Selvita Group Annual Report (Summary) 2015

Table of Contents

1 LETTER TO THE SHAREHOLDERS 3

2 BASIC INFORMATION ON THE SELVITA GROUP 5

1.1. Structure of the Capital Group 5

1.2. Governing Bodies of the Parent Entity 6

3 ECONOMIC AND FINANCIAL HIGHLIGHTS 6

3.1 Financial Results Attained in the Reporting Period 6

3.2 The Group's Assets and the Structure of Assets and Liabilities 8

3.3 Current and Projected Financial Condition 9

4 INFORMATION ON THE ACTIVITIES OF SELVITA GROUP 10

4.1 Products and Services 10

4.2 Target Markets 15

4.3 Employment data 18

4.4 Planned growth of Selvita Group 18

4.5 Key achievements in research and development 19

5 FINANCIAL INFORMATION 23

5.1 CONSOLIDATED INCOME STATEMENT 23

5.2 CONSOLIDATED BALANCE SHEET 24

5.3 CONSOLIDATED CASH FLOW 26

1 LETTER TO THE SHAREHOLDERS

Dear Selvita Shareholders and Business Partners,

It is my great honor and pleasure to reflect on Selvita's performance in 2015 and provide you some management outlook for 2016.

2015 was another important step for Selvita on our road to building one of the premium global drug discovery companies. After the successful capital increase and transition to the main market of the Warsaw Stock Exchange in 2014 we have used the new funding to advance and strengthen our pipeline and increase our service delivery capacity.

In March we initiated IND-enabling studies of our first-in-class PIM/FLT3 program SEL24. Based on our contract with a US. CRO Theradex, which we executed in November, the program is well on track to commence Phase I clinical studies in acute myeloid leukemia in mid-2016. SEL120, Selvita's first-in-class CDK8 program is finishing non-GLP toxicology studies in monkeys. We will receive the final reports from our CRO in Q1 2016.

In September and November our partners H3 Biomedicine and Merck KGaA have extended our oncology drug discovery collaborations originally started in 2013 providing new testimonies to Selvita research acumen. We also got the first success milestone from Merck, building base for potential future revenue streams.

Thanks to the capital increase and secured grant funding we have also significantly advanced our fully-owned early stage oncology programs and started work on a few exciting novel targets. These programs will constitute Selvita's pipeline future in 2017 and beyond after, we have hopefully capitalized on the potential of SEL24, SEL120 and the partnered programs.

The services division of Selvita has grown remarkably in 2015, exceeding expectations from the IPO, both in the chemistry division led by Miroslawa Zydron and the biology division led by Milosz Gruca. Our business model, based on connecting Poland brightest scientific minds with the global pharma and biotech community is working very well and we expect dynamic growth to continue for many years. A key initiative supporting this was the establishment of three international sales offices based in Cambridge, UK, San Bruno in San Francisco Bay and Cambridge in Greater Boston Area. All offices received warm reception from the local biotech communities, partially already converted to the first projects won locally and not remotely from Poland as was our practice before.

Capitalizing on global precision medicine trends and Selvita bioinformatics/informatics assets managed by Sebastian Kwasny we have spun off a new daughter company Ardigen, joining forces with a successful IT-industry manager Janusz Homa, who became Ardigen's CEO. Selvita itself can be now fully focused on drug discovery and we expect that Ardigen will be an important part of the global bioinformatics market which is growing at 20% pa. and expected to reach $ 13.3 billion in 2020.

The quarterly financial results which we published throughout the year have also been very good and we are looking forward with optimism towards the full year data to be published in March 2016.

Our corporate progress has been appreciated by the investment community. Despite weak general market sentiment Selvita stock has advanced 33% in 2015, raising company's market cap to PLN 275 MM (US $ 70.3 MM) as of today.

Selvita's business model is working very well, both in the internal pipeline and services parts.

We have become a recognized member of the international biotech and pharma community. The main challenge for Selvita is now to manage growth, investing wisely in new programs, developing people, offices and lab infrastructure, keeping cost levels and asset purchases at the optimum pace. We need to carefully balance short-term profits with long-term R&D investment.

The Selvita Group added 73 jobs in 2015 growing to 298 employees in December 2015. In order to support employment growth, especially on the services side, we will continue building up the existing labs and initiate new infrastructure initiatives in early 2016. Our Chief Operating Officer Boguslaw Sieczkowski will make sure that our capital is used as efficiently as ever.

The year 2016 should be especially important for our oncology programs – for the first time in our corporate history we may be able to help real oncology patients with a fully-owned molecule discovered at Selvita. If SEL24 delivers on its promise in the clinic then we will be in a completely different league, in all dimensions – contribution to the medical community, corporate reputation and track record and investor satisfaction. Our research team, under the direction of Krzysztof Brzozka, Selvita's CSO, gave its best to discover and develop the program and initiate a smart clinical trial. Now we need our share of biotech luck. It is really a pivotal time for us – one that we have been preparing for since launching work on SEL24 in 2009. Please keep your fingers crossed for us.

On behalf of the management board I would like to thank Selvita employees, shareholders and business partners for a very solid 2015. We are well prepared to make 2016 another successful year for our company and its stakeholders. I also hope that you will continue to support and cheer for our efforts.

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	Wilmington, Delaware, 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	54,2% shares held by Selvita S.A.

All entitles within the Selvita Group are consolidated.

1.2. Governing Bodies of the Parent Entity

As of March 21, 2016 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 '000s			Data in EUR '000s		
Item	01.01.2015 - 12.31.2015	01.01.2015 - 12.31.2015 (excl. incentive program)	01.01.2014 - 12.31.2014	01.01.2015 - 12.31.2015	01.01.2015 - 12.31.2015 (excl. incentive program)	01.01.2014 - 12.31.2014
Currency	PLN	PLN	PLN	EUR	EUR	EUR
Net revenues from sales	41 029	41 029	28 865	9 805	9 805	6 890
Revenues from subsidies (grants)	14 700	14 700	12 430	3 513	3 513	2 967
Total revenues from sales and subsidies (grants)	55 729	55 729	41 295	13 319	13 319	9 857
Operating expenses	-54 004	-49 275	-36 285	-12 906	-11 776	-8 661
Depreciation	-3 433	-3 433	-2 354	-820	-820	-562
Profit (loss) from operations/EBIT	2 073	6 802	5 272	495	1 626	1 258
Profit/loss before income tax	2 821	7 550	5 427	674	1 804	1 295
Net profit/loss	6 233	10 962	5 850	1 490	2 620	1 396
EBITDA	5 506	10 235	7 626	1 316	2 446	1 820
Net cash flow from operations	-16 430	-16 430	-4 902	-3 927	-3 927	-1 170
Net cash flow from investments	-4 652	-4 652	-3 592	-1 112	-1 112	-857
Net cash flow from financial activities	45 131	45 131	7 954	10 786	10 786	1 899
Net cash flow, total	24 049	24 049	-540	5 747	5 747	-129
Assets, total	64 493	64 493	26 803	15 134	15 134	6 288
Short-term receivables	16 663	16 663	9 822	3 910	3 910	2 304
Cash and other monetary assets	28 807	28 807	4 758	6 760	6 760	1 116
Liabilities and provisions	17 613	17 613	17 550	4 133	4 133	4 117
Long-term liabilities	1 293	1 293	2 278	303	303	534

Short-term liabilities	16 319	16 319	15 271	3 829	3 829	3 583
Equity	46 890	46 890	9 254	11 003	11 003	2 171
Share capital	5 246	5 246	4 185	1 231	1 231	982
Number of shares (units)	13 115 457	13 115 457	10 463 566	13 115 457	13 115 457	10 463 566
Earnings (loss) per ordinary share (in PLN/EUR)	0,48	0,84	0,56	0,11	0,20	0,13
Diluted earnings (loss) per ordinary share (in PLN/EUR)	0,48	0,83	0,56	0,11	0,20	0,13
Book value per share (in PLN/EUR)	3,59	3,59	0,88	0,84	0,84	0,21
Diluted book value per share (in PLN/EUR)	3,54	3,54	0,88	0,83	0,83	0,21
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-	-	-

2015 is the second consecutive year in which Selvita Group obtained profit from operating activities. This positive result is the effect of continued profitable operations in both innovations and services segments.

In order to assure the possibility of further dynamic growth, on September 2 of the current year, the Extraordinary General Meeting of Shareholders approved the Incentive Program ("Program") for key personnel, to issue warrants converted to shares of the company. The assumptions of the program have been extensively described in Note 31 to the Consolidated Financial Statement of the Selvita Group. International Accounting Standards, which form the basis for company reporting, require recognition of the costs of the incentive program in the profit and loss account during the course of the program, therefore the Program costs for 2015 have been included in financial statements line "Share-based inventive program". The cost of the Program is an accrual basis cost and does not involve the Company's cash expenditures.

In order to maintain the comparability of the financial data for the current and previous period, the comments below are based on data without taking into account the cost of the Program in 2015.

The Group's net profit amounted to PLN 10,962k in 2015 and, without taking into account an impact of deferred tax asset changes (due to tax losses from previous years and Special Economic Zone operations tax relief), amounted to PLN 7,662k in 2015, which means a profitability of 13.7%, and thus an increase compared to the previous year of PLN 1,812k, i.e. 31.0%. Operating profit (EBIT) amounted to PLN 6,802k and was 29% higher than in the previous year (PLN 5,272k).

The Group reported profit in all quarters of 2015 which indicates to continue a positive trend starting from the first profitable quarter i.e. Q4 2013. In the reported period Selvita Group consistently continued intensive research work under the programs commenced in previous years, most of which, according to the Group's accounting policy, are recognized directly as costs.

In 2015 Selvita Group achieved operating revenues of PLN 56,077k, while in 2014 operation revenues amounted to PLN 41,557k, which means growth in operating revenue of 34.9%. Net revenues from sales (excluding subsidies) amounted to PLN 41,029k, which is 42.1% more compared to 2014, when it amounted to PLN 28,865k.

In 2015, in the services segment, Selvita Group focused primarily on intensive growth by expanding the scope of activities and penetrating new markets. The profitable and dynamically growing service

segment provides the Group with a solid foundation for growth – 2015 revenues from services to external customers totalled PLN 25,613k, which means a 58.9% increase in comparison with the previous year, in which revenues amounted to PLN 16,121k.

In 2015, further agreements have been signed with large international pharmaceutical corporations, which allowed Selvita Group subsidiaries to pursue advanced research. Revenues from external customers generated by the innovations segment of Selvita Group in 2015 totalled PLN 15,416k, which means a growth of 21.0% compared to 2014, when revenues totalled PLN 12,744k.

2015 grant revenue increased by 18.3% compared to the previous year - from PLN 12,430k to PLN 14,700k. The revenue from grants in 2015 does not contain the amount of PLN 4,123k, which was capitalized in the balance sheet alongside the capitalized development activities costs. The growth in revenue from grants is primarily due to the previously planned increased expenditure towards the implementation of the SEL300 Project as well as continuous recognition as revenues the received infrastructure grants included previously in the deferred revenue.

The value of the contracts portfolio for 2016, resulting from trade contracts and grant contracts (backlog) signed as of the date of this report publication, is PLN 35,255k, including:

- Services PLN 17,170k
- Innovation PLN 9,985k
- Grants PLN 8,100k

This backlog does not include revenues from subsidies that have been granted but their corresponding contracts have not yet been signed. The increase of commercial backlog without taking into account the subsidies, compared to the backlog included in the Selvita S.A. Board report of the Group activities for 2014, is PLN 9,464k, i.e. 53.5%.

Since the beginning of 2015 Selvita Group has been implementing its plan to open branches abroad. The official opening of Selvita Inc. - a subsidiary of the issuer in the United States. – took place in Q3 2015. The first Selvita Inc.'s office has been located in the area with the largest concentration of biotech companies in the world – in Boston, Massachusetts (Greater Boston Area), and it is responsible for the support of ongoing projects for US customers, acquisition of further partners for R&D projects in oncology and for sale of services. In April 2015, a sister company, Selvita Ltd., was set up in Cambridge, UK, which is the third largest R&D market in the pharmaceutics industry after the US and Japan.

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

The value of the Group's assets increased in 2015 from PLN 26,803k to PLN 65,242k, i.e. an increase of 143.4%. The main result is a growth of financial assets, especially cash from stock issuance, which were transferred to the company's accounts in January 2015 in the amount of PLN 24,049k (505.5%) and an increase in short-term receivables from supplies and services in the amount of PLN 7,590k, i.e. 77.3%, as a result of invoicing of significant amount of receivables in December 2015 as well as an increase in the value of fixed assets by PLN 7,224k, i.e. 76.1%.

As of the end of 2015 Group's tangible assets included mainly fixed assets amounting to PLN 8,597k, including mostly laboratory equipment, and deferred tax assets amounting to PLN 5,651k. Compared with the previous year, the value of fixed assets increased by PLN 7,224k. This is mainly the effect of

investments in research infrastructure and an increase in deferred tax asset related to the operations of Selvita Services Sp. z o.o. in the Special Economic Zone.

From January 1, 2015, Selvita S.A. started capitalization of development costs for KIND-P1 project as a result of the fulfilment of the accounting criteria allowing for such treatment. The value of these assets amounted to PLN 5,963k at the end of 2015 and is presented in balance sheet line "unfinished development work" in the amount of PLN 1,840k i.e. after deduction of the amount of PLN 4,123k, i.e. the value of activated grant revenues related to capitalized costs.

The assets structure demonstrates the proper liquidity of the Group and its improvement in relation to the previous year, which is confirmed by the following indicators:

	2015	2014
Liquidity indicator **current assets/current liabilities including short-term provisions and accruals (excl. deferred revenues)**	5,43	1,62
Increased liquidity indicator **(current assets-inventory)/current liabilities including short-term provisions and accruals (excl. deferred revenues)**	5,30	1,56

Surplus funds unused for operating activities are invested in secure financial instruments such as bank deposits.

The main item in the Group's equity and liabilities is equity which amounted to PLN 46,880k as of December 31, 2015 and increases in comparison to December 31, 2014 for PLN 37,626k i.e. 406.6%. This increase is mainly due to registration of share capital increase as a direct result of the shares issuance implemented in 2014.

The second largest source of funding are short-term liabilities which together with provisions amounted to PLN 16,319k as of the end of 2015. The largest items presented in liabilities are liabilities from supplies and services, deferred revenues (the majority of which are grants received subject to settlement in the future) and short-term provisions. It is worth emphasizing that in spite of the dynamic growth of the Group, the liabilities from supplies and services at the end of 2015 were lower than at the end of 2014 and amounted to PLN 3,906k – a decrease from PLN 5,363k, i.e. by 27.2%.

3.3 Current and Projected Financial Condition

The financial situation of the Group as of the date of this report is very good. As of December 31, 2015, the cash value of the Group amounted to PLN 28,807k, and on March 14, 2016 the cash value of the Group amounted to PLN 32,400k.

Both in terms of innovation and services segments, the Group's operation is profitable. R&D is financed with revenue from customers, supplemented by research grants and funds raised through share issuance. In 2016, a further increase in revenues is expected both from services provided as well as commercialization of subsequent research projects.

The Company fulfils its obligations on an on-going basis obligations and maintains a sustainable cash flow ensuring its liquidity. With proceeds from the issue of shares and cash generated through operating activities Selvita Group is able to complete the planned investments, particularly in

innovative projects, laboratory infrastructure and the opening of foreign subsidiaries in order to support business development.

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.

Innovative Segment

Selvita is engaged in the discovery and development of breakthrough medicines to treat cancer, CNS and autoimmune disorders Selvita discovers and invests in the development of bioactive molecules with therapeutic potential, with the purpose of their further commercialization in the global pharmaceutical market. It focuses on small-molecule chemical compounds discovered in-house or by researchers from Polish universities. Initial ideas are then evaluated, and drug discovery projects are launched. This way they acquire real commercial value. Further work on the project is conducted in cooperation with a strategic partner (a large pharmaceutical company), with milestone payments received for each completed project phase plus the right to royalties throughout the period of sale of the future drug product. Moreover, partnership agreements ensure access to the know-how of large organizations. Such model of cooperation is commonly employed by pharmaceutical and biotechnology companies worldwide and thanks to the synergy in the science and business areas it ensures a higher probability of success. Selvita's effectiveness in commercialization of its research is reflected by conclusion of four major partnering contracts including a contract for kinase inhibitor platform with H3 Biomedicine, cancer metabolism platform with Merck Serono and cancer quiescence platform with Felicitex Therapeutics. Selvita's portfolio also contains a number of promising internally developed projects, the most developed of which are SEL24 project (a potential drug against leukemia and other tumors) and SEL120 project (a potential drug targeting colorectal carcinomas and other solid tumors).

Partnering model in biotechnology

The total direct cost of research necessary to develop and register an innovative drug currently exceeds 100 million USD. Considering the cost of unsuccessful projects and the cost of capital required to finance a usually several-year long investment cycle for a single research program, average R&D expenditures necessary to register a single molecule exceed 1 billion USD. For this reason, only the largest global pharmaceutical companies can afford such expenses. In order to further develop their projects, the majority of biotech firms, including Selvita, must at some point secure a project partner. Such partner can be a biotechnology or pharmaceutical company,, as well as an investment fund interested in investing in a particular project (the so-called asset-based funding). The main tasks of a partner include:

- securing capital for further research,
- independent performance of clinical research or having it performed by a specialized clinical research organization (CRO),
- conducting the registration process,
- launching the manufacture of the finished drug,
- conducting additional clinical trials covering new therapeutic indications,
- marketing and distribution of the drug.

This kind of partnering model enables sharing the risks and benefits of innovation between the biotech company and its pharmaceutical partners. One of the financial benefits of such partnering model, is a fact that a large pharmaceutical firm maintains a larger and more diversified portfolio of innovative projects and markets already registered drugs. With high sales revenues, large pharmaceutical companies are highly profitable which, together with lower risk of innovative projects portfolio, ensures significantly lower cost of capital. Consequently, after establishing investment cooperation with a professional investor, the projects which would otherwise have a low internal risk-weighted rate of return if implemented solely by a biotech company, become much more attractive.

Implementation of a partnering contract covers one of the following forms of commercial transactions or, combination thereof, with one or more partners in different geographical locations and within different therapeutic indications:

- a biotech company retains full intellectual property rights (copyright and propriety rights) to a molecule and grants the partner (e.g. a pharmaceutical company) a license to further develop, register, manufacture and sell the drug (so called *out-licensing*). Such rights usually cover the right to sublicense to regional partners*;*
- a biotech company sells its intellectual property rights to the molecule to the partner. This allows the partner to continue the work on the molecule or to sell or license it in its sole discretion;
- a biotech company obtains funding from the partner to finance research in exchange for the exclusive right to purchase IP rights resulting from the project in the future. Such funds may be granted as payment for research and development work, or as the pharmaceutical firm's equity investment in the biotech company;
- a biotech company conducts part of the R&D work and covers its costs. A pharmaceutical company conducts parallel research and development on the same molecule and bears the costs. Both companies agree to share the economic benefits of the project. Collaboration established at the discovery stage is called *co-discovery*. Collaboration at pre-clinical or clinical stage is called *co-development*. Trade cooperation after the registration of the molecule is termed *co-promotion*;
- a pharmaceutical company acquires from a biotech company the right to execute one of the above-mentioned types of partnering transactions in the future, in return for advance payment (*option-deal*).

Selvita's partnering contracts

Until the publication of this report, Selvita signed the following four partnering agreements, the last three of which are currently being executed:

- agreement with Orion Pharma for development of SEL103 project covering symptomatic treatment of Alzheimer's disease,
- agreement with US based H3 Biomedicine – collaboration on development of new kinase inhibitors in oncology (kinase inhibitor platform),
- agreement with Germany based Merck Serono – collaboration on discovery of new drugs targeting the mechanisms of specific cancer metabolism pathways (cancer metabolism platform),
- agreement with US based Felicitex Therapeutics – collaboration on development of new drugs targeting quiescent cancer cells (cancer chemoresistance platform).

Selvita is a Polish leader in securing partnering contracts. According to the publicly available data, as of the date of this report, no other Polish biotechnology company has ever signed a partnering contract for a research project with a Western based pharmaceutical or biotechnology company.

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 Bioinformatics Department.

Contract Chemistry Department

2015 witnessed a significantly growing interest in the services of the Contract Chemistry Department, which entailed a large increase in employment and income from chemical services. This Department is the largest service department of the Company in terms of revenue from contracts.

Most of the Department revenue (approx. 65%) came from long-term Full Time Equivalent (FTE) contracts and a large portion (approx. 30%) from Fixed Price (FP) contracts obtained from regular customers. New clients have also been acquired, who began working with the Company based on FTE or FP contracts.

Other projects the Chemistry Department is working on include the following:

- medical chemistry, research leading to the discovery of new therapeutic molecules,

- computational chemistry, design of new pharmacologically active molecules,
- synthetic support of research projects aimed at the development of new therapies,
- development of new, efficient and cost-effective synthesis processes,
- scaling of chemical processes for production purposes,
- synthesis of new fragrance compounds, new polymorphic forms of known chemical substances and other chemical compounds for specialized use,
- synthesis of pollutions, degradation products and registration standards,
- business and technical consulting services for the chemical industry.

The customer base of the Contract Chemistry Department is well diversified in terms of market segments, industries and geographic locations. The main clients of the Department are customers from the Big Pharma sector, medium-sized pharmaceutical companies, chemical companies, and agrochemicals industry. Part of the revenue is derived from biotech companies. In 2015, there was a significant increase in the presence of the European and Israeli markets (biotechnology, pharmaceutical, chemical and agrochemicals sectors) in the Department revenue.

2015 was also the year of investment in specialist equipment which supports work on R&D projects on synthetic processes that require high pressure and are carried out on a scale of >100 g.

Current contracts and business negotiations allow us to foresee the continuation of the strong upward trend in 2016.

Contract Biology Department

In 2015, activities of the Contract Biology Department focused on biological, biochemical and analytical research services, carried out for the clients in the fields of chemistry, pharmacy and biotechnology. Contract Biology Department laboratories specialize in carrying out certified research in GLP and GMP standards in the following areas: pharmacodynamics research, cytotoxicity research, development and validation of biochemical, bioanalytical and cellular tests as well as analytical methods. In addition, a highly-developed branch of activity are services for the production of recombinant proteins made by the biochemical laboratory.

2015 was a turning point from the point of view of the Contract Biology Department. Intensified sales activities, primarily directed at foreign customers, produced the expected result in the form of a significant increase of the number of contracts and, consequently, the largest revenue growth of the Selvita Group related to commercial activities. An increasing group of returning customers represented a very good starting point for all teams in the previous year. A large increase in commercial revenues related to contract analysis services deserves special attention. It was caused by, among others, the signing of a key agreement with a Swiss pharmaceutical company, the first in the history of our laboratory operation, which decided to start cooperation based on the FTE model. The biochemical laboratory expanded its existing cooperation with pharmaceutical clients in the service area of recombinant proteins expression produced in bacterial systems. At the same time, the laboratory, for the first time in its history, acquired contracts associated with the production of proteins in eukaryotic systems which complement the offer of our biochemical team and open up new directions for cooperation in subsequent years. The activities of the Molecular and Cellular Biology laboratory were focused on safety and efficacy analyses of compounds analyzed for agrochemical companies. This type of operation (genotoxicity studies) is a very attractive niche for

the laboratory's activities, which in future years can become the source of high-profit projects implemented for regular customers.

In the near future, the main objective of the Contract Biology Department will be to increase the degree of penetration of Western European and US markets, with a particular focus on offers directed at pharmaceutical/biotech clients seeking integrated solutions for projects related to the development of innovative medications. In addition, sales activities will target a new group of customers from the agrochemical industry, which will strengthen its position in the customer portfolio of the department year on year.

The long-term goal of the Contract Biology Department will be transitioning from the currently most commonly used "fee-for-service" model of cooperation to a much more favorable FTE model. This type of the model is already successfully utilized by the Company both for the Contract Chemistry Department projects and Innovative Segment projects, and in recent months it was used for the first time during the analytical department contract implementation.

Another key factor in the continued dynamic growth of the Contract Biology Department in the coming years will be acquiring new projects and clients as well as the development of offers for conducting research of biologics and biosimilars. At the moment, Selvita S.A. is the leader on the Polish market when it comes to this type of service research provided for pharmaceutical and biotechnology companies. Our experience and knowledge gained from projects for Polish clients will be used to acquire new contracts in foreign markets.

Bioinformatics Department (as of October 2015 the company subsidiary Ardigen S.A.)

The Bioinformatics Department specializes in providing and implementing IT and bioinformatics solutions for the broader market, including production and service companies with their own laboratories and companies, science and research entities with R&D laboratories, in the form of modified software, partner solutions and customized projects.

The most notable include: comprehensive IT solutions for LIMS-class laboratory information management (STARLIMS solutions), bio-IT solutions for the analysis of nucleic acids and proteins sequences (CLC bio software), comprehensive hardware-software platform solutions for the bio-IT and IT implementation projects.

The Company also carries out software development services on the foreign market, in particular in the United States, Britain and France, participating in international software production teams and ensuring the high quality of new products placed on the international and Polish markets, as well as the implementation of projects in Europe. The Group offers a full range of IT services from pre-implementation consulting, professional implementation, delivery and computer hardware configuration, training, system validation assistance, document preparation, through to technical support and servicing. Our Company specialists have many years of experience in conducting IT projects and customer-based implementations.

In accordance with the announcements from previous years of further development of the services already provided and of offering new services and products, on September 24, 2015, Selvita S.A. created a subsidiary - Ardigen S.A. Ardigen took over the existing activities of Selvita's Department of Bioinformatics, strengthening the existing competencies of the laboratory information management

systems, and extended the offer of customized bioinformatics projects (cloud computing models, Big Data analysis) and services in the area of personalized medicine. The co-founder and the person who directs Ardigen is Janusz Homa, an experienced manager, co-founder and former CEO of Software Mind, providing innovative solutions and IT services to clients from the IT, financial and banking as well as modern media industries. The position of Ardigen's Vice President of Operations and the director responsible for information systems and bio-IT systems for laboratories has been filled by Sebastian Kwaśny, an existing member of the Board of Directors and the Bio-IT Department Director at Selvita S.A.

Thanks to the existing activities of Selvita's bio-IT division and the development of services and IT products, Ardigen S.A. has a stable position on the market, including access to a wide customer base from many industries including, among others, the biotech, pharmaceutical, and medical industries (including biobanks) as well as the chemical, food, cosmetics, mining, and energy sectors, in addition to collaborating with service services, forensic and academic centers in Poland and abroad. The company can also count on a well-established cooperation with key partners including, among others, Abbott Informatics, Microsoft and Qiagen. The newly created company was established on the basis of a capital injection by the founders. Selvita's Bio-IT Department, operating as an Organized Part of the Company, was transferred as contribution-in-kind to the new Ardigen S.A. company as of November 1, 2015, upon approval from the Selvita S.A. General Meeting of Shareholders, held on October 23, 2015. Today Ardigen S.A. implements projects all around the world, carrying out intensified sales operations in Poland as well as in the European Union and the United States.

4.2 Target Markets

Life science is one of the most globalized industries in the world. Innovative products (e.g. drugs) developed in one country are protected by international patents and commercialized globally. Their development is supported by numerous subcontractors providing the necessary copyright as well as research and development, production and marketing services. Due to the high value of end products, logistics and transportation costs are negligible, which encourages customers to cooperate with major companies from the USA, Europe and Asia. Polish accession to the European Union began the process of fundamental change in the strategy of Polish businesses. Selvita intends to seize these opportunities by: developing in-house innovative compounds, providing services within research projects conducted by pharmaceutical companies and continually tailoring its offer to the needs of the international market.

Market value and perspectives

According to *IMS Health The Global Use of Medicines: Outlook through 2017,* the pharmaceutical market in 2012 was worth USD 965b. It is estimated that by 2017 this figure will increase to about USD 1.200b (ca. 5% growth per annum). This growth will be mostly driven by increased spending in the developing countries and the development of the biopharmaceuticals market. It is also likely to reflect historical trends – in the years 2007-2012 the market's average annual growth rate was approx. 5.5%.

Over the next five years, the difference in growth rate dynamics between the developed and the developing markets will continue to increase. The developed markets of North America, Europe and Japan will grow at single-digit rate, mainly due to the economic situation, health care savings and

lower costs due to the increasing availability of low-cost generic drugs replacing products which patents have expired.

Factors likely to have a crucial influence on the development of the pharmaceutical market in subsequent years will include: higher drug spending in the developing countries, expiring patents on the original drug products (lower spending on original drugs at the expense of generics due to expiry of patent protection in 2013-2017), introduction of innovative medicines and dynamic development of the biopharmaceuticals market.

The primary focus of Selvita's activities is the research on novel original drugs – both directly (within its own portfolio of innovative projects) and indirectly (through laboratory services contracted by other entities).

The development work within Selvita's innovation segment is mainly focused on cancer research. According to the report prepared by *IMS Institute for Healthcare Informatics*, the total global spending on cancer drugs in 2013 amounted to USD 91b (approx. 5% average annual growth rate in 2008-2013). In the subsequent years oncology is expected to remain the fastest growing therapeutic area in the developed countries generating over USD 100b in drug sales by 2017.

Almost 65% of the global oncology market (approx. USD 68b in 2013) is concentrated in only 7 countries: USA, Great Britain, Italy, Spain, Germany, France and Japan. Mexican and Brazilian markets are the second largest oncology region, concentrating about 12% of the entire market (approx. USD 11b in 2013).

As part of the innovation segment Selvita develops targeted therapies (small moleculekinase inhibitors specifically targeting cancer cells). According to the *IMS Institute for Healthcare Informatics* report , the share of such therapies in the oncology drugs market increased from 11% in 2013 to 46% in 2013.

According to the *IMS Institute for Healthcare Informatics* report , a total of over 6200 drugs are currently at different stages of development worldwide. Over 2000 of them are oncology drugs (over 30%). A significant number of such drug candidates are currently in the pre-clinical phase and in phase 1 clinical studies (almost 1400 therapies). These projects indirectly create a market for Selvita's service segment.

Partnering market (market of licenses for potential original drugs) – innovative segment market

Selvita's most important market is the market of partnering agreements (license agreements) concluded between biotechnological companies and pharmaceutical companies. Its growing importance is related to the current model of innovation in the pharmaceutical industry, in which there is a growing division into academic institutions – conducting basic research, biotechnological companies – conducting early stage of research and development, and pharmaceutical companies – conducting advanced clinical trials and global commercialization of drugs. Almost half of revenue of large pharmaceutical corporations comes from drugs developed outside their laboratories. This creates a vast market of projects that are bought by large corporations from biotechnological companies, not only at the stage of clinical trials (which was characteristic in former years), but also at the pre-clinical stage. According to the Bloomberg service, between 2008 and 2013 the value of

partnering transactions rose from USD 63b in 2008 to nearly USD 91b in 2013 (annual average growth of 8%).

The largest partnering activity concerns areas in which competition from generic drugs is not strong, and the drugs that function on the market do not allow patients to stabilize their diseases or to be cured safely. Such areas include first and foremost oncology and central nervous system diseases. In oncology, particularly significant are targeted therapies (most of the molecules developed are so called kinase inhibitors) and, in terms of the central nervous system diseases - Alzheimer's disease. In both these therapeutic areas there is a deep partnering market – for example in oncology each year approximately 50 collaboration agreements are concluded concerning early phase projects (discovery phase, preclinical phase and first phase of clinical trials) which gives approximately a 20% market share.

Outsourcing market – service segment market

Global pharmaceutical outsourcing market

According to the report by JZMed, Inc., the value of the global pharmaceutical outsourcing market in 2011 was approx. USD 85b. The value of the global pharmaceutical outsourcing market in the following years will continue to grow, and in 2015 it will be USD 150b (anticipated annual average growth of 15%)[1].

At present, most outsourcing services contracted by Western pharmaceutical and biotechnological corporations with Asian companies concern wholesale manufacture of simple chemical ingredients, including custom synthesis and contract manufacture. Contracting the development of drugs at early stages of development with Asian companies is not particularly popular among Western pharmaceutical corporations. The main reasons include concerns about compliance with intellectual property regulations and a low level of development of the Asian biotechnological market. Given this, a large part of pharmaceutical outsourcing orders is directed to the European and Israeli markets, which are considered specialized biotechnological centers. These markets compete with respect to safety in the areas of property law, convenient location and more similar culture. Unlike Asian companies, European companies are suppliers of advanced solutions, processes and technologies, and not of mass production of simple chemical compounds.

Global market of drug development outsourcing

In recent years, the global pharmaceutical industry has faced serious challenges. A significant increase in the costs of research and development, a shrinking portfolio of development projects, and an implementation of new technologies made quality, costs and speed of trials extremely important. For most pharmaceutical companies, the main aim is to maintain a stable flow of drugs in their portfolios. To achieve this, they must focus on improving effectiveness by accelerating the process of development of new drugs. This will be possible thanks to a collaboration with specialized biotechnological companies providing research and development services.

[1] ALMAC, Special Report – Outsourcing Formulation Development and Manufacturing: An Early Approach Saves Time and Money, Drug Development & Delivery, 31 March 2013

Although at present the pharmaceutical industry is capable of generating stable cash flows, if the research projects under development fail, the industry may be under a lot of financial pressure resulting from the risk related to the expiry of a large number of patents between 2014 and 2018.

In recent years, despite a significant increase in outlays on research and development, there has also been a strong decrease in the effectiveness of their use. Many pharmaceutical companies have been forced to limit or discontinue own development projects, especially at an early stage of research. Therefore, the biggest challenge for the pharmaceutical industry is finding new ways of creating value. One of such ways is outsourcing, as it allows to decrease costs and to increase effectiveness. Outsourcing allows to change fixed costs to variable costs and gives access to expert knowledge in selected areas. For this reason, outsourcing will become more and more important.

Major suppliers and recipients

Information on leading customers with turnover exceeding 10% of revenue from total sales is given in note 6.5 of the Additional Information to the Consolidated Financial Statements of Selvita Group.

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 225 employees at the end of 2014 to 298 employees at the end of 2015.

4.4 Planned growth of Selvita Group

The Innovative Segment

In 2016, Selvita Group plans to continue dynamic growth in the area of research and development of new drugs, using for this purpose the funds acquired from the issue of shares in December 2014, supported by the subsidies obtained in the previous years and the subsidies obtained systematically as part of the new financial perspective 2014-2020.

First it is planned to complete the preclinical phase in projects SEL24 and SEL120 and to prepare them for the commencement of the first phase of clinical trials in 2016. Selvita will continue discussions with prospective buyers of the proprietary R&D projects.

The Services Segment

In this area, the Group anticipates an organic growth due to a further increase in the share of FTE contracts in the sales volume, an increase of revenue, and a matching growth of employment and extension of the laboratory space.

New initiatives

In 2015, Selvita Group carried out a plan of creation of foreign branches in form of daughter companies: Selvita Inc. located in Greater Boston Area the United States and Selvita Ltd. located in Cambridge, United Kingdom. In 2016 Selvita plans to put emphasis on increasing sales volume in this markets.

Ambitious plans to acquire new contracts will also require expansion of laboratory facilities - the Company plans to launch new laboratory modules in the Life Science Park in Krakow, as well as

launching a branch in the Wielkopolska Centre for Advanced Technologies in Poznań - a total of at least 700 square meters.

4.5 Key achievements in research and development

Research and development projects of the Company are run within an Innovative Segment and are directed into searching for proprietary, biologically active molecules with a potential application mainly in a field of oncology. Those innovative chemical compounds with pharmacological activity, at the later stage of their development, are intended to be entered into clinical trials and to be commercialized by leading international pharmaceuticals companies.

In 2015, Selvita Group successfully continued all of the research projects listed in the Company's pipeline. Part of those programs is financed with the Group's own capital. The other group is co-financed by external partners i.e.: Kinase Discovery Platform is developed in collaboration with H3 Biomedicine (USA), Cancer Metabolism Platform with Merck (Germany), and Cancer Quiescence Platform with Felicitex Therapeutics (USA).

The most significant achievements within the Innovative Segment in 2015 are mentioned below:

1. Commencing of pre-clinical studies in GLP standard for SEL24 project and non-GLP for SEL120 project. Both packages are currently nearing completion.
2. Signature of a contract with Theradex System Inc. which will perform on Selvita's behalf submission of an IND package (Investigational New Drug) to the FDA (Food and Drug Administration). Theradex will also monitor Phase I clinical trial for SEL24 project. Expected initiation of the clinical study is scheduled for July 2016, and is planned to last nearly 2 years.
3. Extending of two strategic collaborations between the Company and two key partners: H3 Biomedicine and Merck. For H3 Biomedicine the contract has been extended for one year, until September 2016. The new partnership with Merck is established for three-years period. The main goal of joint efforts is to validate new therapeutic concepts and to deliver potential first-in-class small molecules being drug candidates for multiple oncology indications. This new collaboration is a leading project in Company's portfolio based on a risk/reward sharing model. The overall framework of the collaboration stays similar comparing to the one developed during the previous, two-years partnership in cancer metabolism established in 2013. Both parties contribute their human and financial resources, the expertise in novel therapeutic targets validation, the knowledge in the field of bioinformatics, medicinal chemistry, *in vitro* and *in vivo* biology and toxicology.
4. The company was awarded with two grants from The National Centre for Research and Development:
    a. Financial support for the project: "Development of a new generation of personalized therapies targeting cancer cell metabolism". The project will be focused on the development of small molecule inhibitors discovered by Selvita with the proven, selective mechanism of action, inhibiting serine metabolism and the folic acid cycle. These molecules, in addition to a greater efficacy provided by a personalized pharmacotherapy, will be characterized also by a broader therapeutic window resulting from the mode of action. Molecular targets selected for the project should result in obtaining a first-in-class drug. Selvita is planning to select a clinical candidate, conduct a full scope pre-clinical studies and perform Phase I clinical trials. The project total net value exceeds PLN 39,6 M and grant value it is over PLN 27,9 M.

b. Financing for the EPTHERON project, aiming at development of novel anticancer therapeutics targeting epigenetic changes in cancer. The consortium in which Selvita is the leader, consists also out of six outstanding academic institutions: Nencki Institute of Experimental Biology PAS, based in Warsaw, Institute of Haematology and Transfusion Medicine based in Warsaw, Center of Oncology – Maria Sklodowska-Curie Memorial Insitute based in Warsaw, The Malopolska Centre of Biotechnology (MCB) based in Krakow, Wrocław University of Technology and Faculty of Biochemistry, Biophysics and Biotechnology of the Jagiellonian University based in Krakow. Eptheron project is included into the epigenetic platform which is the third in Selvita, next to kinase discovery platform and cancer metabolism platform created within Company's R&D department. The primary objective of the project is the development of novel, personalized therapies that address clearly defined epigenetic aberrations and metabolic changes observed in cancers. Total value of the project is 19,9 M PLN out of which 17,5 M PLN is the direct grant funding. Selvita as a consortium leader will receive 7,1 M PLN and the remaining 2,3 M PLN will be covered from its own funds.

SEL24

The aim of SEL24 project is development of an innovative anti-cancer drug based on selective destruction of cancer cells – particularly in therapy of acute myeloid leukemia (AML). Other possible indications for SEL24 are multiple myeloma, non-Hodgkin lymphoma and other types of cancer. Unique mode of action of SEL24 clinical candidate molecule is based on selective, dual pan-PIM and FLT3 kinases inhibition.

In 2015 majority of work in that project was concentrated on the preparation of Phase I clinical trial. As a result of a tender procedure, an Italian company - Aptuit was chosen as a pre-clinical CRO (Contract Research Organization). The first task for Aptuit was to scale up the synthetic process and manufacture the GMP batch of SEL24 candidate. Completion of that stage is planned for Q1 2016, with the production of the capsules ready to be administered to patients in clinical trial. Aptuit has also completed GLP toxicology studies in two animal species which are required for initiation of Phase I clinical trial with patients engagement.

Final reports from that part of the research will be available at the end of Q1 2016. The study results obtained up to now confirm expected therapeutic window and allow to determine an initial dose for clinical trial. Theradex (USA), the company selected to support Selvita in preparations for IND submission, is also progressing with the preparation of all the required reports and documentation which should be completed in Q2 2016.

SEL120

SEL120 project is focused on entering of Phase I clinical trial with a specific inhibitor of CDK8 kinase. In 2015, a non-GLP preclinical phase was performed by an external CRO company. Mice and monkey toxicity studies for a candidate compound SEL120-34A have been successfully completed. Preliminary results indicated favorable PK profile, good oral bioavailability and lack of severe adverse effects in blood morphology and blood biochemistry tests at effective doses. In parallel to the toxicology studies there are ongoing works on the selection of biomarkers strengthening clinical responder/non-responder hypothesis, with a particular focus on hematological malignancies. Initial

results confirm efficacy of the clinical candidate SEL120-34 in chosen models of AML. Further works in this therapeutic area are planned for upcoming H1 2016

SEL201

The main goal of SEL201 project is reaching a clinical trial stage with a selective MNK1/2 inhibitor. Further development of a lead molecule was continued. In parallel a new series of derivatives with an improved selectivity and optimized cellular activity was characterized. A lead-candidate in a new series was nominated. It was also secured by a patent application submission covering the leading chemotype. Preliminary in vivo assessment indicated very good safety during chronic administration in mice. Currently major focus is on identification of malignancies sensitive to inhibition of eIF4E-dependant translation and confirmation of the molecule potential in preferred indications for MNK1/2 competitive inhibitors. Additional studies comparing efficacy of Selvita's inhibitors and main competitors' molecules (Bayer, eFFECTOR) were also performed. The main goal is to prove that with the observed activity SEL201 lead molecules may be considered as best in its class.

Kinase inhibitors platform

A strategic partnership with H3 Biomedicine run within Selvita's kinase platform, aims to develop an innovative anticancer therapy. The novel low molecular weight compounds designed within the collaboration modulate two new kinase targets associated with the oncogenic signaling pathways in oncological diseases.

The joint research investigations are preformed according to the initially planned schedule. Significant progress of the research regarding new MELK kinase inhibitors was published during annual AACR/EORTC Conference in Boston (November 2015). In 2015, a series of effective *in vitro* modulators of MELK kinase with proved mechanism of action was developed. Abovementioned inhibitors (comparing to competitive reference compounds) showed superior efficacy in cellular models of aggressive hematologic malignancies. Those molecules with the unique chemotype have favorable physicochemical properties, pharmacokinetics, are bioavailable after oral administration and achieve the desired therapeutic levels in tumors *in vivo.* Efficacy in a mouse xenograft model for the most promising compounds is currently in evaluation. Identification of preclinical candidate is planned for H2 2016.

All the information regarding second of the studied targets cannot be disclosed due to confidentiality restrictions.

Cancer metabolism platform

The aim of projects gathered as a cancer metabolism platform is development of new anticancer drugs acting on biological targets associated with aberrant metabolic pathways in cancer cells (cancer metabolism). Dependence on specific metabolic pathways (e.g. glutaminolysis or glycolysis) is a feature of various types of cancer, therefore, targeting this vulnerability has potentially very broad application. Within the platform Selvita conducts both, its own projects (MetOnco project) as well as partnered with an external company.

In the collaboration with Merck, few biological targets (confidential information) have been selected at the beginning of the first stage of the collaboration. Depending on the target the research activities advanced to different levels of development. In total there were nearly 2,000 of new compounds synthesized and tested.

A few of the most promising chemical series have been embraced by patent applications. In Q3 2015 research activities on one among the chosen therapeutic targets was completed. For the lead series of compounds the selectivity towards indicated molecular target was optimized. Cellular models have also been designed specifically for testing of developed inhibitors. The aim of that part of the project was achieved and Selvita received contractually guaranteed milestone payment. Currently the track is continued by Merck with its internal resources.

As the next step of the partnership (signed for three years - platform no. 2) the separate research team dedicated to the discovery and validation of new molecular targets in the field of tumor metabolism has been established. Currently, five potential new targets are studied.

Cancer quiescence platform

This project is run in a collaboration with Felicitex Therapeutics (Boston, USA). The aim of the project is development of innovative anticancer therapies targeted into DYRK kinases. The expected result is eradication of quiescent cancer cells. Currently existing therapies target proliferating cells what often results in relapses. Compounds optimized within the project should minimize potential recurrences and speed up the treating process. Most adequate potential indications for our series are lung and pancreas cancers. As a result of performed research, two series of compounds were developed. Among each of them clinical candidate nomination is highly probably.

Other projects

Apart from the aforementioned, there are also other research and development projects led by Selvita Group, however the details and the current status is strictly confidential.

5 FINANCIAL INFORMATION

5.1 CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

	01/01/2015 - 31/12/2015	01/01/2014 - 31/12/2014
	PLN	PLN
Continued operations		
Revenues from sales	41 028 641	28 864 758
Revenues from subsidies	14 699 621	12 429 909
Other operating revenues	348 444	262 091
Revenues on operating activities	**56 076 706**	**41 556 758**
Change in stock of goods	(3 398)	(143 884)
Amortisation and depreciation	(3 432 751)	(2 354 413)
Consumption of materials and energy	(11 118 031)	(7 479 464)
External services	(8 761 320)	(6 157 084)
Payroll	(21 780 955)	(17 755 059)
Taxes and charges	(374 103)	(262 673)
Other costs by type	(3 262 382)	(1 733 403)
Value of goods and materials sold	(452 955)	(345 421)
Other	(88 800)	(53 465)
Operating expenses excluding impact of share-based incentive program	**(49 274 695)**	**(36 284 866)**
Profit (loss) on operating activities excluding impact of share-based incentive program	**6 802 011**	**5 271 892**
Share-based incentive program	(4 729 000)	-
Profit (loss) on operating activities	**2 073 011**	**5 271 892**
Financial revenues	844 061	376 424
Financial expenses	(96 221)	(221 229)
Other	-	-
Net profit (loss) before icome tax	**2 820 851**	**5 427 087**
Income tax expense	3 412 101	423 039
Profit (loss) on operating activities	**6 232 952**	**5 850 126**
Discontinued operations		
Profit (loss) on discontinued operations	-	-
Net profit (loss)	**6 232 952**	**5 850 126**
Net profit loss attributed to:		
Majority shareholders	6 269 811	5 850 126
Non-controling shareholders	(36 859)	-
Other comprehensive income:		
Foreign subsidiaries results translation differences	(2 619)	-
Total other comprehensive income	**(2 619)**	-
Total income	**6 230 333**	**5 850 126**
Total income attributable to:		-
Majority shareholders	6 267 192	5 850 126
Non-controling shareholders	(36 859)	-
Earnings per share (expressed in zł per share)		
With continued and abandoned operations:		
Basic	0,48	0,56
Diluted	0,48	0,56
With continued operations:		
Basic	0,48	0,56
Diluted	0,48	0,56

5.2 CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2015

	31/12/2015	31/12/2014
	PLN	PLN
ASSETS		
Fixed assets		
Tangible fixed assets	8 597 002	6 844 817
Investment in real-estate	-	-
Goodwill	280 740	280 740
Unfinished development work	1 839 834	-
Other intangible assets	153 638	50 452
Investments in related parties	-	-
Deferred tax assets	5 650 690	2 128 090
Other financial assets	-	-
Other assets	196 038	189 645
Total fixed assets	**16 717 942**	**9 493 744**
Current assets		
Inventory	1 174 090	706 336
Short-term receivables	17 411 959	9 821 900
Receivables on long-term contracts	549 455	492 320
Other financial assets	-	120 000
Current tax related assets	-	-
Other assets	581 815	1 411 136
Cash and other monetary assets	28 806 527	4 757 817
	48 523 846	17 309 509
Non-current assets held for sale and discontinued operations	-	-
Total current assets	**48 523 846**	**17 309 509**
Total assets	**65 241 788**	**26 803 253**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2015

	31/12/2015	31/12/2014
	PLN	PLN
EQUITY AND LIABILITIES		
Equity		
Share capital	5 246 183	4 185 426
Surplus from sale of shares above par value	25 284 072	-
Own shares	-	-
Supplementary capital	5 829 400	2 521 789
Other reserve capitals	6 612 442	1 883 442
Foreign subsidiaries results translation differences	(2 619)	-
Previous years profit (loss)	(2 790 893)	(5 187 170)
Net profit (loss)	6 269 811	5 850 126
	46 448 396	**9 253 614**
Provisions related to non-current assets held for sale and discontinued operations presented directly in equity	-	-
Equity attributed to majority shareholders	46 448 396	9 253 614
Equity attributed to non-controling shareholders	431 379	-
Total equity	**46 879 775**	**9 253 614**
Long-term liabilities		
Other financial liabilities	297 618	176 893
Liabilities for retirement	61 438	27 074
Provision for deferred income tax	170 144	64 126
Provisions for liabilities-long-term	-	-
Deferred income	1 513 383	2 010 246
Other liabilities	-	-
Total long-term liabilities	**2 042 583**	**2 278 339**
Short-term liabilities		
Trade liabilities	3 927 091	6 055 224
Long-term liabilities	1 374 860	1 340 554
Short-term credits and loans	33 469	90 921
Other financial liabilities	268 379	367 131
Current tax liabilities	4 481	-
Provisions-short-term	3 327 277	2 800 593
Deferred income	7 383 873	4 616 877
Other liabilities	-	
Total short-term liabilities	**16 319 430**	**15 271 300**
Total long-term liabilities	**18 362 013**	**17 549 639**
Total liabilities	**65 241 788**	**26 803 253**

5.3 CONSOLIDATED CASH FLOW

FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

	01/01/2015 - 31/12/2015	01/01/2014 - 31/12/2014
	PLN	PLN
Cash flows from operating activities		
Net profit (loss)	**6 232 952**	**5 850 126**
Adjustments	**(22 662 718)**	**(10 752 204)**
Amortisation and depreciation	3 432 751	2 354 414
Interest and profit-sharing (dividends)	(461 851)	20 824
Change in receivables	(7 422 103)	(5 153 607)
Change in inventory	(597 311)	(315 125)
Change in short-term liabilities and provision excluding credits and loans	(748 792)	3 828 880
Change in grants	(13 458 670)	(4 125 223)
Change in other assets	(9 078 542)	(8 113 676)
Change in provisions	590 371	696 647
Income tax paid	-	46 341
Contribution in kind of non-controling shareholders	319 380	-
Share-based incentive program	4 729 000	-
Other	33 049	8 322
Cash flows from operating activities	**(16 429 766)**	**(4 902 078)**
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	(4 951 495)	(3 524 117)
Purchase of tangible and intangible fixed assets partially financed with grant	(238 157)	(86 318)
Interest	473 577	18 227
Repayment of loans	400 000	-
Loans granted	(400 000)	-
Other	63 748	-
Cash flows from investing activities	**(4 652 327)**	**(3 592 208)**
Cash flow from financing activities		
Proceeds from shares issue	27 314 477	-
Payment of liabilities from finance lease agreements	(416 877)	(485 043)
Proceeds from credits and loans	33 469	840 921
Subsidies	19 266 605	8 548 469
Repayment of credits and loans	(90 921)	(911 480)
Interest paid	(6 301)	(39 051)
Other	(969 649)	-
Net cash flows from financing activities	**45 130 803**	**7 953 815**
Increase of net cash	24 048 710	(540 470)
Cash opening balance	4 757 817	5 298 287
Cash and cash equivalents - end of the period	**28 806 527**	**4 757 817**