



CONSOLIDATED QUARTERLY REPORT

**SELVITA S.A. | Q2 2014**

7 August 2014

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## BASIC INFORMATION ON THE CAPITAL GROUP

### Parent Entity

Business name of the Company	Selvita Spółka Akcyjna
Registered office	ul. Bobrzyńskiego 14, 30-348 Kraków
Company ID (REGON)	120515330
Tax ID (NIP)	679-29-42-955
Legal form	Joint-Stock Company
KRS number	0000367359
Website	<a href="http://www.selvita.com">www.selvita.com</a>

### Related Entities as of 30 June 2014

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
KRS number	0000206301
Website	<a href="http://www.biocentrum.com.pl">www.biocentrum.com.pl</a>
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
KRS number	0000403763
Shareholders	100% shares held by Selvita S.A.

All entities within the Selvita Group Selvita S.A. are consolidated.

### The Core Business of the Capital Group

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

- **Innovative segment** – research and development activities implemented through in-house research projects on innovative drugs,
- **Service segment** – R&D services provided to external clients, in particular to pharmaceutical and biotechnology industry and implementation of bioinformatics systems.

## FINANCIAL HIGHLIGHTS

Capital Group Selvita S.A.		Consolidated data in PLN			
Item	From		Year to date (YTD)	Year to date (YTD)	
	01.04.2013 to	01.04.2014	From	From	
	30.06.2013	to 30.06.2014	01.01.2013 to 30.06.2013	01.01.2014 to 30.06.2014	
<b>Equity</b>	3 655 348.35	5 294 767.22	3 655 348.35	5 294 767.22	
<b>Long-term receivables</b>	162 043.23	189 645.23	162 043.23	189 645.23	
<b>Short-term receivables</b>	1 884 565.52	6 249 134.66	1 884 565.52	6 249 134.66	
<b>Cash and cash equivalents</b>	4 935 700.63	6 807 706.63	4 935 700.63	6 807 706.63	
<b>Long-term liabilities</b>	176 660.69	503 231.80	176 660.69	503 231.80	
<b>Short-term liabilities</b>	3 713 041.40	4 555 941.70	3 713 041.40	4 555 941.70	
<b>Amortization and depreciation</b>	514 838.25	716 929.26	999 909.43	1 274 354.89	
<b>Net revenues from sales</b>	2 762 673.45	7 445 378.22	5 051 768.01	12 485 803.04	
<b>Revenues from subsidies</b>	1 862 664.62	3 237 456.89	3 535 208.30	5 934 260.53	
<b>Total revenues from sales and subsidies</b>	4 625 338.07	10 682 835.11	8 586 976.31	18 420 063.57	
<b>Operating expenses</b>	5 560 660.73	9 164 325.05	10 513 413.02	16 401 165.29	
<b>Profit/loss on sales</b>	- 2 797 987.28	- 1 718 946.83	- 5 461 645.01	- 3 915 362.25	
<b>Operating profit/loss</b>	- 906 075.05	1 552 251.71	- 1 877 637.70	2 103 082.18	
<b>Gross profit/loss</b>	- 956 775.69	1 541 361.59	- 1 952 749.27	2 127 063.12	
<b>Net profit/loss</b>	- 956 775.69	1 503 982.59	- 1 952 749.27	2 072 019.12	
<b>EBITDA</b>	- 391 236.80	2 269 180.97	- 877 728.27	3 377 437.07	

Capital Group Selvita S.A.		Consolidated data in EUR			
Item	From		Year to date (YTD)	Year to date (YTD)	
	01.04.2013 to	01.04.2014	From	From	
	30.06.2013	to 30.06.2014	01.01.2013 to 30.06.2013	01.01.2014 to 30.06.2014	
<b>Equity</b>	844 347.30	1 272 505.28	844 347.30	1 272 505.28	
<b>Long-term receivables</b>	37 430.29	45 577.94	37 430.29	45 577.94	
<b>Short-term receivables</b>	435 314.96	1 501 870.91	435 314.96	1 501 870.91	
<b>Cash and cash equivalents</b>	1 140 095.31	1 636 113.97	1 140 095.31	1 636 113.97	
<b>Long-term liabilities</b>	40 806.77	120 943.02	40 806.77	120 943.02	
<b>Short-term liabilities</b>	857 673.80	1 094 941.41	857 673.80	1 094 941.41	
<b>Amortization and depreciation</b>	122 615.57	172 041.00	239 407.52	305 125.08	
<b>Net revenues from sales</b>	657 967.38	1 786 662.08	1 209 540.78	2 989 537.42	
<b>Revenues from subsidies</b>	443 618.32	776 890.21	846 432.10	1 420 869.28	
<b>Total revenues from sales and subsidies</b>	1 101 585.71	2 563 552.29	2 055 972.88	4 410 406.70	
<b>Operating expenses</b>	1 324 345.22	2 199 156.52	2 517 218.08	3 927 011.92	
<b>Profit/loss on sales</b>	- 666 377.84	- 412 494.44	- 1 307 677.30	- 937 474.50	
<b>Operating profit/loss</b>	- 215 793.81	372 492.73	- 449 561.29	503 551.34	
<b>Gross profit/loss</b>	- 227 868.84	369 879.44	- 467 545.20	509 293.22	
<b>Net profit/loss</b>	- 227 868.84	360 909.63	- 467 545.20	496 113.76	
<b>EBITDA</b>	- 93 178.24	544 533.73	- 210 153.78	808 676.42	

The financial highlights presented in this interim report were converted into EUR according to the following criteria:

1. Items concerning the Profit and Loss Account, Statement of Changes in Equity and Statement of Cash Flows were converted according to the exchange rate constituting an arithmetic mean of the daily average exchange rates published by the National Bank of Poland (NBP);
  - for the period from 01.04.2013 to 30.06.2013: PLN 4.1988
  - for the period from 01.04.2014 to 30.06.2014: PLN 4.1672
  - for the period from 01.01.2013 to 30.06.2013: PLN 4.1766
  - for the period from 01.01.2014 to 30.06.2014: PLN 4.1765
2. Balance Sheet items were converted at the average exchange rate published by the National Bank of Poland as at the Balance Sheet date, the exchange rate being:
  - as at 30 June 2013: PLN 4.3292
  - as at 30 June 2014: PLN 4.1609

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

### Increase and Dynamics of Revenues and Financial Results

The second quarter of 2014 was another reporting period in which the Capital Group Selvita S.A. recorded an operating profit. This positive result is associated with continued profitability in innovation activity and further improving the profitability of services. The Group's Q2 2014 net profit amounted to PLN 1,504.0k (which translates into a net margin of 14.1% calculated as the net profit to total revenues, i.e. including sales and subsidies) – a significant increase compared to Q1 2014 which saw the net profit of 7.3%. The net profit for Q2 2014 was largely influenced by achievement of the first milestone in a strategic project implemented with a US-based biotech enterprise H3 Biomedicine which specializes in discovery and development of targeted oncology therapies. This achievement of this milestone brought Selvita a performance bonus amounting to PLN 793.7k (in addition to PLN 5,783k guaranteed under the contract for 2013-2015). The positive trend is also clearly visible taking into account that in Q2 2013 Selvita recorded a net loss of PLN 956.8k. The improvement in the EBITDA is even more evident – in Q2 2014 the Group's EBITDA was positive and amounted to PLN 2,269.2k compared to PLN -391.2k in Q2 2013. In the reporting period, the Group consistently conducted intensive research and development activities as part of the projects commenced in the previous years, which, according to the Group's accounting policy, are recognized as costs.

In Q2 2014, Selvita Group generated PLN 10,682.8k in revenues – an over two-fold growth (131.0%) compared to Q2 2013 which saw revenues of PLN 4,625.3k. Net revenues from sales (excluding subsidies) amounted to PLN 7,445.4k, up 169.5% compared to Q2 2013 when the net sales totaled PLN 2,762.7k.

Of particular note are revenues generated by the segment of Selvita's in-house R&D projects which amounted to 3,484.0k (including PLN 793.7k for achieving the above milestone) – a 43.4% growth compared to Q1 2014 which saw revenues amounting to PLN 2,446.6k (in Q2 2013 this segment failed to generate sales revenue). This was possible owing to continuation of research work under a contract with H3 Biomedicine signed in September 2013 which is bound to bring Selvita PLN 5,783k of guaranteed revenue over the two years of the project as well as continuation of a two-year R&D contract with Merck Serono (signed October 2013) with guaranteed revenues of PLN 10,001k.

In the area of services, Selvita has been consistently implementing its strategy which is to focus on service projects with high added-value and thus greater profitability. As a result, the Group's order portfolio shows a positive trend that has already translated into higher dynamics of commercial revenues in Q2 2014 and which should continue in the coming quarters. The cost-effective and rapidly growing service segment is a stable foundation for growth - revenues from services for Q2 2014 amounted to PLN 3,961.4k, a 43.4% growth compared to the corresponding period of 2013.

In recent months, Selvita has signed new contracts with large multinational pharmaceutical corporations from Europe and the Americas under which the Group's companies will conduct advanced research work, i.e. services with high added-value and profit margin. Of particular importance for GK SLV was the signing of service contracts with new international partners from Brazil and USA for a total of PLN 890k. This will allow the company to enter the Brazilian market (set to become the fourth largest pharmaceutical market in the world within the next two years) and will open the door to San Francisco – the world's second largest biotech center.

Compared to Q2 2013, revenues from subsidies were up 73.8% from PLN 1,862.7k to PLN 3,237.5k. The increase results from consistent implementation of research projects commenced before 2014 (including a planned increase in expenditure on SEL300 and SEL128 projects) as well as successive writing-off into revenues the received infrastructural subsidies included in the deferred revenue.

At the publication date of this quarterly report, revenues from the concluded commercial contracts and grant agreements (backlog) for 2014 amounted to PLN 36,818.7 k.

It is also important to note that the Group has systematically increased its employment figures. From August 2013 to August 2014, the number of employees increased from 150 to 200 (191.59 FTEs).

The Group's cash balance as at 30 June 2014 was PLN 6,807.7k, up PLN 187.5k compared to the cash balance reported on 31 March 2014. The cash balance on the publication date of this report was PLN 7,192.4k.

## **Economic and Financial Situation**

### **FIXED ASSETS**

As at 30 June 2014, the value of fixed assets was PLN 7,390.3k which represents 32.8% of the Group's total assets. Fixed assets consist primarily of property, plant and equipment with a value of PLN 5,578.1k (including expenditure on adaptation and equipping laboratory premises) and long-term prepayments covering mainly deferred income tax assets.

### **LONG- AND SHORT-TERM RECEIVABLES**

Long-term receivables amounting to PLN 189.6k cover security deposits paid by the Group based on the lease agreement for research space. As at 30 June 2014, short-term receivables amounted to PLN 6,249.1 k which represents 27.7% of the Group's total assets. This asset position consists of mainly trade receivables of PLN 5,592.6k and VAT receivables arising from the submitted VAT refund applications for a total of PLN 541.7k. The reported significant increase in receivables compared to the corresponding period of the previous year results from expansion of the Company's operations and issuing high-value invoices in the last month of the quarter. These receivables were settled in the next reporting period.

### **LONG- AND SHORT-TERM LIABILITIES**

The value of the Group's liabilities as at 30 June 2014 was PLN 5,059.2k (22.4% of the Group's total liabilities) of which long-term liabilities arising from lease contracts totaled PLN 503.2 k. Trade payables amounting to PLN 3,488.6 k. constitute the main share of the Group's short-term liabilities.

### **Financial Forecasts**

Capital Group Selvita S.A. has not published its financial forecasts.

## **INFORMATION OF THE MANAGEMENT BOARD ON BUSINESS DEVELOPMENT ACTIVITIES**

### **R&D Activities (Innovative Segment)**

In Q2 2014, Selvita Group successfully continued all of its research projects, including activities in which it invests its own resources and projects implemented with external partners, i.e. Kinase Discovery Platform in collaboration with H3 Biomedicine and Cancer Metabolism Platform in collaboration with Merck Serono.

#### **SEL24**

Work under the SEL24 project focused on preparation of SEL24-B489 molecule for pre-clinical and phase-1 clinical studies. The preparation phase included further non-GLP toxicology studies in dogs. Initial toxicology results indicate absence of toxicity of SEL24-B489 clinical candidate in doses required to achieve a therapeutic effect. The toxicity results in dogs and rats initially confirm the safety of SEL24-B489 and allow the selection of doses for further GLP studies. A process of selecting external contractor to conduct pre-clinical GLP studies and manufacture the compound in line with GMP standards has also started in Q2. The formal development of B489 preclinical candidate is scheduled to commence in H2 2014 under KIND-P1 research grant which the Company received as part of the Innomed project financed by NCBiR and which covers part of the costs of preparing the clinical candidate for clinical studies and conduct of phase-1 trials.

#### **SEL120**

Work under the project focused on the clinical candidate molecule – selective inhibitor of CDK8 to determine its position within the selected therapeutic indications. The molecule displayed high activity in selected models *in vivo*, inhibiting the growth of solid tumors. The company continues its efforts to demonstrate the antitumor activity in additional *in vivo* and *in vitro* models. The aim of the development stage is to determine the therapeutic potential of CDK8 inhibitors, including immunomodulating activity of the obtained inhibitors.

#### **SEL201**

Under the SEL201 project we have identified a leading molecule which, to the best of our knowledge, is the most potent and selective MNK1 and MNK2 inhibitor whose mechanism of action has been demonstrated in cellular

models. Antitumor activity had been initially demonstrated in selected *in-vivo* prostate cancer models. Since the identified leading molecules have satisfactory bioavailability and pharmacokinetic profile, the project efforts are currently channeled into demonstrating their efficacy in *in-vivo* models and on defining the clinical hypothesis of MNK1/2 inhibitors for oncology and other indications in which the regulation of translation has therapeutic potential.

### **SEL303**

SEL303 is a joint R&D project implemented by Selvita and the Department of the Faculty of Biochemistry, Biophysics and Biotechnology of the Jagiellonian University aiming to identify and optimize small-molecule inhibitors of Heme Oxygenase-1 (HO-1) with potential application in cancer treatment. In accordance with the plan, the efforts in Q2 2014 focused on optimizing a number of methods for identification and study of molecules modulating enzymatic activity of HO-1 *in vitro*. Research included initial *in silico* screening aimed to identify new inhibitors and synthesizing a number of reference compounds with expected inhibitory action on HO-1.

### **SEL103**

Having received from Orion Pharma the rights for further development and use of the developed molecules, Selvita continues its partnering discussions with prospective pharmaceutical partners which were launched in previous quarters. The discussions concern further development of SEL103 compounds which, compared to other competitive advanced compounds, have been shown to demonstrate a promising mechanism of action in clinical studies on the symptomatic treatment of Alzheimer's disease. The discussions revolve around the rights to several independent chemotypes demonstrating modulatory activity on 5HT6 receptors and the right to advanced clinical candidates for which advanced chronic and cardiotoxicity toxicity research is available in two animal models in addition to extensive *in-vivo* activity studies.

### **KINASE DISCOVERY PLATFORM**

In Q2 2014, research conducted within the strategic collaboration with H3 Biomedicine Inc. still concerned mainly two separate protein kinase targets. In both cases, most efforts focused on demonstrating the therapeutic potential for inhibiting the activity of selected protein targets and on developing small-molecule chemical compounds capable of inhibiting kinase activity. The first research milestone in the drug development process was achieved for one of the therapeutic targets covered by the project. For detailed information and press release on the achieved milestone please visit <http://www.selvita.com/pl/aktualnosci/aktualnosci/295-selvita-osiagnela-pierwszy-kamien-milowy-w-projekcie-onkologicznym-realizowanym-we-wspolpracy-z-h3-biomedicine>. All project works proceed according to the schedule. The details are a trade secret.

### **CANCER METABOLISM PLATFORM**

The research conducted under the R&D platform focused on studying small-molecule inhibitors targeting cancer cell metabolism. In collaboration with Merck Serono, Selvita continued its efforts to develop specific inhibitors of two enzymes whose activity is crucial in the transformation and development of cancer. The project's quarterly milestones have been achieved. Current work focuses on optimization of the first hits to identify leading molecules and exploring alternative molecules with potential to initiate new chemical series in the project. All research work proceeds according to the schedule. The details are a trade secret.

### **OTHER PROJECTS**

In addition to the abovementioned projects, Selvita S.A. conducts other in-house research and development programs the details of which are a trade secret.



## Research and Development Commercialization

Selvita Group is engaged in intensive talks with clients interested in SEL24, SEL120, SEL141, SEL201, SEL203 and SEL212 projects. Business negotiations are under way and individual projects undergo a multifaceted evaluation based on publicly available or confidential documents as well as chemical material provided by Selvita to the prospective clients. The most advanced negotiations concern SEL24 and SEL120 projects. According to the Management Board of Selvita S.A., there is a good chance to bring the talks to a successful conclusion in the coming months for at least one of the negotiated projects.

## Service Segment

In Q2 2014 Selvita recorded significantly higher revenues from service activities compared to the corresponding period of 2013 (Q2 2013) and the previous quarter (Q1 2014).

Of particular attention are new contracts signed with American companies, including:

- Major contract for biological services signed with a Brazilian company (as reported on June 23, 2014). It is the first contract signed with a South American enterprise. Additionally, the Brazilian pharmaceutical and biotech market shows strong potential for growth in the next few years.
- The first contract signed with a company from the San Francisco region – the second largest biotech region in the United States (after Boston). Since American pharmaceutical and biotech companies are the undisputed leaders among the clients of the global outsourcing market in the life science industry, the presence in this market is a good predictor for further growth of Selvita's service segment.

In the last quarter, the Group took a number of steps aimed at maintaining growth dynamics and further improving the profitability of services in the following quarters:

- In June 2014, Selvita Services Sp. z o.o., a company belonging to the Capital Group Selvita S.A. focusing on service activities, received a permit to operate in the Krakow Special Economic Zone. The company has committed to hire at least 150 specialists by 2023 and invest PLN 7.3 million in creating and maintaining jobs. In return, Selvita Services Sp. z o.o. plans to benefit from over PLN 10 million tax credit which should significantly improve its profitability and enhance business opportunities.
- Launching two laboratory modules with a total area of 200m<sup>2</sup> (two other modules are currently being adapted). The additional ready-to-use laboratory space acquired through long-term lease and the leased equipment allow a gradual expansion of service activities without a significant investment burden.

According to the established policy, Selvita continues to expand its client portfolio by contracting with new clients and shifting the fixed-price contracts signed with the existing clients towards high-margin FTE-based model as collaboration develops.

## Participation in Major Fairs and Marketing Events

In Q2 2014, Selvita continued its active sales and marketing strategy by participating in major conferences and trade fairs, consistently building its brand in the global biotech industry, establishing new business contacts and maintaining the existing good relations with clients.

In Q2 2014, Selvita Group participated i.a. in:

- AACR Annual Meeting 2014, 5 – 9 April 2014, San Diego, USA
- Protein Kinases in Drug Discovery – Europe, 8-9 May 2014, Berlin, Germany
- 5th Annual Discovery Partnerships 2014, 19-20 May 2014, Berlin, Germany
- Biomed Israel Innovation Conference 2014, 20-22 May 2014, Tel Aviv, Israel
- BIOFORUM - 13th Central European Forum of Biotechnology and Innovative BioEconomy, 28-29 May 2014, Łódź, Poland
- 15th Annual Drug Discovery Summit, 2-3 June 2014, Geneva, Switzerland
- ChemSpec Europe 2014, 18 -19 June 2014, Budapest, Hungary
- BIO International Convention 2014, 23-26 June 2014, San Diego, USA

### Other Important Events in Q2 2014

Selvita released the results from its oncology programs at the AACR Annual Meeting 2014

The company reported data from its oncology programs at this year's edition of AACR Annual Meeting, which took place on 5th – 9th April 2014 in San Diego, USA. Organized by the American Association for Cancer Research (AACR), the conference is one of the most prestigious scientific events. Almost all pharmaceutical and biotech companies engaged in the development of new anticancer drugs attend the conference to present the most recent results of their studies.

During this year's edition of AACR Selvita presented its most recent results for the two oncology projects:

- SEL24, potentially first-in-class dual PIM/FLT3 inhibitor for treatment of hematological malignancies,
- SEL201, the most selective series of MNK1/2 inhibitors reported so far with therapeutic potential in solid tumors.

For more information on these research programs, including posters presented on the AACR conference, please visit <http://www.selvita.com/pl/aktualnosci/aktualnosci>.

### Conclusion of agreement with issue agent – DI Investors

On 17 April 2014 Selvita concluded an agreement with Dom Inwestycyjny Investors S.A. with registered office in Warsaw for performing the function of an Issue Agent, i.e. providing comprehensive services related to admission and listing of Selvita's shares on the regulated market of the Warsaw Stock Exchange.

### Reaching first research milestone in collaboration with H3 Biomedicine

On 22 May 2014 Selvita reported that it has achieved the first research milestone in the project implemented in collaboration with US based biopharmaceutical company H3 Biomedicine which specializes in discovery and development of targeted oncology therapies.

The contract with H3 Biomedicine concluded on 16 September 2013 (announced in current report 18/2013) guarantees PLN 5,783k in revenue in the period 2013-2015 and potentially much higher bonuses for completion of respective milestones in the development of the joint project – kinase inhibitor platform.

This achievement confirms the high scientific and commercial potential of the joint project and will bring Selvita a performance bonus for achieving the contractual milestone amounting to USD 260k (PLN 793.7k, exchange rate 1 USD = 3.0525 PLN). Selvita S.A. and H3 Biomedicine expect the first molecule to enter preclinical and clinical studies in 2015 and 2016 respectively.

This is the first financial (and second scientific) milestone achieved in the history of cooperation with Selvita's partners. Similar terms apply to the contract with one of the world's largest pharmaceutical companies – Merck Serono.

#### Changes in the Supervisory Board

On 26 May 2014 Wojciech Chabasiewicz resigned as member of the Supervisory Board. According to the letter of resignation, the sole reason for his resignation is his intention to remove any doubts about the potential conflict of interest related to combining the position as member of the Supervisory Board and partner in the law firm Chabasiewicz, Kowalska i Partnerzy (the "Office") in the context of the procedures related to the transfer of company listings to the regulated market of the Warsaw Stock Exchange. The resignation will allow the Office to provide legal advisory services for Selvita S.A. related to this project without the above concerns and the resulting risks.

Following resignation of Mr Chabasiewicz, the composition of the Supervisory Board is as follows:

- Piotr Romanowski, PhD – Chairman of the Supervisory Board,
- Tadeusz Wesołowski, PhD – Vice-Chairman of the Supervisory Board,
- Professor Adam Dubin, PhD – Member of the Supervisory Board,
- Adam Przewięźlikowski – Member of the Supervisory Board,
- Rafał Chwast – Member of the Supervisory Board.

#### Conclusion of a grant agreement between Selvita S.A. and NCBiR under Innomed program

On 2 June 2014 Selvita concluded agreements with The National Centre for Research and Development for execution and financing of a research project "*Introduction to clinical study of new selective anticancer kinase inhibitors*" as part of the INNOMED Sectoral Program (the "Project").

Basic information about the Project:

- Total net value: PLN 20,905,600
- Amount of financing: PLN 9,444,920
- Implementation timeline: 2014 – 2017.

The aim of the project (acronym *KIND-P1 – Kinase Inhibitor Investigational New Drug studies to Phase 1*) is to perform, as part of SEL24 and SEL120 programs, comprehensive preclinical studies and introduce the selected kinase inhibitor with the highest therapeutic potential to clinical studies as a new, innovative anticancer drug.

This will be the first research project in Selvita's history which assumes entering clinical studies and drug administration to patients. It constitutes one of the most important elements of Selvita's investment plans for

the coming years which may be realized by Selvita alone or in cooperation with pharmaceutical partners in the partnering model.

#### [Selvita Services sp. z o.o. \(subsidiary of Selvita S.A.\) receives permit to operate in the Krakow Special Economic Zone](#)

On 11 June 2014 Krakowski Park Technologiczny sp. z o.o. (Kraków Technology Park) with registered office in Kraków – the managing entity of the Krakow Special Economic Zone authorized Selvita Services sp. z o.o. (subsidiary of Selvita S.A.) to operate in the Krakow Special Economic Zone. The decision to operate in the special economic zone is associated with forecasts of accelerated growth dynamics of the service segment. While implementing its development plans, Capital Group Selvita S.A. (the “Group”) will significantly increase employment and invest more than PLN 7.3 million.

Selvita Services sp. z o.o. entered the Krakow Special Economic Zone on 1 July 2014. The decision is expected to allow the Group to save about PLN 10 million in tax credit which will help to create, by the end of 2023, at least 150 jobs for high-skilled professionals specializing in R&D and construction of bioinformatics solutions supporting innovative biotech and pharmaceutical projects.

#### [Conclusion of major contracts for biological services with partners from USA and Brazil](#)

On 23 June 2014 the Company signed two contracts for biological services with new international partners from Brazil and USA for a total of PLN 890k.

Worth EUR 187k (PLN 778.0 k, exchange rate 1 EUR = 4.1603 PLN), the contract with the Brazilian client covers provision of biological services involving preclinical studies with biosimilar drugs (generics). The acquisition of this order was possible owing to major equipment investments and improved staff qualifications. Due to their complex structure and manufacture in living cells, biological drugs are subject to more complicated regulatory procedure than other drugs obtained through chemical synthesis.

The Company also signed a contract with a listed American biotechnology company for provision of service in the area of molecular biology. Worth USD 36.5k (PLN 111.8k, exchange rate 1 USD = 3.0627 PLN), this is the first contract signed with a company based in San Francisco – the world’s second largest biotech cluster (after Boston).

#### [Major service contract with a global pharmaceutical corporation](#)

On 30 June 2014 the Company signed a contract for provision of drug discovery services with one of the largest global pharmaceutical corporations. The contract amounts to USD 282,777 (PLN 861.7k, Exchange rate 1 USD = 3.0473 PLN).

#### [Relevant Events in the Period between the End of Q2 2014 and Publication of the Report](#)

##### [ANNUAL GENERAL MEETING OF SELVITA S.A.](#)

The Annual General Meeting was held on 9 July 2014. The shareholders of Selvita S.A. adopted resolutions on the following matters:

- consideration of the Supervisory Board's report on the assessment of the Financial Statements for the financial year 2013, the Management Report on the Company’s operations for the financial year 2013, the Consolidated Financial Statements of Grupa Kapitałowa Selvita S.A. for the financial year 2013, the Management Report on the operations of Grupa Kapitałowa Selvita S.A. for the financial year 2013 and the Management Board’s motion on covering the loss;

- approval of the Management Report on the Company's operations for the financial year 2013;
- approval of the Financial Statements for the financial year 2013;
- approval of the Management Report on the operations of Grupa Kapitałowa Selvita S.A. for the financial year 2013;
- approval of the Consolidated Financial Statements of Grupa Kapitałowa Selvita S.A. for the financial year 2013;
- covering the loss for the year 2013;
- granting discharge to members of the Management Board and Supervisory Board;
- preparation of Financial Statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission ("IAS");
- increase of the share capital through a public issue of not more than 2,651,891 of ordinary bearer shares (F series) with a nominal value of PLN 0.40 per share with full waiver of the existing shareholders' pre-emptive rights, resolution on dematerialization of shares and applying for admission of the Company's shares to trading on the regulated market and on amending the Company Statutes.

#### Information on submitting the prospectus to the Polish Financial Supervision Authority

On 11 July 2014 the Company applied to the Polish Financial Supervision Authority for approval of the prospectus in connection with the application for admission and introduction of the Company's shares to trading on the regulated market of the Warsaw Stock Exchange.

#### Information on Shareholding Structure of Selvita S.A.

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

Shareholder	Shares	% of shares	Votes	% of votes
Paweł Przewięźlikowski	5 446 385	52.05%	8 946 385	61.64%
Bogusław Sieczkowski	909 419	8.69%	1 458 419	10.06%
Privatech Holdings Limited	925 738	8.85%	925 738	6.38%
Other shareholders	3 182 024	30.41%	3 183 024	21.92%
<b>Total</b>	<b>10 463 566</b>	<b>100%</b>	<b>14 513 566</b>	<b>100%</b>

CONSOLIDATED SUMMARIZED FINANCIAL STATEMENTS OF THE CAPITAL GROUP SELVITA S.A.

Consolidated Summarized Balance Sheet

	PLN	PLN	EUR	EUR
Balance Sheet	Status as at 30/06/2013	Status as at 30/06/2014	Status as at 30/06/2013	Status as at 30/06/2014
<b>A. Fixed assets</b>	<b>7 179 984.31</b>	<b>7 390 312.91</b>	<b>1 658 501.41</b>	<b>1 776 133.27</b>
I. Intangible assets	1 253.43	6 137.47	289.53	1 475.03
II. Goodwill of subsidiaries	0.00	0.00	0.00	0.00
III. Tangible fixed assets	5 324 735.65	5 578 070.21	1 229 958.34	1 340 592.23
IV. Long-term receivables	162 043.23	189 645.23	37 430.29	45 577.94
V. Long-term investments	0.00	0.00	0.00	0.00
VI. Long-term prepayments and deferred costs	1 691 952.00	1 616 460.00	390 823.25	388 488.07
<b>B. Current assets</b>	<b>7 685 415.79</b>	<b>15 169 692.20</b>	<b>1 775 250.81</b>	<b>3 645 771.88</b>
I. Inventory	387 985.81	528 320.58	89 620.67	126 972.67
II. Short term receivables	1 884 565.52	6 249 134.66	435 314.96	1 501 870.91
III. Short term investments	4 935 700.63	6 927 706.63	1 140 095.31	1 664 953.89
IV. Short term prepayments and deferred costs	477 163.83	1 464 530.33	110 219.86	351 974.41
<b>Total assets</b>	<b>14 865 400.10</b>	<b>22 560 005.11</b>	<b>3 433 752.22</b>	<b>5 421 905.14</b>
<b>A. Shareholders' equity</b>	<b>3 655 348.35</b>	<b>5 294 767.22</b>	<b>844 347.30</b>	<b>1 272 505.28</b>
I. Share capital	4 185 426.40	4 185 426.40	966 789.80	1 005 894.49
II. Unpaid share capital (negative value)	0.00	0.00	0.00	0.00
III. Treasury shares (negative value)	0.00	0.00	0.00	0.00
IV. Reserve capital	14 429 101.36	2 521 789.11	3 332 971.76	606 068.18
V. Revaluation reserve	0.00	0.00	0.00	0.00
VI. Other reserves	0.00	1 883 442.00	0.00	452 652.55
VII. Currency translation profit/loss	0.00	0.00	0.00	0.00
VIII. Retained profit/loss	- 13 006 430.14	- 5 367 909.41	- 3 004 349.57	- 1 290 083.73
IX. Net profit/loss	- 1 952 749.27	2 072 019.12	- 451 064.69	497 973.78
X. Deductions from net profit during the financial year (negative value)	0.00	0.00	0.00	0.00
<b>B. Minority interest</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>C. Negative goodwill of subsidiaries</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
I. Negative goodwill – subsidiaries	0.00	0.00	0.00	0.00
II. Negative goodwill - jointly controlled entities	0.00	0.00	0.00	0.00
II. Negative goodwill – associated entities	0.00	0.00	0.00	0.00
<b>D. Liabilities and provisions for liabilities</b>	<b>11 210 051.75</b>	<b>17 265 237.89</b>	<b>2 589 404.91</b>	<b>4 149 399.86</b>
I. Provisions for liabilities	1 209 697.96	2 958 655.83	279 427.60	711 061.51
II. Long-term liabilities	176 660.69	503 231.80	40 806.77	120 943.02
III. Short-term liabilities	3 713 041.40	4 555 941.70	857 673.80	1 094 941.41
IV. Accruals and deferred income	6 110 651.70	9 247 408.56	1 411 496.74	2 222 453.93
<b>Total Liabilities and Equity</b>	<b>14 865 400.10</b>	<b>22 560 005.11</b>	<b>3 433 752.22</b>	<b>5 421 905.14</b>

Consolidated Summarized Profit and Loss Account

	PLN	PLN	PLN	PLN	EUR	EUR	EUR	EUR
Profit and Loss Account (classification of expenses by type)	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014
<b>A. Net sales and sale equivalents</b>	<b>2 659 573.06</b>	<b>7 356 320.07</b>	<b>5 027 447.27</b>	<b>12 275 193.70</b>	<b>633 412.66</b>	<b>1 765 290.86</b>	<b>1 203 717.68</b>	<b>2 939 110.19</b>
I. Net sales of goods	2 640 555.55	7 005 675.22	4 808 800.11	12 020 100.04	628 883.38	1 681 146.87	1 151 367.17	2 878 031.85
II. Change in stock of goods	- 103 100.39	- 89 058.15	- 24 320.74	- 210 609.34	- 24 554.73	- 21 371.22	- 5 823.10	- 50 427.23
III. Cost of goods produced for the Company's own use	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Net sales of goods for resale and raw materials	122 117.90	439 703.00	242 967.90	465 703.00	29 084.00	105 515.21	58 173.61	111 505.57
<b>B. Operating expenses</b>	<b>5 457 560.34</b>	<b>9 075 266.90</b>	<b>10 489 092.28</b>	<b>16 190 555.95</b>	<b>1 299 790.50</b>	<b>2 177 785.30</b>	<b>2 511 394.98</b>	<b>3 876 584.69</b>
I. Depreciation	514 838.25	716 929.26	999 909.43	1 274 354.89	122 615.57	172 041.00	239 407.52	305 125.08
II. Materials and energy	1 092 844.02	1 816 563.47	2 064 156.66	3 332 526.49	260 275.32	435 919.44	494 219.38	797 923.26
III. External services	735 128.36	1 418 320.41	1 545 242.99	2 459 486.56	175 080.58	340 353.33	369 976.29	588 887.00
IV. Taxes and charges	44 486.77	55 722.21	81 669.73	104 764.80	10 595.12	13 371.62	19 554.12	25 084.35
V. Payroll	2 262 689.14	3 546 986.44	4 321 006.22	6 577 273.79	538 889.48	851 167.80	1 034 575.07	1 574 829.11
VI. Social insurance and other benefits	478 070.33	823 329.21	877 306.61	1 431 912.86	113 858.80	197 573.72	210 052.82	342 849.96
VII. Other	243 111.90	398 978.44	428 608.41	696 964.85	57 900.33	95 742.57	102 621.37	166 877.73
VIII. Value of goods and materials sold	86 391.57	298 437.46	171 192.23	313 271.71	20 575.30	71 615.82	40 988.42	75 008.19
<b>C. Profit/on sales (A-B)</b>	<b>- 2 797 987.28</b>	<b>- 1 718 946.83</b>	<b>- 5 461 645.01</b>	<b>- 3 915 362.25</b>	<b>- 666 377.84</b>	<b>- 412 494.44</b>	<b>- 1 307 677.30</b>	<b>- 937 474.50</b>
<b>D. Other operating revenue</b>	<b>1 901 935.32</b>	<b>3 278 992.02</b>	<b>3 609 163.85</b>	<b>6 026 860.57</b>	<b>452 971.16</b>	<b>786 857.37</b>	<b>864 139.22</b>	<b>1 443 040.96</b>
I. Gain on disposal of non-financial fixed assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Subsidies	1 862 664.62	3 237 456.89	3 535 208.30	5 934 260.53	443 618.32	776 890.21	846 432.10	1 420 869.28
III. Other operating revenue	39 270.70	41 535.13	73 955.55	92 600.04	9 352.84	9 967.16	17 707.12	22 171.68
<b>E. Other operating expenses</b>	<b>10 023.09</b>	<b>7 793.48</b>	<b>25 156.54</b>	<b>8 416.14</b>	<b>2 387.13</b>	<b>1 870.20</b>	<b>6 023.21</b>	<b>2 015.12</b>
I. Loss on disposal of non-financial fixed assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Impairment of non-financial assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Other operating expenses	10 023.09	7 793.48	25 156.54	8 416.14	2 387.13	1 870.20	6 023.21	2 015.12
<b>F. Operating profit/loss (C + D-E)</b>	<b>- 906 075.05</b>	<b>1 552 251.71</b>	<b>- 1 877 637.70</b>	<b>2 103 082.18</b>	<b>- 215 793.81</b>	<b>372 492.73</b>	<b>- 449 561.29</b>	<b>503 551.34</b>
<b>G. Financial income</b>	<b>2 306.00</b>	<b>- 4 542.25</b>	<b>30 080.33</b>	<b>33 425.10</b>	<b>549.20</b>	<b>- 1 090.00</b>	<b>7 202.11</b>	<b>8 003.14</b>
I. Dividends and share in profit	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Interest	3 206.89	2 258.29	12 916.12	3 114.77	763.76	541.92	3 092.50	745.78
III. Gain on sale of investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Impairment of investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
V. Other	- 900.89	- 6 800.54	17 164.21	30 310.33	- 214.56	- 1 631.92	4 109.61	7 257.35
<b>H. Financial expenses</b>	<b>53 006.64</b>	<b>6 347.87</b>	<b>65 086.24</b>	<b>9 444.16</b>	<b>12 624.24</b>	<b>1 523.29</b>	<b>15 583.55</b>	<b>2 261.26</b>
I. Interest	10 119.02	5 348.71	16 593.62	8 445.00	2 409.98	1 283.53	3 973.00	2 022.03
II. Loss on disposal of investments	20 168.43	0.00	20 168.43	0.00	4 803.38	0.00	4 828.91	0.00
III. Impairment of investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Other	22 719.19	999.16	28 324.19	999.16	5 410.88	239.77	6 781.64	239.23
<b>I. Profit/loss on disposal of all or part of shares of subsidiaries</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>J. Profit/loss on operating activities (F + G-H+/-I)</b>	<b>- 956 775.69</b>	<b>1 541 361.59</b>	<b>- 1 912 643.61</b>	<b>2 127 063.12</b>	<b>- 227 868.84</b>	<b>369 879.44</b>	<b>- 457 942.73</b>	<b>509 293.22</b>

<b>K. Result on extraordinary items (K.I-K.II)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
I. Extraordinary gains	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Extraordinary losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>L. Write-off of goodwill</b>	<b>0.00</b>	<b>0.00</b>	<b>40 105.66</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>9 602.47</b>	<b>0.00</b>
I. Write-off of goodwill – subsidiaries	0.00	0.00	40 105.66	0.00	0.00	0.00	9 602.47	0.00
II. Write-off of goodwill - jointly controlled entities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Write-off of goodwill – associated entities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>M. Write-off of negative goodwill</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
I. Write-off of negative goodwill – subsidiaries	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Write-off of negative goodwill – entities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Write-off of negative goodwill – associated entities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>N. Profit/loss on shares in subsidiaries measured under equity method</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>O. Gross profit/loss (J+/-K-L+M+/-N)</b>	<b>- 956 775.69</b>	<b>1 541 361.59</b>	<b>- 1 952 749.27</b>	<b>2 127 063.12</b>	<b>- 227 868.84</b>	<b>369 879.44</b>	<b>- 467 545.20</b>	<b>509 293.22</b>
P. Income tax	0.00	37 379.00	0.00	55 044.00	0.00	8 969.81	0.00	13 179.46
Q. Other obligatory profit decrease (loss increase)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R. Profits/losses of minority shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>S. Net profit/loss (O-P-Q+/-R)</b>	<b>- 956 775.69</b>	<b>1 503 982.59</b>	<b>- 1 952 749.27</b>	<b>2 072 019.12</b>	<b>- 227 868.84</b>	<b>360 909.63</b>	<b>- 467 545.20</b>	<b>496 113.76</b>

### Consolidated Summarized Statement of Cash Flows

	PLN	PLN	PLN	PLN	EUR	EUR	EUR	EUR
Statement of Cash Flows (indirect method)	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014
<b>A. Cash flow from operations</b>								
I. Net profit/loss	-956 775.69	1 503 982.59	- 1 952 749.27	2 072 019.12	-227 868.84	360 909.63	-467 545.20	496 113.76
II. Total adjustments	-1 118 538.76	-3 072 621.88	-1 873 303.18	-4 195 107.80	-266 394.87	-737 334.87	-448 523.48	-1 004 455.36
III. Net cash flow from operations (I+/-II)	-2 075 314.45	-1 568 639.29	-3 826 052.45	-2 123 088.68	-494 263.71	-376 425.25	-916 068.68	-508 341.60
<b>B. Cash flows from investing activities</b>								
I. Inflow	503 068.93	2 258.29	512 778.16	3 114.77	119 812.55	541.92	122 774.07	745.78
II. Outflow	1 176 821.09	649 218.31	1 494 583.56	1 346 390.05	280 275.58	155 792.45	357 846.95	322 372.81
III. Net cash flows from investing activities (I-II)	-673 752.16	-646 960.02	-981 805.40	-1 343 275.28	-160 463.03	-155 250.53	-235 072.88	-321 627.03
<b>C. Cash flow from financing activities</b>								
I. Inflow	4 184 824.72	3 102 949.50	4 730 351.51	6 090 468.06	996 671.60	744 612.57	1 132 584.28	1 458 270.82
II. Outflow	66 057.23	699 868.80	114 681.41	1 114 684.22	15 732.41	167 947.01	27 458.08	266 894.34
III. Net cash flow from financing activities (I-II)	4 118 767.49	2 403 080.70	4 615 670.10	4 975 783.84	980 939.19	576 665.55	1 105 126.20	1 191 376.47
<b>D. Total net cash flow (A.III+/-B.III+/-C.III)</b>	<b>1 369 700.88</b>	<b>187 481.39</b>	<b>-192 187.75</b>	<b>1 509 419.88</b>	<b>326 212.46</b>	<b>44 989.77</b>	<b>-46 015.36</b>	<b>361 407.85</b>
<b>E. Change in balance sheet cash and cash equivalents</b>	<b>1 369 700.88</b>	<b>187 481.39</b>	<b>-192 187.75</b>	<b>1 509 419.88</b>	<b>326 212.46</b>	<b>44 989.77</b>	<b>-46 015.36</b>	<b>361 407.85</b>
<b>F. Cash and cash equivalents - beginning of the period</b>	<b>3 565 999.75</b>	<b>6 620 225.24</b>	<b>5 127 888.38</b>	<b>5 298 286.75</b>	<b>849 290.21</b>	<b>1 588 650.71</b>	<b>1 227 766.22</b>	<b>1 268 594.94</b>
<b>G. Cash and cash equivalents - end of the period (F+/-D)</b>	<b>4 935 700.63</b>	<b>6 807 706.63</b>	<b>4 935 700.63</b>	<b>6 807 706.63</b>	<b>1 175 502.67</b>	<b>1 633 640.49</b>	<b>1 181 750.86</b>	<b>1 630 002.78</b>



## Summarized Statement of Changes in Consolidated Shareholders' Equity

	PLN	PLN	PLN	PLN	EUR	EUR	EUR	EUR
Statement of Changes in Shareholders' Equity	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014
I. Shareholders' equity – beginning of the period (opening balance)	5 189 423.74	3 790 784.63	6 185 397.32	3 222 748.10	1 235 930.20	909 671.87	1 480 964.74	771 638.48
II. Shareholders' equity – end of the period (closing balance)	3 655 348.35	5 294 767.22	3 655 348.35	5 294 767.22	870 569.77	1 270 581.50	875 197.13	1 267 752.24
III. Shareholders' equity after adjustment for proposed profit distribution (coverage of losses)	3 655 348.35	5 294 767.22	3 655 348.35	5 294 767.22	870 569.77	1 270 581.50	875 197.13	1 267 752.24

## SUMMARIZED FINANCIAL STATEMENTS OF SELVITA S.A.

### Summarized Balance Sheet

	PLN	PLN	EUR	EUR
Assets	Status as at 30/06/2013	Status as at 30/06/2014	Status as at 30/06/2013	Status as at 30/06/2014
<b>A. Fixed assets</b>	<b>9 021 626.36</b>	<b>9 998 354.51</b>	<b>2 083 901.50</b>	<b>2 402 930.74</b>
I. Intangible assets	1 144.19	6 137.47	264.30	1 475.03
II. Tangible fixed assets	4 155 553.28	4 562 780.15	959 889.42	1 096 584.91
III. Long-term receivables	98 078.39	98 078.39	22 655.08	23 571.44
IV. Long-term investments	3 074 898.50	3 714 898.50	710 269.45	892 811.29
V. Long-term prepayments and deferred costs	1 691 952.00	1 616 460.00	390 823.25	388 488.07
<b>B. Current assets</b>	<b>7 149 896.52</b>	<b>14 622 483.11</b>	<b>1 651 551.45</b>	<b>3 514 259.68</b>
I. Inventory	383 071.75	495 164.90	88 485.57	119 004.28
II. Short-term receivables	1 594 728.99	6 214 625.90	368 365.75	1 493 577.33
III. Short-term investments	4 697 273.16	6 471 115.49	1 085 021.06	1 555 220.14
IV. Short term prepayments and deferred costs	474 822.62	1 441 576.82	109 679.07	346 457.93
<b>Total assets</b>	<b>16 171 522.88</b>	<b>24 620 837.62</b>	<b>3 735 452.94</b>	<b>5 917 190.42</b>

	PLN	PLN	EUR	EUR
<b>Liabilities and Equity</b>	<b>Status as at 30/06/2013</b>	<b>Status as at 30/06/2014</b>	<b>Status as at 30/06/2013</b>	<b>Status as at 30/06/2014</b>
<b>A. Shareholders' equity</b>	<b>6 913 373.52</b>	<b>8 111 962.31</b>	<b>1 596 917.10</b>	<b>1 949 569.16</b>
I. Share capital	4 185 426.40	4 185 426.40	966 789.80	1 005 894.49
II. Unpaid share capital (negative value)	0.00	0.00	0.00	0.00
III. Treasury shares (negative value)	0.00	0.00	0.00	0.00
IV. Reserve capital	14 429 101.36	2 521 789.11	3 332 971.76	606 068.18
V. Revaluation reserve	0.00	0.00	0.00	0.00
VI. Other reserves	0.00	1 883 442.00	0.00	452 652.55
VII. Retained profit/loss	- 10 023 870.25	- 2 123 721.20	(2 315 409.37)	(510 399.48)
VIII. Net profit/loss	- 1 677 283.99	1 645 026.00	(387 435.09)	395 353.41
IX. Deductions from net profit during the financial year (negative value)	0.00	0.00	0.00	0.00
<b>B. Liabilities and provisions for liabilities</b>	<b>9 258 149.36</b>	<b>16 508 875.31</b>	<b>2 138 535.84</b>	<b>3 967 621.26</b>
I. Provisions for liabilities	965 631.09	2 413 946.88	223 050.70	580 150.18
II. Long-term liabilities	176 660.69	503 231.80	40 806.77	120 943.02
III. Short-term liabilities	3 109 741.57	4 789 292.83	718 317.83	1 151 023.30
IV. Accruals and deferred income	5 006 116.01	8 802 403.80	1 156 360.53	2 115 504.77
<b>Total Liabilities and Equity</b>	<b>16 171 522.88</b>	<b>24 620 837.62</b>	<b>3 735 452.94</b>	<b>5 917 190.42</b>

### Summarized Profit and Loss Account

	PLN	PLN	PLN	PLN	EUR	EUR	EUR	EUR
<b>Profit and Loss Account (classification of expenses by type)</b>	<b>01/04/2013</b>	<b>01/04/2014</b>	<b>01/01/2013</b>	<b>01/01/2014</b>	<b>01/04/2013</b>	<b>01/04/2014</b>	<b>01/01/2013</b>	<b>01/01/2014</b>
	<b>-30/06/2013</b>	<b>-30/06/2014</b>	<b>-30/06/2013</b>	<b>-30/06/2014</b>	<b>-30/06/2013</b>	<b>-30/06/2014</b>	<b>-30/06/2013</b>	<b>-30/06/2014</b>
<b>A. Net sales and sale equivalents</b>	<b>2 144 230.75</b>	<b>6 691 374.03</b>	<b>4 250 876.08</b>	<b>11 527 188.86</b>	<b>510 677.04</b>	<b>1 605 724.23</b>	<b>1 017 783.86</b>	<b>2 760 011.70</b>
I. Net sales of goods	2 107 613.85	6 338 536.40	4 026 863.49	11 267 683.33	501 956.24	1 521 054.04	964 148.71	2 697 877.01
II. Change in stock of goods	- 85 501.00	- 86 865.37	- 18 955.31	- 206 197.47	- 20 363.20	- 20 845.02	- 4 538.45	- 49 370.88
III. Cost of goods produced for the Company's own use	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Net sales of goods for resale and raw materials	122 117.90	439 703.00	242 967.90	465 703.00	29 084.00	105 515.21	58 173.61	111 505.57
<b>B. Operating expenses</b>	<b>4 889 210.39</b>	<b>8 489 037.45</b>	<b>9 040 935.84</b>	<b>15 581 291.17</b>	<b>1 164 430.41</b>	<b>2 037 108.24</b>	<b>2 164 664.04</b>	<b>3 730 705.42</b>
I. Depreciation	373 480.34	631 127.21	728 119.91	1 104 735.70	88 949.30	151 451.14	174 333.17	264 512.32
II. Materials and energy	917 173.94	1 575 110.27	1 706 166.86	2 875 617.51	218 437.16	377 978.08	408 506.17	688 523.29
III. External services	910 975.87	1 952 589.40	1 677 255.09	3 704 372.70	216 961.01	468 561.48	401 583.85	886 956.23
IV. Taxes and charges	43 522.79	53 942.48	80 137.24	101 694.07	10 365.53	12 944.54	19 187.20	24 349.11
V. Payroll	1 919 050.48	2 899 118.40	3 526 388.17	5 584 240.65	457 047.37	695 699.37	844 320.30	1 337 062.29
VI. Social insurance and other benefits	406 488.24	696 728.20	744 181.46	1 229 815.40	96 810.57	167 193.37	178 178.77	294 460.77
VII. Other	232 127.16	381 984.03	407 494.88	667 543.43	55 284.17	91 664.43	97 566.17	159 833.22

VIII. Value of goods and materials sold	86 391.57	298 437.46	171 192.23	313 271.71	20 575.30	71 615.82	40 988.42	75 008.19
<b>C. Profit/loss on sales (A-B)</b>	<b>- 2 744 979.64</b>	<b>- 1 797 663.42</b>	<b>- 4 790 059.76</b>	<b>- 4 054 102.31</b>	<b>- 653 753.37</b>	<b>- 431 384.00</b>	<b>- 1 146 880.18</b>	<b>- 970 693.72</b>
<b>D. Other operating revenue</b>	<b>1 663 026.42</b>	<b>3 104 085.32</b>	<b>3 141 601.26</b>	<b>5 677 719.05</b>	<b>396 071.83</b>	<b>744 885.13</b>	<b>752 191.08</b>	<b>1 359 444.28</b>
I. Gain on disposal of non-financial fixed assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Subsidies	1 630 256.51	3 069 250.61	3 078 926.97	5 606 110.46	388 267.25	736 525.87	737 185.02	1 342 298.69
III. Other operating revenue	32 769.91	34 834.71	62 674.29	71 608.59	7 804.59	8 359.26	15 006.06	17 145.60
<b>E. Other operating expenses</b>	<b>8 550.26</b>	<b>7 568.48</b>	<b>10 499.62</b>	<b>8 191.14</b>	<b>2 036.36</b>	<b>1 816.20</b>	<b>2 513.92</b>	<b>1 961.25</b>
I. Loss on disposal of non-financial fixed assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Impairment of non-financial assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Other operating expenses	8 550.26	7 568.48	10 499.62	8 191.14	2 036.36	1 816.20	2 513.92	1 961.25
<b>F. Operating profit/loss (C + D-E)</b>	<b>- 1 090 503.48</b>	<b>1 298 853.42</b>	<b>- 1 658 958.12</b>	<b>1 615 425.60</b>	<b>- 259 717.89</b>	<b>311 684.93</b>	<b>- 397 203.02</b>	<b>386 789.32</b>
<b>G. Financial income</b>	<b>3 343.19</b>	<b>2 865.40</b>	<b>29 142.18</b>	<b>37 741.78</b>	<b>796.23</b>	<b>687.61</b>	<b>6 977.49</b>	<b>9 036.70</b>
I. Dividends and share in profit	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Interest	3 205.13	9 824.84	12 088.50	10 661.45	763.34	2 357.66	2 894.34	2 552.72
III. Gain on sale of investments	1 967.67	4 421.78	5 523.29	7 977.40	468.63	1 061.09	1 322.44	1 910.07
IV. Impairment of investments	0.00	0.00	0.00		0.00	0.00	0.00	0.00
V. Other	138.06	- 6 959.44	17 053.68	27 080.33	32.88	- 1 670.05	4 083.15	6 483.98
<b>H. Financial expenses</b>	<b>39 806.76</b>	<b>5 094.77</b>	<b>47 468.05</b>	<b>8 141.38</b>	<b>9 480.51</b>	<b>1 222.59</b>	<b>11 365.24</b>	<b>1 949.33</b>
I. Interest	7 247.35	5 094.77	9 689.33	8 141.38	1 726.05	1 222.59	2 319.91	1 949.33
II. Loss on disposal of investments	12 381.10	0.00	12 381.10	0.00	2 948.72	0.00	2 964.40	0.00
III. Impairment of investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Other	20 178.31	0.00	25 397.62	0.00	4 805.73	0.00	6 080.93	0.00
<b>I. Profit/loss on operating activities (F + G-H)</b>	<b>- 1 126 967.05</b>	<b>1 296 624.05</b>	<b>- 1 677 283.99</b>	<b>1 645 026.00</b>	<b>- 268 402.17</b>	<b>311 149.94</b>	<b>- 401 590.77</b>	<b>393 876.69</b>
<b>J. Result on extraordinary items (J.I-J.II)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
I. Extraordinary gains	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Extraordinary losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>K. Gross profit/loss (I+/-J)</b>	<b>- 1 126 967.05</b>	<b>1 296 624.05</b>	<b>- 1 677 283.99</b>	<b>1 645 026.00</b>	<b>- 268 402.17</b>	<b>311 149.94</b>	<b>- 401 590.77</b>	<b>393 876.69</b>
<b>L. Income tax</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>M. Other obligatory profit decrease (loss increase)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>N. Net profit/loss (K-L-M)</b>	<b>- 1 126 967.05</b>	<b>1 296 624.05</b>	<b>- 1 677 283.99</b>	<b>1 645 026.00</b>	<b>- 268 402.17</b>	<b>311 149.94</b>	<b>- 401 590.77</b>	<b>393 876.69</b>

## Summarized Statement of Cash Flows

	PLN		PLN		EUR		EUR	
Statement of Cash Flows (indirect method)	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014
<b>A. Cash flow from operations</b>								
I. Net profit/loss	-1 126 967.05	1 296 624.05	-1 677 283.99	1 645 026.00	-268 402.17	311 149.94	-401 590.77	393 876.69
II. Total adjustments	-805 599.62	-2 598 496.64	-2 354 745.16	-3 564 085.40	-191 864.25	-623 559.38	-563 794.75	-853 366.55
III. Net cash flow from operations (I+/-II)	-1 932 566.67	-1 301 872.59	-4 032 029.15	-1 919 059.40	-460 266.43	-312 409.43	-965 385.52	-459 489.86
<b>B. Cash flows from investing activities</b>								
I. Inflow	1 237.46	5 403.06	326 683.02	2 684.05	294.72	1 296.57	78 217.45	642.66
II. Outflow	719 717.41	1 161 449.43	893 452.29	1 870 462.17	171 410.26	278 712.19	213 918.57	447 853.99
III. Net cash flows from investing activities (I-II)	-718 479.95	-1 156 046.37	-566 769.27	-1 867 778.12	-171 115.54	-277 415.62	-135 701.11	-447 211.33
<b>C. Cash flow from financing activities</b>								
I. Inflow	4 184 824.72	3 023 108.39	4 229 008.80	5 973 768.45	996 671.60	725 453.16	1 012 548.20	1 430 328.85
II. Outflow	53 580.14	699 614.86	100 662.30	1 114 380.60	12 760.82	167 886.08	24 101.49	266 821.64
III. Net cash flow from financing activities (I-II)	4 131 244.58	2 323 493.53	4 128 346.50	4 859 387.85	983 910.78	557 567.08	988 446.70	1 163 507.21
<b>D. Total net cash flow (A.III+/-B.III+/-C.III)</b>	1 480 197.96	-134 425.43	-470 451.92	1 072 550.33	352 528.81	-32 257.97	-112 639.93	256 806.02
<b>E. Change in balance sheet cash and cash equivalents</b>	1 480 197.96	-134 425.43	-470 451.92	1 072 550.33	352 528.81	-32 257.97	-112 639.93	256 806.02
<b>F. Cash and cash equivalents - beginning of the period</b>	3 060 066.97	6 215 003.24	5 010 716.85	5 008 027.48	728 795.60	1 491 409.88	1 199 711.93	1 199 096.73
<b>G. Cash and cash equivalents - end of the period (F+/-D)</b>	4 540 264.93	6 080 577.81	4 540 264.93	6 080 577.81	1 081 324.41	1 459 151.90	1 087 072.00	1 455 902.74

## Summarized Statement of Changes in Shareholders' Equity

	PLN		PLN		EUR		EUR	
Statement of Changes in Shareholders' Equity	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014	01/04/2013 -30/06/2013	01/04/2014 -30/06/2014	01/01/2013 -30/06/2013	01/01/2014 -30/06/2014
I. Shareholders' equity – beginning of the period (opening balance)	8 040 340.57	6 815 338.26	8 590 657.51	6 466 936.31	1 914 913.92	1 635 471.84	2 056 854.26	1 548 410.47
II. Shareholders' equity – end of the period (closing balance)	6 913 373.52	8 111 962.31	6 913 373.52	8 111 962.31	1 646 511.75	1 946 621.79	1 655 263.50	1 942 287.16
III. Shareholders' equity after adjustment for proposed profit distribution (coverage of losses)	6 913 373.52	8 111 962.31	6 913 373.52	8 111 962.31	1 646 511.75	1 946 621.79	1 655 263.50	1 942 287.16

## Principles Applied in Preparing the Report

The Financial Statements, elements of which are contained in the Report, have been prepared in accordance with the Accounting Act of 29 September 1994, with the assumption that the company will continue its operations in the foreseeable future, covering the period of not less than one year from the balance sheet date, in a substantially unreduced scope.

### Methods for Valuation of Assets and Liabilities and for Determination of Financial Result

#### Intangible assets

Intangible assets are recognized if it is likely that in the future they will cause an inflow of economic benefits to the company which may be directly related to such assets. The intangible assets are initially reported at purchase prices or manufacturing cost. After initial reporting, intangible assets are valued at purchase prices or manufacturing cost reduced by amortization and impairment write-downs. Intangible assets are amortized based on the linear method in their estimated useful economic life (it is 2 years for software and other intangible assets).

#### Fixed assets

Fixed assets are valued at the purchase price, manufacturing cost or revalued value reduced by depreciation and impairment write-downs. Costs incurred after placing a fixed asset for use, such as costs of repairs, inspections, maintenance fees, affect the financial result of the reporting period in which they were incurred. If it is however possible to demonstrate that these costs caused an increase in the expected future economic benefits from holding a respective fixed asset over the benefits assumed initially, then they increase the initial value of such a fixed asset.

Fixed assets, except for lands and perpetual usufruct, are depreciated on a straight line basis in the period corresponding to their estimated useful economic life, or for the shorter of the two periods: the useful economic life or the right to use, which is as follows:

Buildings, premises and constructions:	10 years
Machinery and equipment:	from 3 to 10 years
Motor vehicles:	5 years
Other fixed assets:	from 3 to 5 years

Fixed assets with a low unit initial value, i.e. below PLN 3.5 k, are recognized under expenses on a one-off basis.

Construction in progress is valued at the amount of total costs directly related to its purchase or creation, including financial costs, reduced by impairment write-downs. Construction in progress includes outlays on patent fees and legal services related to projects carried out in the field of innovative operations segment.

#### Leasing

The Group's companies are not parties to leasing agreements under which they give fixed assets or intangible assets for use against remuneration or to derive benefits. The Group's companies are parties to leasing agreements under which they take external fixed assets or intangible assets for use against remuneration or to derive benefits for a definite time.

In case of leasing agreements under which fundamentally all risk and benefits from holding the assets covered by the agreement are transferred, the object of the leasing is reported in assets as a fixed asset at the amount of the current value of minimal leasing fees fixed as at the date of commencement of the leasing. Leasing fees are divided between financial costs and reduction of liability balance in a manner that allows to achieve a fixed interest rate from the outstanding balance of the liability. Financial costs are reported directly in the Profit and Loss Account.

Fixed assets which are the object of a financial leasing agreement are depreciated for the period corresponding to their estimated useful economic life.

#### Inventory

Inventory is valued at the lower of the two values: the purchase price or the manufacturing cost and the net sale price. Individual inventory groups are valued as follows:

- materials and goods – at the purchase price;
- finished goods and work in progress – at the cost of direct materials and labor and the justified part of indirect production costs, determined at normal use of production capacities.

Inventory releases are valued using the *first in, first out* method. Net sale price is the sale price possible to achieve as at the balance sheet day without the goods and services tax and the excise tax, decreased by discounts, reductions etc. and the costs related to adapting an asset for sale and making such sale.

#### Short-term and long-term receivables

Receivables are reported at the amount of the payment due reduced by write-downs. The value of receivables is revaluated, taking into account the degree of likelihood of their payment, by making a write-down. For receivables overdue more than 180 days, the write-down is 50% of their value and for receivables overdue more than 360 days it is 100% of their value. Receivable write-downs are included respectively into other operating costs or financial costs – depending on the nature of the receivable to which the write-down relates. Redeemed, overdue or non-collectible receivables reduce their previous write-downs. Redeemed, overdue or non-collectible receivables from which no write-downs were made or for which write-downs were not made in full amount are included respectively into other operating costs or to financial costs.

#### Cash and cash equivalents

Cash at bank and in hand is valued at face value. The item cash shown in the Consolidated Statement of Cash Flows consists of cash in hand and at bank and of bank deposits with maturity not longer than 3 months which were not treated as deposit activity.

#### Prepayments and deferred costs

The Group makes prepayments whenever they concern future reporting periods. Prepayments and deferred costs are recognized on a *pro rata* basis. The timing and method of recognition should correspond to the nature and costs recognized, taking into account the prudence principle.

#### Provisions

Provisions are reported if the Group's company has an existing duty (legal or customary) arising out of past events and when it is certain or highly probable that fulfilling this duty will cause a necessary outflow of resources representing economic benefits, and when the amount of this liability can be credibly assessed.

Provisions for employee benefits, i.e. the retirement severance pay and the years of service award, are determined as at each balance sheet day using the actuarial valuation method.

### ACCRUALS

Accruals are made at the amounts of likely liabilities in the current reporting period, resulting mainly from:

- goods and services provided to the company by its contractors, if the amount of a liability can be estimated in a reliable manner;
- the obligation to provide, in the future, goods and services, relating to current operations, to unknown persons, the amount of which can be estimated even though the origination date of a liability is not yet known.

Accruals are recognized on a pro rata basis or in proportion to the goods or services provided. The timing and method of recognition should correspond to the nature and costs recognized, taking into account the prudence principle. Accruals resulting from unbilled supplies and services accepted by the company are presented in the Financial Statements as trade liabilities. Accruals in respect of unused holiday are presented in the Financial Statements as provisions for employee benefits.

### Deferred income

Deferred income recognized under the prudence principle includes in particular the following:

- amounts received or receivable from contractors in respect of goods or services to be provided in future reporting periods;
- cash received to finance the purchase or manufacture of property, plant and equipment, including items of property plant and equipment under construction and development costs, if, in accordance with other acts, it is not credited to equity. Amounts recognized as deferred income are gradually recognized as other operating income, in parallel to the depreciation or amortization of property, plant and equipment or development costs financed from such sources;
- negative goodwill created in the Financial Statements;
- received free of charge, also in the form of donations, property plant and equipment under construction, property, plant and equipment and intangible assets.

### Hedge accounting

The Group companies do not apply hedge accounting.

### Foreign currency transactions

Transactions in currencies other than the Polish zloty are converted to Polish zlotys using the exchange rate applicable on the day of the transaction. As at the balance sheet day, assets and liabilities in currencies other than the Polish zloty are converted to Polish zlotys using the National Bank of Poland's daily average exchange rate for the respective currency. Foreign exchange differences from conversion are reported respectively as receivables or financial costs, or in cases provided by law capitalized at the value of assets.

#### Revenue recognition

Revenues are recognized at the amount at which it is likely that the Group will achieve economic benefits that may be credibly valued. Revenues are reported upon transfer of all material risks and benefits related to the goods ownership to the buyer. Revenues include due or obtained sale amounts, reduced by the goods and services tax (VAT). Revenues from provided services are recognized proportionally to the degree of service completion.



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