Selvita Group Annual Report (Summary) 2016

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1 LETTER TO THE SHAREHOLDERS

Dear Selvita Shareholders and Business Partners,

Another year has just passed. Soon we will celebrate Selvita's tenth birthday. The vision that led to the foundation of the company in July 2007 has yielded ample fruit over the last decade. We have become one of the largest independent drug discovery companies in Europe with growing presence in other global markets.

Our IPO conducted in December 2014 allowed us to initiate multiple investment initiatives in 2015 – mainly in internal programs, international presence and research infrastructure. In 2016 we were in the middle of the investment cycle – incurring significant full-year costs of the new ventures that will show their desired impact on our top and bottom line in 2017.

Over the last year we progressed significantly Selvita's internal pipeline. Our first-in-class dual PIM/FLT3 inhibitor SEL24 has successfully finished pre-clinical development, received an IND acceptance from the FDA and in March 2017 first patient has been dosed in Phase I/II Clinical Trial of SEL24 in Acute Myeloid Leukemia. This is probably the first ever drug developed by a Polish company to undergo a clinical trial in the United States.

Shortly after initiating Phase I/II Clinical Trial Selvita has entered into a global license agreement for SEL24 with Berlin-Chemie Menarini, a company of the Menarini Group, covering the future development and commercialization of our lead program. Under the framework of the collaboration Selvita will receive an initial payment of € 4.8 M, potential milestone payments totaling € 89.1 M, single to low-double digit royalties as well as additional cost reimbursements. The collaboration with Menarini will help us realize the full potential of SEL24 in acute myeloid leukemia and other hematological and solid tumor indications at full speed.

The IND-enabling studies of our selective CDK8 inhibitor SEL120 are starting in Q2 2017 so we aim to have two programs in the clinic in 2018. After our oncology collaboration with Merck delivered two milestones at the turn of 2015/2016 we aim for more tangible progress in 2017 also from our H3 Biomedicine relationship which was extended again in 2016. The collaboration with Nodthera on SEL212 that started in July 2016 is yet another proof of discovery acumen and target prescience of our scientific team. Spinning-off our activities in inflammasome has also focused our fully-owned pipeline 100% on oncology.

Thanks to the funds raised in the IPO Selvita has now 70 people working on fully-owned early stage programs, mostly on first-in-class oncology targets - up from 17 before the capital increase. They will provide a steady stream of new clinical candidates starting from 2019.

The development of the services divisions has also been robust. Chemistry, biology, biochemistry and analytics teams have found loyal clients among large and medium pharma as well as biotech drug developers and academic institutions such as University of California San Francisco. Our newly founded Cambridge, UK, Cambridge MA and San Bruno, CA offices that enjoyed their first full year of operations in 2016, cemented the local relationships and provided a springboard for deeper and more strategic

collaborations. We have also made first serious inroads in Japan, securing a medicinal chemistry contract with a large pharma company. The creation of international sales offices has temporarily adversely impacted service segment profitability but we are committed to bringing all sales channels to full capacity in 2017 and return to double-digit earning rates that we enjoyed in 2015.

The JCI life-science park building in Krakow that we have occupied since 2009 has been a good home for us but we are slowly outgrowing its capacity. So in addition to the on-going development Poznan we decided to build a new research center in Krakow that will host up to 1,000 scientists over the next 10 years. A land property of 1.4 ha was purchased in December for $1.8 MM and we plan to the first new building to contribute to our resources in 2019.

Our bioinformatics venture Ardigen founded in 2015 has been a runaway success in 2016 scoring strategic deals with large pharma clients from the US. and Europe and growing to 35 people at year's end. After building a strong service client base in 2016 Ardigen plans to invest more in internal product development in 2017.

We have invested our $6.4 M raised in the 2014 IPO very consciously, always looking for non-dilutive funding opportunities. In 2016 we added to Selvita's war chest $19 M in grants for R&D projects and research infrastructure for 2016-2020. Profits from services division and smart utilization of external research funds has allowed us to maintain strong cash position despite the implementation of a more ambitious investment program than originally anticipated at the time of the IPO.

The success of the company could not happen without the stellar team which grew from 300 to 364 people, including 119 PhDs. Very importantly the team has matured and became more diversified with more than 20 non-Polish employees coming from 10 different countries.

On behalf of the whole Selvita management board I would like to thank you for believing in us in the past year and rewarding Selvita's corporate progress with such significant share price increase. We look forward to continuing our journey with the same ardor, proficiency and our fair share of biotech fortune in 2017 .

With best regards,

Pawel Przewiezlikowski
Selvita CEO

2 BASIC INFORMATION ON THE SELVITA GROUP

1.1. Structure of 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, 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
Tax ID (NIP)	676-249-58-65
Legal form	Joint-Stock Company
Shareholders	60,01% shares held by Selvita S.A.

Business name of the Company	Nodthera Ltd
Registered office	Edinburgh, Scotland, UK
Company No.	540381
Legal form	Limited Liability Company
Shareholders	Selvita S.A. holds 1 910 000 shares (48.84%) and 48.84% votes at the shareholder meeting

All entitles within the Selvita Group are consolidated.

1.2. Governing Bodies of the Parent Entity

As of April 19, 2017 the Management Board and Supervisory Board of Selvita S.A. consist of:

Management Board

- Paweł Przewięźlikowski – President of the Management Board,
- Bogusław Sieczkowski – Vice President of the Management Board,
- Krzysztof Brzózka, PhD – Vice President of the Management Board
- Miłosz Gruca, PhD – Member of the Management Board,
- Mirosława Zydroń, PhD – Member of the Management Board.

Supervisory Board

- Piotr Romanowski, PhD – President of the Supervisory Board
- Tadeusz Wesołowski, PhD – Vice President of the Supervisory Board
- Wojciech Chabasiewicz – Member of the Supervisory Board
- Rafał Chwast – Member of the Supervisory Board
- Adam Przewięźlikowski – Member of the Supervisory Board

3 ECONOMIC AND FINANCIAL HIGHLIGHTS

3.1 Financial Results Attained in the Reporting Period

Selvita Group	Consolidated data in PLN thousand			
Item	01.01.2016 - 31.12.2016	01.01.2016 - 31.12.2016 *(excl. Incentive program)*	01.01.2015 - 31.12.2015	01.01.2015 - 31.12.2015 *(excl. Incentive program)*
Revenues from sales	48 133	48 133	41 029	41 029
Revenues from subsidies	12 067	12 067	14 700	14 700
Other operating revenues	6 520	6 520	348	348
Revenues on operating activities	66 721	66 721	56 077	56 077
Operating expenses	-67 934	-62 074	-54 004	-49 275
Depreciation	-3 617	-3 617	-3 433	-3 433
Profit/loss on operating activities (EBIT)	-1 214	4 646	2 073	6 802
Profit/loss before income tax	-1 283	4 577	2 821	7 550
Net profit/loss	2 685	8 545	6 233	10 962
EBITDA	2 404	8 264	5 506	10 235
Net cash flow from operating activities	-6 280	-6 280	-16 430	-16 430
Net cash flows from investing activities	-18 385	-18 385	-4 652	-4 652
Net cash flows from financing activities	24 953	24 953	45 131	45 131
Total net cash flow	288	288	24 049	24 049
Number of shares	13 443 343	13 443 343	13 115 457	13 115 457
Profit (loss) per share (in PLN)	0,17	0,60	0,48	0,84
Diluted profit (loss) per share (in PLN)	0,16	0,59	0,48	0,83
Book value per share (in PLN)	4,12	4,12	3,59	3,59
Diluted book value per share (in PLN)	4,03	4,03	3,54	3,54
Declared or paid dividend per share (in PLN)	-	-	-	-

Selvita Group	Consolidated data in EUR thousand			
Item	01.01.2016 - 31.12.2016	01.01.2016 - 31.12.2016 *(excl. Incentive program)*	01.01.2015 - 31.12.2015	01.01.2015 - 31.12.2015 *(excl. Incentive program)*
Revenues from sales	11 030	11 030	9 805	9 805
Revenues from subsidies	2 765	2 765	3 513	3 513
Other operating revenues	1 494	1 494	83	83
Revenues on operating activities	15 290	15 290	13 401	13 401
Operating expenses	-15 568	-14 225	-12 906	-11 776
Depreciation	-829	-829	-820	-820
Profit/loss on operating activities (EBIT)	-278	1 065	495	1 626
Profit/loss before income tax	-294	1 049	674	1 804
Net profit/loss	615	1 958	1 490	2 620
EBITDA	551	1 894	1 316	2 446
Net cash flow from operating activities	-1 439	-1 439	-3 927	-3 927
Net cash flows from investing activities	-4 213	-4 213	-1 112	-1 112
Net cash flows from financing activities	5 718	5 718	10 786	10 786

Total net cash flow	66	66	5 747	5 747
Number of shares	13 443 343	13 443 343	13 115 457	13 115 457
Profit (loss) per share (in EUR)	0,04	0,14	0,11	0,20
Diluted profit (loss) per share (in EUR)	0,04	0,13	0,11	0,20
Book value per share (in EUR)	0,93	0,93	0,84	0,84
Diluted book value per share (in EUR)	0,91	0,91	0,83	0,83
Declared or paid dividend per share (in EUR)	-	-	-	-

Selvita Group	Consolidated data in PLN thousand			Consolidated data in EUR thousand		
Item	31.12.2016	31.12.2015	31.12.2014	31.12.2016	31.12.2015	31.12.2014
Total assets	89 121	64 493	26 803	20 145	15 134	6 288
Short-term receivables	16 320	16 663	9 822	3 689	3 910	2 304
Cash and equivalents	29 095	28 807	4 758	6 577	6 760	1 116
Liabilities and provisions	33 410	17 613	17 550	7 552	4 133	4 117
Long-term liabilities	14 477	1 293	2 278	3 272	303	534
Short-term liabilities	18 933	16 319	15 271	4 280	3 829	3 583
Equity	55 711	46 890	9 254	12 593	11 003	2 171
Share capital	5 377	5 246	4 185	1 215	1 231	982

In 2016 Selvita Group (hereinafter referred to as “Selvita”, “Selvita Group” or the “Group”) reported net profit in the amount of PLN 2,685 thousand. On the operating level (EBIT) the Group reported a loss of PLN 1,214 thousand which resulted from recognizing non-cash expenses of the incentive program (the “program”) totalling PLN 5,860 thousand in accounting books for the current year. Excluding costs of the program the Group reported operating profit in the amount of PLN 4,646 thousand. The cost of the program is the accrual basis cost and does not result in cash expenditures. It should be emphasized that by the end of 2016 the Group recognized approximately 95% of total program costs in their books and intends to complete recognizing incentive program’s costs in Q1 2017 (PLN 583 thousand).

The positive operating result (exclusive of the incentive program) is a consequence of two factors: continuing profitability with regard to innovation and services and making a profit on acquiring shares of Nodthera Ltd. in exchange for non-monetary contribution in kind, which took place in Q3 2016. The profit from share acquisition totalled PLN 6,055 thousand and is presented in “other operating profits” in consolidated financial statements for the year 2016.

In order to maintain the comparability of financial data for the current period with previous periods, the comments below are based on data excluding the amount of PLN 5,860 thousand i.e. the cost of the incentive program for 2016.

Net profit of Selvita Group for 2016, excluding costs of the incentive program, amounted to PLN 8,545 thousand compared to net profit of PLN 10,962 thousand in 2015. That gives net profitability (calculated as total net profit i.e. sales revenue and grant revenue) on the level of 13%. In the reporting period Selvita Group consistently carried out intensive research work within the programs commenced in previous years, most of which, in accordance with the accounting policies, is directly recognized in operating costs.

Throughout 2016, Selvita Group recognized revenues on operating activities in the amount of PLN 66,721 thousand what gives 19% increase compared with PLN 56,077 thousand in 2015. Revenues from sales in 2016 (exclusive of subsidies) amounted to PLN 48,133 thousand, reflecting 17% growth compared with 2015 when sales revenue amounted to PLN 41,029 thousand (excluding subsidies). It should be noted that revenue from sales in 2016 does not include the profit from Nodthera Ltd. share acquisition totalling PLN 6,055 thousand which is presented in "other operating revenues" line.

2016 is the first financial year of Ardigen S.A.'s operations. Ardigen S.A. is Selvita's subsidiary where an organized part of the enterprise (the Group's bioinformatics division) was contributed in 2015. Consequently, starting from 2016, the bioinformatics area was separated for the purposes of presentation as the third operating segment, as part of which the operating results of the subsidiary Ardigen S.A. (or the results of the entire bioinformatics segment) will be described further in the report. Appropriate corrections were introduced into the comparative figures for the services segment, where the bioinformatics division was presented before.

In the service segment in 2016 Selvita Group focused mainly on intensive growth by expanding the scope of its operations and penetrating new markets. The 2016 revenue from sales of services to external customers totalled PLN 32,404 thousand, which constitutes growth of over 40% compared to the same period of the previous year when revenue from external customers was PLN 24,051 thousand. The operating profit (EBIT) of that segment in 2016 amounted to PLN 1,720 thousand.

Another profitable segment of the Group is the innovation segment. The revenue from external customers generated by Selvita's innovation segment in 2016 amounted to PLN 18,353 thousand (inclusive of the profit from transaction with Nodthera Ltd.), reflecting 19% dynamics compared with 2015 when the external revenue was PLN 15,416 thousand. Operating profit (EBIT) of the innovation segment in 2016 totalled PLN 3,100 thousand.

The third segment of the Group – the bioinformatics segment – in 2016 generated the revenue from external customers in the amount of PLN 3,431 thousand reflecting 34% growth compared with revenue of the bioinformatics division in 2015 when it totalled PLN 2,561 thousand. In 2016 this segment generated an operating loss of PLN 169 thousand, which resulted mainly from investments into sales activity abroad and extending the customer base.

In 2016, revenue from grants (subsidies) decreased by 18% compared to the previous year - from PLN 14,700 thousand to PLN 12,067 thousand. The revenue from grants for 2016 does not include the amount of PLN 7,006 thousand which has been included in the balance sheet parallel to the capitalized R&D development costs. The decrease in revenues from subsidies resulted mainly from the consumption of subsidies the Group used in previous years and from starting to gradually incur costs of new innovation projects conducted as part of the new financial perspective 2014-2020.

The value of the 2017 contracts portfolio resulting from commercial contracts and subsidy agreements signed as of the publication date of this report (backlog) amounts to PLN 79,987 thousand, including:

- Services PLN 19,738 thousand,
- Innovation PLN 38,157 thousand,
- Bioinformatics PLN 4,634 thousand,
- Grants PLN 17,458 thousand

and it has increased compared with the 2016 backlog announced in March 2016 by 127%. It should be emphasized that the services segment backlog for 2017 is up by 42%, bioinformatics backlog is up by 273 % and the innovation segment backlog is up by 282% compared to the contracting in the same period last year.

The grants backlog is exclusive of PLN 1,436 thousand which is the amount representing revenue from grants to be included in the balance sheet alongside the activated costs of R&D development activity.

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

As of the end of 2016 the value of the Group's assets was PLN 89,121 thousand and increased by PLN 23,879 thousand compared with the end of 2015 (PLN 65,242 thousand). As of the end of 2016 the key component of fixed assets were tangible fixed assets, which totalled PLN 21,833 thousand and included mainly laboratory equipment and a plot of land purchased last December for investments into new buildings of the Group. Other core components of fixed assets were: deferred tax assets totalling PLN 9,663 thousand and capitalized costs of R&D development activities in the amount of PLN 6,227 thousand. Compared to December 31, 2015, the value of fixed assets increased by PLN 24,735 thousand. This is mostly the result of acquiring new fixed assets, including a building plot (balanced by partially planned fixed assets depreciation) and capitalizing costs of R&D development as part of the KIND-P1 project.

From 1 January 2015, Selvita S.A. started to activate the costs of development work, further to meeting the criteria to disclose expenditure on the KIND-P1 project in balance sheet assets as costs of development work. The value of these assets at the end of 2016 amounted to PLN 13,869 thousand and it is presented as "unfinished development work" in the amount of PLN 6,227 thousand i.e. reduced by PLN 7,642 thousand which is the value of the deferred revenues from subsidies attributable to the deferred costs.

The assets structure demonstrates the Group's high liquidity and its improvement compared to the previous year, which is confirmed by the following ratios:

	2016	2015
Liquidity indicator **current assets/current liabilities including short-term provisions and accruals (excl. deferred revenues)**	3.54	5.43
Increased liquidity indicator **(current assets-inventory)/current liabilities including short-term provisions and accruals (excl. deferred revenues)**	3.44	5.30

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, as of December 31, 2016, amounted to PLN 55,711 thousand and increased by PLN 8,832 thousand compared to December 31, 2015. The main reason for the growth was increasing the reserve capital for the ongoing incentive program for managerial staff. The second largest source of funding are short- and long-term liabilities which, together with the reserves (but exclusive of future accrued revenues), amounted to PLN 21,559 thousand at the end of 2016. The highest value liabilities items are: trade liabilities (PLN 7,883 thousand), bank loan (PLN 5,650 thousand) and short-term provisions (PLN 3,600 thousand).

3.3 Current and Projected Financial Condition

The Group's financial situation as of the report date is very good. As of December 31, 2016, the value of Group's cash amounted to PLN 29,095 thousand.

The Group's activity is profitable both in terms of innovation and services. R&D is financed with customer revenue, supplemented by research grants and funds acquired through share issue. In the financial year 2017, further revenue increase is expected from both provision of services and commercialization of next research projects.

The Group is up to date on meeting its obligations and maintains a sustainable cash flow ensuring its liquidity. Income from share issuance from previous years and cash generated from operations allow the Company to execute its planned investment, in particular the development of innovation projects, laboratory infrastructure and new laboratories for the Group.

4 INFORMATION ON THE ACTIVITIES OF SELVITA GROUP

4.1 Products and Services

The activities of the Group cover two segments:

- Innovative segment – research and development activities involving in-house research projects on innovative drugs,
- Services segment – drug discovery services provided to external clients from the pharmaceutical and biotechnology industry.

4.1.1 Innovative Segment (Research and Development Activity)

In Q3 2016, the Selvita Group successfully continued all research projects, both these in which it invests own funds, as well as projects performed in cooperation with external partners i.e.: the Kinase Inhibitors Platform in cooperation with H3 Biomedicine or the Cancer Metabolism Collaboration with Merck KGaA.

SEL24

The goal of SEL24 project is discovery of innovative anticancer drug in AML and other hematological malignancies. Its action is based on ability to selectively target cancer cells – especially AML (Acute Myeloid Leukemia) but also MM (Multiple Myeloma) and Non-Hodgkin Lymphomas.

Work in 2016 was concentrated on completion of IND process and preparations to initiate Phase I trial. In H1 2016, in the course of the process of obtaining a permission for clinical trial conduct from FDA (Food and Drug Administration), which started by IND filing on 15th of April. Selvita received detailed comments from FDA which resulted in an order issued to suspend the proposed clinical investigation due to further protocol adjustments and additional tests. Those additional information were necessary to analyze SEL24 metabolic profile and its potential drug-drug interaction in relation to the standard-of-care therapies in AML. Obtained results and study protocol adjusted in agreement with FDA comments were subjected to the Agency on 18th of July, what approximately a month later, on 17th of August, resulted in IND acceptance and FDA permission to initiate clinical trial. In the proceeding months project work concentrated on obtaining permissions from local ethical committees and other required documents to activate SEL24 study and clinical sites. In December site activation visit took

place at MD Anderson Cancer Center, the first out of three clinical centers, allowing the patient recruitment and administration of SEL24 to the first patient, which took place in March 2017. Also in December, during ASH Annual Meeting in San Diego, an Investigator Meeting took place. The goal of the meeting was to discuss all details of clinical study protocol, timelines and guidelines for patient enrollment. Additional information about activated sites and clinical trial protocol are available at: https://clinicaltrials.gov/ct2/show/NCT03008187

SEL120

SEL120 project is focused on development of selective CDK8 inhibitors as an effective therapy in oncology. SEL120-34A is characterized by favorable pharmacological properties and confirmed efficacy *in vitro* and *in vivo*. The compound successfully completed non-GLP toxicology studies in mice and monkeys. In the reported period, the molecule has undergone additional drug-drug interaction safety studies. Positive therapeutic window combined with drug-like properties enabled nomination of SEL120-34A as a candidate molecule for the further preclinical and clinical development. Preparations for IND-enabling studies has been initiated and will be conducted by specialized CROs under supervision of selected consultants. Initiation of SEL120-34 preclinical studies within IND package is planned for Q2 2017. In parallel to mentioned studies, SEL120-34A has been tested in experiments aimed at identification of the potential mechanism of action, in both hematological and solid cancers. Part of generated results has been submitted and approved for publication in the *Oncotarget* which can be found here. Additionally data was presented during AACR Annual Meeting in Washington in April 2017.

Kinase inhibitors platform

The aim of the platform is to develop an innovative anticancer therapies. The novel small molecule compounds designed within the collaboration with H3 Biomedicine modulate new kinase targets associated with the oncogenic kinase signaling. In 2016 series of potent and selective kinase inhibitors were further characterized using a broad panel of cell lines with different genetic background. Representative compounds were tested in a panel of tumor cell lines of diverse origins (hematopoietic and nervous system tumors, lung, ovary, breast cancers, etc.). Besides confirmation of compound efficacy, conducted studies will allow to identify genetic factors that predispose sensitivity of certain types / subtypes of cancer to test compounds. At the same time we continued common effort to optimize pharmacokinetic and safety profile of selected molecules. The collaborative research investigations proceed according to agreed schedule. Further details cannot be disclosed due to confidentiality restrictions.

Selvita develop its independent Kinase Inhibitors Platform which aims also on further development of internal programs. Most advanced project is MNK1/2 kinase inhibitors where major activities were focused on in-depth characterization of ADME, pharmacological and safety parameters of a lead molecule, which is one of the strongest reported in literature and selective dual MNK1/2 inhibitor (prevailing Selvita scientists' review article has been published in a prestigious journal Current Medicinal Chemistry – more information can be found here. Additional efficacy studies were initiated in autoimmune, metabolic and oncology models *in vitro* and *in vivo*. Results of planned studies, which will be continued in 2017, led to a better understanding of a molecular mechanism of action.

Cancer metabolism platform

Within the cancer metabolism platform Selvita performs both internal projects and project in a partnership with Merck Serono.

The aim of continuation of the partnership with Merck Serono is development of new anticancer drugs acting via biological targets associated with aberrant metabolic pathways in cancer cells (cancer metabolism). Dependence of specific metabolic pathways (e.g. glutaminolysis or glycolysis) is a feature of many types of cancer, therefore, targeting this vulnerability has potentially very broad application in the treatment of patients. In cooperation with partner Selvita have selected several undisclosed biological targets and further research is conducted on various levels (from target validation to leading structures optimization). The project, in addition to funding, has substantial support in infrastructure and human resources of the partner, which is the biomedical R&D department of one of the top 25 global pharmaceutical companies. The collaborative research investigations proceed accordingly to commonly agreed schedule. Further details cannot be disclosed due to confidentiality restrictions.

Since 2016, in the new format of partnership, has been established separate research team dedicated to discovery and validation of new molecular targets in the field of tumor metabolism. Currently research studies are ongoing on several potential new targets.

Within Selvita's internal effort aimed at development of novel SHMT2 inhibitors - critical enzyme in oncogenic metabolic pathways. Internal effort resulted in obtaining compounds which displayed affinity in the nM concentration range. Activity of Selvita's lead molecule has been confirmed in cellular models and preliminary assessment indicated favorable competitive and intellectual property environment. Planned efficacy studies are required for the validation of selected therapeutic strategy *in vivo*. Independently, phenotypic screening identified active molecules targeting one of the metabolic pathways highly upregulated in cancers with a specific genetic background and molecules differentially targeting such cells. Undergoing validation process will select best molecules for further optimization.

Immunology and Immunometabolism Platforms

Platforms aims to develop innovative immunotherapeutics superior to currently investigated approaches based on solutions that overcome the limitations of available therapies and allow for a personalized, targeted treatment for patients with the most challenging, resistant malignancies. Immunotherapy can mobilize immune system utilizing its potential to specifically kill tumor cells with limited systemic toxicity.

In 2016 research focused on STING modulators, GCN2 inhibitors and A2A antagonists. Framework of performed projects include diversified strategy for hit finding, which utilized high throughput screening, focused libraries and rational design. Selvita successfully identified first hit molecules targeting A2A receptors and STING pathway modulators active in selected *in vitro* models. Designed compounds represent novel chemical matter giving freedom to operate and creating new opportunity for further improvements. Work on GCN2 protein has been temporarily suspended due to lack of selective chemotypes as well as recent publications describing potential role of GCN2 in oncogenesis. In the next quarters chemical expansion will focus on two more advanced projects including optimization of potency and selectivity parameters. Additionally, fine tuning of ADME/DMPK properties is planned as a differentiation of Selvita's compounds in comparison to competitors. In 2017 intensive target-tailored immunooncology assays development is scheduled to test selected compounds in relevant *in vitro* and *in vivo* models. Selvita's strategy assumes gradual expansion of the Platform to broaden project portfolio with new initiatives basing on immunotherapeutic potential.

Inflammasome inhibitors

In July 2016, Selvita S.A. together with Epidarex Capital launched Nodthera Limited, a new biotech company focused on discovery and development of novel inhibitors of the NLRP3 inflammasome.

Epidarex Capital, the main investor in Nodthera, focuses on early-stage, high growth life science and health technology companies in under-ventured markets within the UK and the US. The fund's international management team has a track record of successful partnering with top scientists and entrepreneurs to develop highly innovative products for the global healthcare market. One of the partners in Epidarex Capital is Eli Lilly, a leading global pharmaceutical company. Nodthera is headquartered in Edinburgh, Scotland. The collaboration with Nodthera is based on scientific results generated by Selvita in SEL212 project, which aims on developing small molecule inhibitors of a protein complex - inflamassome. Mentioned complex regulates formation of active forms of inflammatory cytokines – interleukins 1β and 18. Excessive inflammassome activation plays extensive role in pathogenesis of a number of diseases, which are a significant burden for current health care systems such as type 2 diabetes, gout, rheumatoid arthritis, Alzheimer's disease or cancer.

The collaborative research investigations proceed according to schedule. Further details cannot be disclosed due to confidentiality restrictions.

OTHER PROJECTS

Apart from the aforementioned projects, within the platforms presented above Selvita Group also carried out other innovative projects, however their details and current progress of work is confidential.

4.1.2 Service segment

Selvita is an integrated drug discovery partner for the pharmaceutical and biotechnology industries. The company offers drug discovery support at every stage of the early discovery phase up to the preclinical research phase, including:

- unique combination of experienced team of managers and top researchers in computational, drug discovery and contract chemistry as well as in biochemistry, pharmacy, molecular biology and biotechnology, specialized in particular parts of the R&D process, and bioinformatics,
- services related to synthesis and analysis of small and large molecule chemical compounds,
- creation and implementation of innovative bioinformatic and computer systems, including laboratory information management systems (LIMS) for managing the laboratory data.

Selvita provides services through three main departments: Contract Chemistry Department, Contract Biology Department and Ardigen S.A. (formerly: Bioinformatics Department).

Contract Chemistry Division

The Contract Chemistry Division specializes in research and development of chemistry services leading to discovery of new therapies, innovative processes and technologies, and cost-effective services. The division specialization area includes medicinal and computational chemistry as well as organic synthesis for pharmaceutical, biotechnological, chemical and agrochemical industries. This is the Company's largest service division in terms of revenue.

The most significant services offered by the Contract Chemistry Division in 2016 included:

- research leading to discovery of new chemical entities ,

- designing new pharmacologically active molecules based on biological testing with the use of calculating tools,
- synthetic support for research projects intended to develop new therapies,
- developing new efficient, cost-effective and environmentally safe synthesis processes, alternative technologies of producing chemical substances ,
- calibrating chemical processes for production purposes, optimization and parametrization of technology for registration purposes,
- custom synthesis of pharmaceutical and chemical compounds (fragrance, agrochemical, specialized-use compounds) on a scale from milligrams to kilograms,
- synthesis of impurities, degradation products and analytical formulas for registration purposes,
- chemical analysis, investigating the structure and qualitative and quantitative chemical composition of compounds and mixtures in accordance with requirements of pharmaceutical, chemical and agrochemical markets,
- technical and business consulting for the chemical industry.

Similarly to previous years, in 2016 the Division invested in specialist equipment supporting R&D, flow processes, purification and analysis of organic compounds, enhancing process efficiency and quality, leading to extending the scope of services, which was appreciated by customers.

As a result of continuous improvement of standards (including substantive, quality and infrastructure ones), we observed considerable increase of interest in services provided by the Contract Chemistry Division, which led to an increase in employment and revenue from chemical services.

Customer base of the Chemistry Division is well diversified in terms of market segments, industries and geographical locations. Major customers of the Contract Chemistry Division are large and medium-sized pharmaceutical companies, biotechnology companies and agrochemical and chemical industries.

We continued previous years' trends of maintaining within our overall revenue a high proportion of FTE projects (80%) and co-operation based on series of fixed-price projects commissioned by regular customers. The Division continued to win fixed-price contracts and FTE contracts from new customers. It executed contracts with new customers from the European, Israeli, American and Japanese markets.

In July it executed a three-year-contract with the University of California, San Francisco – UCSF, based on the FTE model, for chemical support for an R&D program leading to development of new therapies for neurodegenerative diseases; it was preceded by a thorough evaluation of Selvita and successful completion of a series of pilot studies for the same customer.

Furthermore, some activities were undertaken on the Japanese market – Selvita signed a cooperation agreement in the field of medical chemistry, based on the FTE model, with one of Japanese pharmaceutical companies, which strengthened Selvita's position on global R&D outsourcing market and boosted life science industry's confidence in the quality of the services we offer.

In 2016 intensive sales activities were also continued in the United States, Europe, in Israel, and Japan aimed at winning new customers on those markets. Alongside standard sales activity, customer visits to Selvita and Selvita's representative visits to customers, Division representatives also took part in some prestigious industry conferences. Participation in these conferences not only offered an

opportunity to meet existing business partners, but also resulted in new commercially interesting contacts. Similar levels of activity and efficiency in winning contracts may also be expected in 2017. This allows us to expect consistent growth of the Contract Chemistry Department.

Similar operating activities (increasing substantive, quality and infrastructure standards) and sales activities (Europe, Israel, further increase of activities on the American and Japanese markets) have been planned for 2017.

Given the current contracting and negotiations, further strong growth trend may be expected in 2017.

Contract Biology Division

Contract Biology Division provides biological, biochemical and analytical services. It specializes in certified testing conducted in GLP and GMP standards in such areas as pharmacodynamic testing, cytotoxicity testing, developing and validating biochemical, bioanalytical, cellular testing and analytical methods (including ADME and DMPK assays). Protein Chemistry Laboratory also offers a broad range of protein biochemistry testing.

Contract Biology Division consists of laboratories offering a broad range of services: Protein Chemistry Laboratory, Analytical Laboratory and Cell and Molecular Biology Laboratory. The portfolio of Division services has been designed for cooperation with pharmaceutical and biotechnological companies on Polish and foreign markets. Division's comprehensive offer enables implementation of complex integrated research projects connected with development of innovative drugs (at present two projects implemented together with Merck and H3 Biomedicine).

In 2016 Contract Biology Division focused on services in the field of biological, biochemical and analytical testing conducted for customers in the fields of chemistry, pharmacy and biotechnology. Contract Biology Division laboratories specialize in certified testing conducted in 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.

Intensified sales activities, targeted mostly at foreign customers, brought the expected outcome, i.e. an increase in contracting and the resulting growth of revenues from commercial activity, the largest one so far in Selvita Group. The expanding group of returning customers was a very good starting point for last year's activities of all teams. Particular attention should be paid to a major increase in commercial revenue related to contract biochemistry services. It was a result of winning new contracts from regular and new customers by the Protein Chemistry Laboratory, whereas the major source of revenue were projects related to production, purification and characterization of recombinant proteins in two expression systems connected with bacteria and insect cells. Furthermore, significant amount of revenue came from genotoxicity testing based on the bacteria system Ames test. Such testing was performed mostly for customers from Western Europe and the U.S., representing both global biotechnological and pharmaceutical corporations and smaller companies involved in discovery of new drugs.

In 2016 the Analytical Laboratory focused on activities dedicated to pharmaceutical customers. It included mainly development and validation of new analytical methods using chromatographic

methods (HPLC, GC, IC) and offer implementation for agrochemical industry, which provides special opportunity to perform batch testing (screening analyses, method validations, 5 Batch analysis, substance certification), using considerable equipment and human resources.

Cell and Molecular Biology Laboratory focused mostly on compound safety and efficacy analyses performed for innovative biotechnological and pharmaceutical companies from Poland, the UK and the United States. This type of activity (i.e. genotoxicity testing) is a very attractive business niche for the laboratory which may become in the future a source of high margin profit projects implemented for regular customers. Furthermore, the unit has undertaken or has completed a group of projects for other customers, both from Poland and Europe, connected with analysis of small-molecule compounds with anti-cancer, anti-inflammatory and immunosuppressive potential activity; it has also successfully completed new projects aimed at developing an enzymatic biochemical method for analyzing potential small-molecule drugs with inhibitory activity for a European customer and a complex project in the field of genetics and molecular biology performed together with a research entity in California.

In the nearest future, Contract Biology Division will continue to aim at penetrating the markets of Western Europe and the United States, with particular focus on the offer developed for pharmaceutical or biotechnological customers searching for integrated solutions in innovative drug development. Additionally, sales activities will continue to be targeted at customers from the agrochemical industry, which is strengthening its position in the Division customer portfolio every year.

The long-term objective for the Contract Biology Division will be transition from the most popular at the moment fee for service cooperation model to a much more profitable FTE model. This model is successfully used by the Company for projects of the Contract Chemistry Division and the Innovation Segment; for the last year it has been also used for implementing some analytical projects.

The key factor for continued dynamic growth of the Contract Biology Division in the future will be winning new projects and customers as well as developing a new offer in the field of biological and biosimilar drug studies. At the moment Selvita Group is the leader of the Polish market in terms of this kind of services provided for pharmaceutical and biotechnological companies. The experience and expertise gained from projects implemented for Polish customers will be used to win new contracts on foreign markets.

Ardigen S.A. (formerly Bioinformatics Segment)

Ardigen is a bioinformatics company which uses its expertise, experience and products to support life sciences and health care industry to embody the idea of precision and personalized medicine. The company was founded on September 24, 2015, by separation from the Selvita's Bioinformatics Division. Due to its dynamic development, as of the end of 2016, Ardigen had a world-class team of 34 specialists in the fields of biotechnology, bioinformatics, data science and IT.

In its first year of its activity (2016) Ardigen introduced its new offer on the U.S. and EU markets of bioinformatics services in the field of genomics, transcriptomics, metabolomics, metagenomics, immunomics, services provided with the use of advanced analytical technologies (Data Science), including machine learning. Bioinformatics offered by Ardigen is supported by complementary IT services such as designing and constructing Big Data and Cloud solutions. At this stage of the company development, the services area is the main source of generated revenues and profits.

The strategic development direction for Ardigen is creating and market launching its own innovative products in the field of precision and personalized medicine, products which combine knowledge of oncology, molecular biology, bioinformatics, artificial intelligence and IT. New products are supposed to address the needs of increasing effectiveness of oncological treatment.

In 2016 Ardigen established business relations with seven partners from the United States, including Harvard Medical School and one of the ten biggest pharmaceutical companies in the world. Additionally, its partners include three companies which implement projects recognized by the Johnson & Johnson company incubator as one of the most innovative biotechnological projects. In May 2016 a press release informed about productive cooperation between Ardigen and EpiBiome, company working on an innovative microbiome project. In Europe Ardigen established cooperation with a major German pharmaceutical company. Working with innovative companies allows Ardigen to create world-class competence in the field of bioinformatics and data science.

Ardigen is successfully expanding competences of its team by participating in prestigious conferences on precision medicine and bioinformatics. In January 2016 the company participated in the Precision Medicine World Conference in Mountain View, California; in March 2016, in the Molecular Med Tri Conference in San Francisco; and in April 2016, in the biggest bioinformatics conference, i.e. Bio-IT World Conference in Boston. Thanks to close cooperation with the biggest biotechnology centers, the company gained significant knowledge of the market and its trends, and established valuable relations for precision and personalized medicine.

Throughout 2016 there was a dedicated R&D division in Ardigen structure, which conducted research regarding diagnostic and therapeutic applications. Activities concentrated in three strategic competence areas: immuno-oncology, metabolomics and microbiome. These activities will be the key factor contributing to the growth of company in the next years.

4.2 Sponsoring and charity

Since June 2016 Selvita. has been supporting the UNICORN Charity Foundation (http://unicorn.org.pl/) as part of its corporate social responsibility policy.

The UNICORN Foundation for Oncology Support has been helping patients suffering from cancer and their families since 1999. The association is currently running an on-site Psycho-Oncology Center, the first of this kind in Poland.

The intention of the founders of the on-site Unicorn Psycho-Oncology Center in Krakow is to create a place where patients diagnosed with cancer will receive comprehensive and professional support in an attempt to tame the disease and overcome the shock of the troublesome diagnosis. Huge efforts were made to allow this center to gather in one place experts and specialists from many fields, who provide comprehensive care for their patients. The UNICORN Association has been repeatedly awarded as an author of numerous social campaigns such as “Poukładaj sobie raka” [Get your cancer sorted out], “Jest między nami chemia” [There is chemistry between us], “Nie tylko leki leczą” [Meds are not the only cures] or “Widzimy całego człowieka” [We see the whole person].

Selvita is supporting the UNICORN Foundation both financially and through employee volunteering events. Selvita. was one of sponsors of the 2nd Oncology Forum held on February 27, 2017, in the ICE Krakow Congress Center.

In 2016 Selvita. donated 10,000 PLN for statutory goals of the UNICORN Foundation.

4.3 Employment data

Given the dynamic growth in the period covered by the report, the Group has significantly increased employment, especially in the research and development department as well as the contract synthesis department. Employment increased from 298 employees at the end of 2015 to 364 employees at the end of 2016.

4.4 Planned growth of Selvita Group

The Innovative Segment

In 2017 Selvita Group is planning to continue its dynamic development in the area of research and development of new drugs by using new funds raised through the issuance of shares in December 2014, supported by grants awarded in the previous years and obtained gradually as part of the new 2014-2020 financial perspective .

First of all, plans are under way for the completion of the clinical phase I/II of the study of the SEL24 molecule under license agreement with the Menarini Group and completion of the pre-clinical phase for the SEL120 molecule and its preparation for the beginning of phase I clinical trial. Selvita will continue negotiations with potential purchasers of R&D projects.

The company will also conduct research and development work on early phase studies, as part of partnership agreements, a platform of targeted therapies, a metabolic and immuno-metabolic platform, and an immunological platform.

Service Segment

In this area the Group is expecting organic growth by increasing the share of full time equivalent (FTE) contracts in the sales volume, increasing revenues and increasing the employee base accordingly, as well as extending the laboratory space.

New Initiatives

In 2016 Selvita Group presented a ten-year investment plan for constructing a Research and Development Center for Innovative Drugs, whereas in 2016 the Company bought a building plot located within the Krakow Special Economic Zone at Podole Street, in the vicinity of current laboratories located in the Jagiellonian Center of Innovation.

5 FINANCIAL INFORMATION

5.1 CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
	PLN	PLN
Continued operations		
Revenues from sales	48 133 127	41 028 641
Revenues from subsidies	12 066 981	14 699 621
Other operating revenues	6 520 463	348 444
Revenues on operating activities	**66 720 571**	**56 076 706**
Change in stock of goods	413	(3 398)
Amortisation and depreciation	(3 617 457)	(3 432 751)
Consumption of materials and energy	(13 219 882)	(11 118 031)
External services	(10 538 123)	(8 761 320)
Payroll	(30 370 269)	(21 780 955)
Taxes and charges	(526 557)	(374 103)
Other costs by type	(3 513 002)	(3 262 382)
Value of goods and materials sold	(132 953)	(452 955)
Other	(156 301)	(88 800)
Operating expenses excluding impact of share-based incentive program	**(62 074 131)**	**(49 274 695)**
Profit (loss) on operating activities excluding impact of share-based incentive program	**4 646 440**	**6 802 011**
Share-based incentive program	(5 860 000)	(4 729 000)
Profit (loss) on operating activities	**(1 213 560)**	**2 073 011**
Financial revenues	1 131 551	844 061
Financial expenses	(184 256)	(96 221)
Profit (loss) on business activities	**(266 265)**	**2 820 851**
Equity method valuation of investments in associates	(1 016 483)	-
Net profit (loss) before income tax	**(1 282 748)**	**2 820 851**
Income tax expense	3 968 139	3 412 101
Net profit (loss) on operating activities	**2 685 391**	**6 232 952**
Discontinued operations		
Profit (loss) on discontinued operations	-	-
Net profit (loss)	**2 685 391**	**6 232 952**
Net profit loss attributed to:		
Majority shareholders	2 720 211	6 269 811
Non-controling shareholders	(34 820)	(36 859)
Other comprehensive income:		
Foreign subsidiaries results translation differences	(42 631)	(2 619)
Total other comprehensive income	**(42 631)**	**(2 619)**
Total income	**2 642 760**	**6 230 333**
Total comprehensive income attributed to:		
Majority shareholders	2 677 580	6 267 192
Non-controling shareholders	(34 820)	(36 859)
Earnings per share		
(expressed in zł per share)		
With continued and abandoned operations:		
Basic	0,20	0,48
Diluted	0,19	0,47
With continued operations:		
Basic	0,20	0,48
Diluted	0,19	0,47

5.2 CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

	31/12/2016	31/12/2015
	PLN	PLN
ASSETS		
Fixed assets		
Tangible fixed assets	21 832 609	8 597 002
Investment in real-estate	-	-
Goodwill	280 740	280 740
Unfinished development work	6 226 898	1 839 834
Other intangible assets	132 699	153 638
Investments in associates	3 120 772	-
Deferred tax assets	9 662 724	5 650 690
Other financial assets	-	-
Other assets	196 038	196 038
Total fixed assets	**41 452 480**	**16 717 942**
Current assets		
Inventory	1 403 263	1 174 090
Short-term receivables	15 681 811	17 411 959
Construction contracts receivables	637 849	549 455
Other financial assets	60 000	-
Current tax related assets	-	-
Other assets	790 997	581 815
Cash and other monetary assets	29 094 669	28 806 527
	47 668 589	48 523 846
Non-current assets held for sale and discontinued operations	-	-
Total current assets	**47 668 589**	**48 523 846**
Total assets	**89 121 069**	**65 241 788**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

	31/12/2016	31/12/2015
	PLN	PLN
EQUITY AND LIABILITIES		
Equity		
Share capital	5 377 337	5 246 183
Surplus from sale of shares above par value	25 480 803	25 284 072
Own shares	-	-
Supplementary capital	14 890 225	5 829 400
Other reserve capitals	10 589 000	6 612 442
Foreign subsidiaries results translation differences	(42 631)	(2 619)
Previous years profit (loss)	(3 640 312)	(2 790 893)
Net profit (loss)	2 720 211	6 269 811
Provisions related to non-current assets held for sale and discontinued operations presented directly in equity	-	-
Equity attributed to majority shareholders	**55 374 633**	**46 448 396**
Equity attributed to non-controling shareholders	336 824	431 379
Total equity	**55 711 457**	**46 879 775**
Long-term liabilities		
Long-term loans and bank credits	4 791 517	-
Other financial liabilities	3 028 017	297 618
Retirement provision	61 438	61 438
Provision for deferred income tax	214 039	170 144
Provisions for liabilities-long-term	-	-
Deferred income	6 381 589	1 513 383
Other liabilities	-	-
Total long-term liabilities	**14 476 600**	**2 042 583**
Short-term liabilities		
Trade liabilities	7 883 012	3 927 091
Construction contracts liabilities	176 244	1 374 860
Short-term loans and bank credits	858 529	33 469
Other financial liabilities	945 908	268 379
Current tax liabilities	-	4 481
Provisions-short-term	3 599 968	3 327 277
Deferred income	5 469 351	7 383 873
Other liabilities	-	-
Total short-term liabilities	**18 933 012**	**16 319 430**
Total long-term liabilities	**33 409 612**	**18 362 013**
Total equity liabilities	**89 121 069**	**65 241 788**

5.3 CONSOLIDATED CASH FLOW

FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
	PLN	PLN
Cash flows from operating activities		
Net profit (loss)	**2 685 391**	**6 232 952**
Adjustments	**(8 965 503)**	**(22 662 718)**
Equity method valuation of investments in associates and joint ventures	1 016 483	-
Amortisation and depreciation	3 617 457	3 432 751
Interest and profit-sharing (dividends)	72 442	(461 851)
Change in receivables	927 933	(7 422 103)
Change in inventory	(229 173)	(597 311)
Change in short-term liabilities and provision excluding credits and loans	2 757 305	(748 792)
Change in grants	(12 374 215)	(13 458 670)
Change in other short terms assets	(10 886 426)	(9 078 542)
Change in provisions	272 691	590 371
Income tax paid	-	-
Contribution in kind of non-controling shareholders	-	319 380
Share-based incentive program	5 860 000	4 729 000
Other	-	33 049
Cash flows from operating activities	**(6 280 112)**	**(16 429 766)**
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	(18 355 196)	(4 951 495)
Purchase of tangible and intangible fixed assets partially financed with grant	(2 855 190)	(238 157)
Proceeds from sale of other assets	2 596 850	-
Interest received	288 546	473 577
Repayment of loans	-	400 000
Loans granted	(60 000)	(400 000)
Other	-	63 748
Cash flows from investing activities	**(18 384 990)**	**(4 652 327)**
Cash flow from financing activities		
Proceeds from shares issue	327 887	27 314 477
Payment of liabilities from finance lease agreements	(916 102)	(416 877)
Proceeds from credits and loans	5 648 066	33 469
Subsidies	19 959 564	19 266 605
Repayment of credits and loans	(31 198)	(90 921)
Interest paid	(9 973)	(6 301)
Outflows connected with shares issue	(25 000)	(969 649)
Net cash flows from financing activities	**24 953 244**	**45 130 803**
Increase of net cash	288 142	24 048 710
Cash opening balance	28 806 527	4 757 817
Cash and cash equivalents - end of the period	**29 094 669**	**28 806 527**