and intangible fixed assets	(10 889 960)	(8 262 022)
Purchase of tangible and intangible fixed assets partially financed with grant	-	-
Purchase of other financial assets	-	-
Interest received	37 420	-
Loans granted	(80 000)	-
Other inflows from financial assets	-	-
Other	-	-
Cash flows from investing activities	(10 932 540)	(8 262 022)
<i>Cash flow from financing activities</i>		
Proceeds from shares issue	327 887	327 887
Payment of liabilities from finance lease agreements	(681 931)	(586 589)
Proceeds from credits and loans	81 530	19 599
Grants	6 436 396	4 561 522
Repayment of credits and loans	(495 366)	-
Dividends paid	-	-
Interest paid	(128 311)	(12 261)
Payments connected with shares issue	-	(25 000)
Other	-	-
Net cash flows from financing activities	5 540 206	4 285 158
Increase of net cash	10 422 123	746 093
Cash opening balance	29 094 669	28 806 527
Cash and cash equivalents - end of the period	39 516 792	29 552 620

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