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BDO Ltd
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To the general meeting of

Orphée SA

Plan-les-Ouates

Report of the statutory auditor on the financial statements for the year 2017

(for year ended 31.12.2017)

21 March 2018
12936/21510228/5-1

**Report of the statutory auditor
to the general meeting of**

Orphée SA, Plan-les-Ouates

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Orphée SA, which comprise the balances sheet as at 31 December 2017, and the income statement, cash flow statement and notes for the year then ended.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
As disclosed in note 3 to the financial statements, the company's investments for a total net value of CHF 16.1 million are valued at historical cost less depreciation, in accordance with the provisions of the Swiss Code of Obligations. We focused our audit on this position because of its significance to the financial statements.	We audited the company's analysis on whether the various significant investments were impaired as of 31 December 2017. We audited the methodology, the assumptions and the results of impairment tests on the company's significant investment. We also made sure that the company disclosed the result of the impairment test in the notes of the financial statements accordingly.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In the course of our audit performed in accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we noted that an internal control system for the preparation of the financial statements designed according to the instructions of the Board of Directors was adequately documented. However, IT General Controls (ITGCs) which are significant for the entity, were not implemented in all material respects.

In our opinion, except for the matter described in the preceding paragraph, an internal control system for the preparation of financial statements, designed in accordance with the instructions of the Board of Directors, exists.

We recommend that the financial statements submitted to you be approved.

Geneva, 21 March 2018

BDO Ltd



Nigel Le Masurier
Licensed Audit Expert



Matthias Paffrath
Licensed Audit Expert
(Auditor in Charge)

Enclosures

Financial statements



	<u>Note</u>	<u>31.12.2017</u>	<u>31.12.2016</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents		182 416	139 767
Trade receivables - net of provision	9.1	1 332 591	1 026 124
Other receivables	9.2	156 076	1 016
Inventory - net of provision	9.3	1 413 492	2 210 766
Accrued income and prepaid expenses		123 744	240 859
Advance to PZ Cormay S.A.		-	404 808
TOTAL CURRENT ASSETS		3 208 319	4 023 341
NON CURRENT ASSETS			
Loan to a subsidiary - net of provision	9.4	-	-
Investment in subsidiaries - net of provision	3	16 127 500	14 225 897
Financial assets		25 342	25 340
Tangible fixed assets	9.5	23 181	26 989
Intangible fixed assets	9.6	58 585	1 755 881
TOTAL NON CURRENT ASSETS		16 234 608	16 034 107
TOTAL ASSETS		19 442 927	20 057 448



	<u>Note</u>	<u>31.12.2017</u>	<u>31.12.2016</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES			
Trade payables	9.7	1 526 392	1 666 753
Other current liabilities		-	170 310
Deferred income and accrued expenses	9.8	99 651	84 827
Provisions	9.9	2 110 120	2 395 447
TOTAL CURRENT LIABILITIES		3 736 163	4 317 337
NON CURRENT LIABILITIES			
Long-term interest-bearing liabilities		-	-
TOTAL NON CURRENT LIABILITIES		-	-
TOTAL LIABILITIES		3 736 163	4 317 337
SHAREHOLDERS EQUITY			
Share capital		3 860 850	3 860 850
Legal capital reserves			
- reserves from capital contributions	6	46 618 779	46 618 779
Own shares		(8 809 177)	(8 809 177)
Voluntary retained earnings :			
1- results carried forward		(25 930 341)	(17 604 346)
2- result for the year		(33 347)	(8 325 994)
Total voluntary retained earnings		(25 963 688)	(25 930 341)
TOTAL SHAREHOLDERS EQUITY		15 706 764	15 740 111
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		19 442 927	20 057 448

	Note	31.12.2017	31.12.2016
OPERATING INCOME			
Net revenue		8 534 151	8 148 128
Other operating income	10.1	14 426	6 507
TOTAL OPERATING INCOME		8 548 577	8 154 635
OPERATING EXPENSES			
Changes in inventory		(697 808)	215 821
Cost of goods		(5 331 882)	(5 991 562)
Salaries and social charges		(806 947)	(874 858)
Other operating expenses	10.2	(2 276 535)	(2 473 773)
TOTAL OPERATING EXPENSES		(9 113 172)	(9 124 372)
OPERATING RESULTS BEFORE INTERESTS, TAXES AND DEPRECIATION		(564 595)	(969 737)
Depreciation and value adjustments on fixed asset items		(21 132)	(19 839)
(Allocation) / reversal of the provision for bad debts		23 212	23 872
(Allocation) / reversal of the provision for inventory		(169 860)	15 100
(Allocation) / reversal of the litigation provision		257 000	-
OPERATING RESULT BEFORE INTERESTS AND TAXES		(475 375)	(950 603)
Financial income	10.3	34 409	15 503
Financial expenses	10.4	(14 440)	(73 817)
Exchange (loss) / gain		11 621	11 175
ORDINARY OPERATING RESULT BEFORE TAXES		(443 785)	(997 742)
Non-operational costs and non-operational income		-	953
Extraordinary, non-recurring or prior-period income	10.5	1 967 415	-
Extraordinary, non-recurring or prior-period expenses	10.6	(1 482 037)	(7 203 225)
RESULT BEFORE TAXES		41 593	(8 200 014)
Taxes		(74 940)	(125 980)
RESULT FOR THE YEAR		(33 347)	(8 325 994)

**CASH FLOW STATEMENT**

	<u>2017</u> CHF	<u>2016</u> CHF
LOSS FOR THE PERIOD	(33 347)	(8 325 994)
Depreciation on fixed assets items	21 132	19 839
Value adjustments on intangible assets	1 475 045	-
Interests on loans	3 825	35 874
Change in provision for bad debts	29 943	20 117
Change in provision for inventories	169 860	(15 100)
Change in provision for investments	(1 901 603)	7 186 000
Change in trade receivables and other current receivables	(517 662)	3 550 573
Change in inventories	627 414	(207 295)
Change in income and prepaid expenses	117 115	(35 716)
Change in trade payables and other current liabilities	(99 745)	(1 567 742)
Change in deferred income and accrued expenses	14 824	(12 397)
Change in provisions	(285 327)	(2 582)
Other adjustments	(63)	-
CASH FLOW FROM OPERATING ACTIVITIES	(378 589)	645 577
Purchase of tangibles assets	(6 834)	(3 094)
Purchase of intangible assets	(2 927)	(676 210)
Return of advance to buy an Organized part of the Enterprise from PZ Cormay S.A.	431 000	-
CASH FLOW FROM INVESTMENT ACTIVITIES	421 239	(679 304)
Other proceeds	-	9 203
CASH FLOW FROM FINANCING ACTIVITIES	-	9 203
TOTAL CASH FLOWS	42 650	(24 524)
Cash and cash equivalents of the beginning of the period	139 767	164 291
Cash and cash equivalents of the end of the period	182 417	139 767
NET INCREASE/DECREASE IN CASH	42 650	(24 524)

1) GENERAL

The Company was incorporated in Plan-les-Ouates (Switzerland) on June 7th, 2002. The corporate purpose of the Company, according to Article 2 of its article of incorporation is the development and marketing of reagents, tests and instruments for in vitro diagnostics.

The share capital of 3 860 850 CHF consists of 38 608 500 fully paid bearer shares of 0.10 CHF each.

Financial statements are presented in accordance with the legal accounting policies applicable in Switzerland.

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

The current accounts were established in accordance with the Swiss law principles and in particular according to articles 957 to 962 on commercial accounting and Swiss codes of obligations accounts presentation.

Revenues and charges are recorded on base of the agreed services and commitments.

In addition to the statutory financial statements, Orphée SA prepares consolidated financial statements under International Financial Reporting Standards (IFRS), in accordance with the requirements of NewConnect alternative trading system organised and operated by the Warsaw Stock Exchange outside the regulated market, where the Company's shares are listed.

2) NUMBER OF FULL-TIME POSITIONS

The number of full-time equivalents on a yearly average during the year 2017 as well as during the year 2016 did not exceed 10 employees.

3) INVESTMENTS IN SUBSIDIARIES, STATING SHARE OF CAPITAL AND VOTES HELD

	Share of capital held	Shares of votes held	31.12.2017	31.12.2016
Diesse Diagnostica Senese S.p.A. Milano (ITA)	45.00%	50.00%		
The company is in the business of manufacturing reagents and immunoassay apparatus in Italy.				
Purchase price			18 750 000	18 750 000
<u>Less</u> : Provision			<u>(5 284 397)</u>	<u>(7 186 000)</u>
			13 465 603	11 564 000
 Orphée Technics Sp. z o.o., Lublin (POL)	 100.00%	 100.00%		
Polish company that manage real estate.				
Purchase price			2 407 705	2 407 705
<u>Less</u> : Provision			<u>(1 066 877)</u>	<u>(1 066 877)</u>
			1 340 828	1 340 828
 Innovation Enterprises Ltd., Carrigtwohill (IRL)	 99.88%	 99.88%		
Irish company in the business of manufacturing and distributing reagents and biochemistry apparatus.				
Purchase price			-	2 359 676
<u>Less</u> : Provision			-	<u>(2 359 676)</u>
			-	-



Kormiej Rusland Sp. z o.o., Moscow (RUS)	100.00%	100.00%		
Russian company engaged in wholesale of medical equipment and reagents.				
Purchase price			1 614 147	1 614 147
<u>Less : Provision</u>			<u>(313 577)</u>	<u>(313 577)</u>
			1 300 570	1 300 570
 Kormej Diana Sp. z o.o. , Minsk (BLR)	 98,50%	 98,50%		
Import of medical equipment, consumables and reagents to Belarus.				
Purchase price			20 499	20 499
Total			16 127 500	14 225 897

Due to an improvement in the financial performance of the joint venture company Diesse Diagnostica Senese S.p.a., which in the Board of Directors' opinion has a permanent character, the Board of Directors concluded that the impairment reversal indications had been met and decided to perform an impairment test of Diesse as of December 31, 2017.

The impairment test was based on the discounted expected cash flows generated by the investment. At the moment when the impairment test on Diesse was performed, the company's financial statements as of 31 December 2017 were still unaudited and the cash flow projections were based on the internal reports of the company. As a result of this test the impairment provision from December 31, 2016 in the amount of 7 186 000 CHF was reversed by 1 901 603 CHF to 5 284 397 CHF as of December 31, 2017. There is an uncertainty on whether the expectations underlying the impairment test can be met. However, management is convinced that the expectations are reasonable and prudent under the circumstances and that the remaining impairment of CHF 5 284 397 CHF is adequate and sufficient.

4) COLLATERAL FOR THIRD-PARTY LIABILITIES

As of December 31, 2017, there were two bank guarantees issued securing the Company's liabilities: one of 17 500 CHF in favour of Swisscard AECS GmbH and one of 23 625 CHF to Regie Rosset Immobilier.

5) THE BOARD OF DIRECTORS

The Board of Directors as of the date of publication of this financial statements, i.e. March 21, 2018 was as follows:

Janusz Płocica	- the Chairman of the Board of Directors
Domingo Dominguez	- the Member of the Board of Directors
Krzysztof Rudnik	- the Member of the Board of Directors
Wojciech Suchowski	- the Member of the Board of Directors

The Board of Directors as of 31 December 2017 was as follows:

Janusz Płocica	- the Chairman of the Board of Directors
Domingo Dominguez	- the Member of the Board of Directors
Krzysztof Rudnik	- the Member of the Board of Directors
Piotr Skrzyński	- the Member of the Board of Directors
Wojciech Suchowski	- the Member of the Board of Directors

The composition of the Board of Directors during the entire 2017 financial year has not changed. In 2018, on January 8th, the Company received a letter containing information about the resignation of Mr. Piotr Skrzyński from the position of a Member of the Company's Board of Directors effective from February 28, 2018.

**6) OWN SHARES**

In 2015, 3 859 118 shares were purchased by the Company for a total amount of 8 809 177 CHF (rounded down to 2.28 CHF per share).

	31.12.2017	31.12.2016
	CHF	CHF
Balance of own shares as of 01.01	8 809 177	8 809 177
Purchases	-	-
Sales	-	-
Balance of own shares as of 31.12.	8 809 177	8 809 177

7) SIGNIFICANT SHAREHOLDERS

The list of significant shareholders (holding directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting) on December 31, 2017 and at the date of this report as well as on December 31, 2016:

Shareholder	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	No. shares/No. of votes in GSM	% of capital/votes in GSM	No. shares/No. of votes in GSM	% of capital/votes in GSM
PZ Cormay S.A.	30 731 308	79,60%	13 879 956	35,95%
TOTAL FIZ directly and indirectly, through subsidiary TTL 1 Sp. z o.o.	N/A	N/A	7 239 814	18,75%
Orphée SA	3 859 118	10,00%	3 859 118	10,00%
Quercus TFI S.A. (Investment funds: QUERCUS)	N/A	N/A	3 011 102	7,80%
Tadeusz Wesołowski (with other subsidiaries)	N/A	N/A	2 141 445	5,55%
Others	4 018 074	10,40%	8 477 065	21,95%
Total	38 608 500	100,00%	38 608 500	100,00%

The shareholders marked with N/A have less than 5% votes in the Company as of December 31, 2017.

8) SHARES HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS**31.12.2017**

MEMBERS OF THE BOARD OF DIRECTORS	THE NUMBER OF SHARES
Janusz Płocica	-
Domingo Dominguez	-
Krzysztof Rudnik	-
Piotr Skrzyński	-
Wojciech Suchowski	-

31.12.2016

MEMBERS OF THE BOARD OF DIRECTORS	THE NUMBER OF SHARES
Janusz Płocica	638 000
Domingo Dominguez	103 700
Krzysztof Rudnik	-
Piotr Skrzyński	-
Wojciech Suchowski	-

9) INFORMATION RELATED TO ITEMS ON THE BALANCE SHEET

9.1) Trade receivables - net of provision

	31.12.2017	31.12.2016
	CHF	CHF
Trade receivables - third parties	1 378 924	1 078 024
Trade receivables, subsidiaries and associates	30 319	47 964
Less: provision for bad debts	(76 652)	(99 864)
Total	1 332 591	1 026 124

9.2) Other receivables

VAT receivables	153 034	-
Interest receivable from PZ Cormay S.A.	3 042	-
Miscellaneous	-	1 016
Total	156 076	1 016

9.3) Inventory - net of provision

Finished goods	1 731 191	2 358 606
Less: provision for inventory	(317 699)	(147 840)
Total	1 413 492	2 210 766

9.4) Loan to a subsidiary - net of provision

Loan to a subsidiary	4 439 298	4 439 298
Less: provision	(4 439 298)	(4 439 298)
Total	-	-

9.5) Tangible fixed assets

	Depr. Rate %	Net value 31.12.2016 CHF	Purchase/ (Sale) CHF	Depreciation 2017 CHF	Net value 31.12.2017 CHF
Machinery and equipment	10%	12 299	3 332	(3 141)	12 490
Motor vehicles	20%	7 589	-	(1 576)	6 013
IT equipment	33%	1 657	-	(4 337)	(2 680)
Office furniture	10%	5 444	3 502	(1 588)	7 358
Total		26 989	6 834	(10 642)	23 181

9.6) Intangible fixed assets

	Depr. Rate %	Net value 2016-12-31 CHF	Purchase/ (sales) 2017 CHF	Depreciation 2017 CHF	Impairment 2017 CHF	Net value 2017-12-31 CHF
Patents, license	10%	66 148	2 927	(10 490)	-	58 585
Development costs	20%	1 689 733	(214 688)	-	(1 475 045)	-
Total		1 755 881	(211 761)	(10 490)	(1 475 045)	58 585

In 2017 Orphée recognised an impairment provision for the MSL30 development project in the amount of 1 475 045 CHF. The details of the provision are described in the note 10.6 below.

9.7) Trade Payables

	<u>31.12.2017</u> CHF	<u>31.12.2016</u> CHF
Trade payables, third parties	782 437	1 659 573
Trade payables, shareholder	740 715	2 860
Trade payables, subsidiaries	-	-
Trade payables to the statutory auditor	3 240	4 320
Total	<u>1 526 392</u>	<u>1 666 753</u>

9.8) Deferred income and accrued expenses

Audit fees	40 631	40 714
Other accrued expenses	59 020	44 113
Total	<u>99 651</u>	<u>84 827</u>

9.9) Provisions

Provision for litigation related to a loan from 8 th of January 2010	2 105 000	2 105 000
Provision for litigation with Diagnostica Holding s.r.l.	5 120	290 447
Total	<u>2 110 120</u>	<u>2 395 447</u>

Provision for litigation related to a loan from 8th of January 2010

Orphée SA is involved in 2 legal disputes, both of which refer to claims related to a loan agreement dated January 8, 2010 for the amount of 2 000 000 CHF.

On August 10, 2016 one of two lenders filed a claim against the Company requesting payment of the half of the amount of the loan, namely 1 000 000 CHF together with interest of 3% p.a. starting from January 1, 2015.

In the Company's opinion the received demand for payment is unjustified. The company points out that according to the agreement - the loan amount should become payable in case of achieving by Orphée SA in the loan period net profit of at least 2 million CHF. At the same time in case of failure in achieving by the PZ Cormay Group net profit of 3 million CHF within 5

years from the date of signing the Agreement, the loan in accordance with the content of that Agreement was supposed to be subject to redemption.

Currently the proceeding is taking place before the Civil Court in Geneva, the next stage being issuing an opinion by the Court Expert within a deadline set by the Court at March 28, 2018.

On November 11, 2016 the second lender filed a claim against the company requesting payment of interest related to the loan in the amount of 30 000 CHF. To the best of the Board of Directors knowledge, the plaintiff has not claimed a payment of the capital of the loan of 1 000 000 CHF. As a result of an analysis of both proceedings and due to the fact that both cases relate to the same factual state, the representative of the company requested from the Court that that both claims be joined. By the date of publication of this financial statements, i.e. March 21, 2018 the Court has not decided on this matter.

Until the final judgment by the Court, the Company decided, in line with the prudence principle, to recognise the provision for the whole amount of the loan being the subject of the dispute, namely 2 000 000 CHF, plus interest.

Provision for litigation with Diagnostica Holding s.r.l.

On January 25, 2016 the Company received a claim submitted by Diagnostica Holding s.r.l. ("Diagnostica") to U.N.E.P. Corte d'Appello di Milano (Court of Appeal in Milan). Diagnostica appealed the judgment of the Court of Arbitration of Milan of December 30, 2014. In the lawsuit Diagnostica requests a compensation of 6 750 000 EUR. In the opinion of the Board of Directors, Diagnostica's claim was unfounded. Orphée SA created a provision not for value of Diagnostica's claim, but for court dispute costs in the amount of 330 000 CHF.

On June 24, 2016, the Company replied to the claim, objecting the whole amount claimed by Diagnostica. On November 7, 2017 the Company received an information that the Appeal Court of Milan judged the case in favour of Orphée and liquidated a certain amount of costs in favour of it. From the original amount of the provision of 330 000 CHF, 67 880CHF were utilised. Due to the favourable sentence of the court the Company decided to reverse the provision by an additional amount of 257 000 CHF, leaving the provision of 5 120 CHF, which in the Board of Directors opinion are estimated further costs of the proceeding.

10) INFORMATION RELATED TO ITEMS IN THE INCOME STATEMENT

10.1) Other operating income

	<u>2017</u>	<u>2016</u>
	CHF	CHF
Administration fees	-	1 220
Miscellaneous income	14 426	5 287
Total	<u>14 426</u>	<u>6 507</u>

10.2) Other operating expenses

Logistics and other supporting services	942 609	869 129
Sales supporting services	748 954	933 125
Legal and fiduciary fees	103 970	152 417
Rent and maintenance expenses	121 334	117 846
Travel expenses	76 846	96 842
Legal taxes	88 055	82 544
Directors' fees	72 000	72 000
Other	122 767	149 870
Total	<u>2 276 535</u>	<u>2 473 773</u>

10.3) Financial income

Interests on trade receivables / advances paid	34 372	6 300
Bank interest income	37	9 203
Total	<u>34 409</u>	<u>15 503</u>

10.4) Financial expenses

Loan interests	-	45 000
Interest on bank facilities	746	77
Interests and bank fees	13 694	28 707
Other financial expenses	-	33
Total	14 440	73 817

10.5) Extraordinary, non-recurring or prior-period income

	<u>2017</u>	<u>2016</u>
Reversal of impairment provision of investment in Diesse Diagnostica Senese S.p.a. (see note 3)	1 901 603	-
Reimbursement of the court expenses from Diagnostica Holding s.r.l.	56 401	-
Other	9 411	-
Total	1 967 415	-

10.6) Extraordinary, non-recurring or prior-period expenses

	<u>2017</u> CHF	<u>2016</u> CHF
Recognition of impairment provision of investment in Diesse Diagnostica Senese S.p.a. (see note 3)	-	7 186 000
Impairment of development costs MSL30	1 475 045	-
Expenses retated to previous year	6 992	17 225
Total	1 482 037	7 203 225

Impairment of development costs on MSL30

In the prior periods the Company capitalised development costs on MSL30 project – a new hematological analyser of 3-diff class with the reagents line and the control material. The development was done in cooperation with Diagdev SAS company based on the agreement from February 2, 2015.

In the second half of 2016 the Board of Directors started negotiations with Diagdev related to a change of the form of cooperation between the two companies. As a result of the talks, on April 3, 2017 Diagdev SA terminated the agreement from 2015.

On December 22, 2017 Orphée signed an agreement with Diagdev, according to which, in particular:

- 1) Diagdev releases the Company from its liability of 300 000 EUR (of which 200 000 EUR were included in development costs as of December 31, 2016, the remaining 100 000 EUR related to 2017 invoices).
- 2) Orphée accepts that all technical solutions and know-how developed within the framework of the cooperation remain intellectual property of Diagdev, with Diagdev agreeing to grant the company a free license, unlimited in time or territorially, for the use of the above-mentioned technical solutions and know-how for the development, production and sale of products,
- 3) In connection with the arrangements set out in points 1) and 2), the parties shall waive all claims related to the above-mentioned cooperation.
- 4) Orphée will receive documentation of all technical solutions developed by Diagdev SAS related to the project.

On March 9, 2018 after analysis of the costs required to finish the project and its expected profitability, the Board of Directors adopted a resolution to suspend the further work on it. The project is not part of the strategic projects of the PZ Cormay Group to which Orphée belongs.

Due to the above the Board of Directors decided to recognised an impairment provision for the whole amount of development costs related to the project – 1 475 045 CHF. The amount includes the value of the project as of December 31, 2016 of 1 689 733 CHF adjusted by credit notes received in 2017 in the amount of 214 688 CHF (200 000 EUR).

**11) ADDITIONAL INFORMATION IN THE NOTES (Art. 961a Code of Obligations)****11.1) Fees for audit services and other services**

	<u>2017</u>	<u>2016</u>
Fees paid to the statutory auditor for audit services	30 000	31 000
Fees paid to the independent auditor for the audit of the consolidated accounts	10 631	9 714
Total	<u>40 631</u>	<u>40 714</u>

12) DETAILS OF ACCOUNTING PRINCIPLES APPLIED IN THE ANNUAL FINANCIAL STATEMENTS**Valuation methods of assets and liabilities and calculation of financial results.****Tangible fixed assets**

Tangible fixed assets shall be the assets acquired with the intention to be used or maintained within the period longer than 12 months. Office furniture, computer equipment, industrial equipment and transport means are among others classified by the Company as tangible fixed assets. Initially, tangible fixed assets shall be valued according to their purchase price or manufacturing cost. As of the balance sheet date, tangible fixed assets shall be valued at their purchase price or manufacturing costs reduced by total depreciation write-offs (amortisation) and total losses incurred due to impairment.

Fixed assets shall be depreciated on a straight-line basis starting from the month in which a fixed asset becomes available for use. Depreciation rates correspond to the expected useful life of the assets. Depreciation rates of fixed assets are applied as follows:

- technical equipment and machinery 10%
- computer equipment 33%
- transport means 20%
- office furniture 10%

Period and method of depreciation shall be verified once a year. Possible amendments shall be introduced with an effect from the first day of subsequent financial year.

As of each balance sheet date, the Company shall review tangible fixed assets in terms of impairment. Having identified any indications of impairment, the Company shall initiate procedures to determine market value and estimating potential write-down of the assets. Impairment loss shall be included in the financial results with an immediate effect.

Intangible assets

Investments in development projects, the acquired permits, patents, licences, computer software shall be classified as intangible assets.

Initially, intangible assets shall be valued at their purchase price or cost of development. As of the balance sheet date, intangible assets shall be valued at their initial value less total depreciation write-offs and possible write-downs on account of impairment. Intangible assets shall be depreciated on a straight-line basis starting from the month in which they become available for use.

Depreciation rates result from the periods of economic useful life of the assets. Depreciation rates of intangible assets shall be applied as follows:

- development works 20%
- patents, permits, licences 10%-20%

Period and method of depreciation shall be verified once a year. Possible amendments shall be introduced with an effect from the first day of subsequent financial year.

The in-house development cost of an intangible asset shall include all outlays which might be directly assigned to the acts of creation, production and adaptation of an asset to its usage in the manner envisaged by the management. Such direct outlays shall include as follows:

- outlays on the materials and services used or worn out during development of an intangible asset;
- expenses incurred due to employee benefits resulting directly from the production of an intangible asset;
- fees for registration of legal titles;
- depreciation of patents and licences used in the production of an intangible asset.

At least once a year, the Company shall verify availability of the proper technical, financial and other means which shall support completion of development works. For this purpose, financial forecasts (the outlays necessary for completion of the essential development projects, financing sources, planned revenues and margin on sales of new products) shall be prepared. Based on the forecasts, the entity shall also undertake verification of development works in terms of impairment as of the balance sheet date.

As of each balance sheet date, the entity shall check if there are indications that the value of intangible assets may be impaired. Having identified any indications for impairment, the Company shall initiate the procedures to determine market value and estimating potential revaluation write-down of the assets. Impairment loss shall be included in the financial results with an immediate effect.

Investments in subsidiaries, jointly controlled entities and associates

The investments in subsidiaries, jointly controlled entities and associates shall be valued according to their purchase price less the write-downs on account of impairment.

Inventory

Materials, goods, work in progress and finished products shall be considered as inventory.

Inventory shall be valued at purchase cost/manufacturing cost or the possible to obtain net sales price, whichever is lower.

Inventory shall be presented at its net value less devaluation write-downs. Inventory devaluation write-downs shall be made in relation to their impairment with an aim to bring inventory value to market value. A 100% write-down shall be applied to the expired reagents. A 100% write-down shall also be applied to slow moving stock, i.e. the surplus of each stock item over the projected two year sales, where projection is based on the past performance.

Inventory issue shall be valued by using the average cost method. Valuation of inventory issue through a detailed identification of actual prices/costs shall be acceptable.

Trade and other liabilities

Trade and other liabilities shall be valued at the amount due.

The financial statement shall present liabilities divided into short-term and long-term. The long-term liabilities shall include the liabilities due within the period exceeding 12 months from the balance sheet date whereas the liabilities due within a shorter period or held for trading shall be presented as short-term.

Trade and other receivables

Trade and other receivables shall be recognised and disclosed at the amounts initially invoiced, taking into account allowances for doubtful receivables. The allowance for receivables shall be estimated when the recovery of the full amount of receivables ceases to be probable.

The allowances shall be estimated as follows:

- receivables overdue by more than 360 days – 100% of the receivables,
- receivables in litigation – 100% of the receivables.

Receivables revaluation is effected taking into account their payment probability; an individual approach shall be applied to selected receivables apart from the above criteria if there is a certainty of the payment in spite of overdue receivables. Receivables in a foreign currency shall be valued when they arise using an average monthly rate. As of the balance sheet date, the receivables in a foreign currency shall be valued using an official rate specified by the government.

Cash and cash equivalents

Cash and cash equivalents shall include cash at hand, in bank, cash in transit as well as bank deposits and other securities and interest on financial assets payable or due within 3 months from the date of their receipt, acquisition, purchase or establishment. Domestic assets shall be stated in the financial year and as of the balance sheet date in the accounting books at their face value. The face value shall include the added or possibly charged by the bank interest. As of the balance sheet date, the assets expressed in a foreign currency shall be calculated based on an official rate specified by the government.

Items expressed in foreign currencies

For the purpose of valuation of items expressed in foreign currencies, the Company shall apply a fixed monthly rate established at the beginning of each month. The balance sheet valuation shall be undertaken at the end of the financial year according to the official rate defined by the government.

At the time of making payments, the executed foreign exchange rate differences shall be presented as "loss on foreign exchange" or "gain on foreign exchange".

Accruals and prepayments

Prepayments shall be recognised for the expenses relating to more than one reporting period.

Prepayments shall include, among others, services paid for in advance. The expenses shall be settled in accordance to the lapse of time.

Accruals shall be recognised in the amount of probable liabilities being due in the current reporting period. An accrual allows the Company to record expenses and revenues for which it expects to expend cash or receive cash, respectively, in a future reporting period.

Deferred income

Deferred income shall include in particular the equivalent of funds received or due from contractors for the services to be rendered in subsequent reporting periods.

Provisions

Provisions shall be established if the Company has a legal or following from commercial practice obligation resulting from the past events and when it is probable that the fulfilment of this obligation would cause an outflow of economic benefits, and a reliable estimate of the value of these benefits can be made.

Taxes

Taxes shall be accounted for in accordance with the arrangements made with cantonal tax administration.

Equity

Equity shall be the assets less liabilities and provisions for liabilities. Equities shall be presented in the financial statements by type and according to the principles stipulated by the law and provisions of the Articles of Association.

Stock-taking of assets and liabilities

The rules of stock-taking, the documentation and settlement had been included in the Stock-taking Instruction. Every year, the Board of Directors issues the Order with respect to stock-taking, which defines the composition of stock-taking commission and the schedule of stocktaking performance.