



THE MANAGEMENT REPORT
ORPHÉE SA
2016

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

Geneva, 21 March 2017

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I. BASIC FACTS ON THE COMPANY ORPHÉE SA

Name (company):	Orphée SA
Legal status:	A joint stock company incorporated under Swiss law (Société Anonyme)
Registered office:	Plan les Ouates
Address:	19 Chemin du Champs-des-Filles, Plan les Ouates, CH-1228, Geneva
Country of incorporation:	Switzerland
Registration authority:	Commercial Register in Geneva, Registre du Commerce du Canton de Genève
Registration number:	CH-660-1111002-1
Code according to Classification of Activities:	DUNS Nr 481882434
Tax ID number:	570927
Phone number:	+41 (0) 22 884 90 90
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Email:	contact@orphee-medical.com
Website:	www.orphee-medical.com

Orphée SA is a Swiss based company, developing and marketing advanced IVD diagnostic equipment and high quality reagents for haematology market, dedicated to small and mid-size laboratories. Orphée SA was founded in 2002.

Company's philosophy is to manufacture the highest quality products, that give reliable results and the insight into the patient's health. We also support our clients with intensive product training and after-sales service, provided by qualified specialists. The high quality of our reagents and analysers is confirmed everyday by many laboratory practitioners all over the world. For haematology lab, we provide an innovative technology for the most popular 3-Diff and advanced 5-Diff systems supported by Swiss analysers.

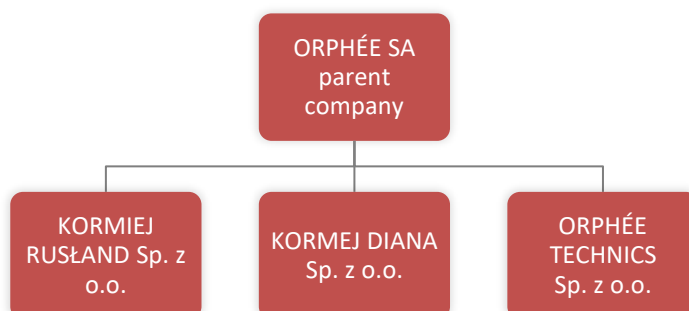
A highly developed distribution network consist of around 135 distributors in more than 93 countries.

II. THE CAPITAL GROUP ORPHÉE SA

The Capital Group Orphée SA ("the Group") is composed of the following entities as of 31 December 2016:

1. Orphee Technics Sp. z o. o. –management of real estate used by the Group in Poland,
2. Kormej Diana – import of medical equipment, consumables and reagents to Belarus, distribution on the territory of Belarus;
3. Kormiej Rusland – import of medical equipment and reagents to the Russian Federation, distribution on the territory of the Russian Federation;
4. Diesse Diagnostica Senese S.p.A. – production of tests and devices used in immunology, microbiology and ESR, distribution of medical equipment.

Organisational structure of the Capital Group Orphée SA as of 31 December 2016 (excluding the jointly controlled company Diesse Diagnostica Senese S.p.A.).



As of 31 December 2016, Orphée SA holds shares in the following companies:

Company's name	Direct holding in the capital of Orphée SA	Direct holding in the votes of Orphée SA	The method of consolidation
Kormej Diana Sp. z o.o.	98.50%	98.50%	full
Kormiej Rusland Sp. z o.o.	100%	100%	full
Diesse Diagnostica Senese S.p.A.	45%	50%	the equity method
Orphee Technics Sp. z o. o.	100%	100%	full

III. BUSINESS PERFORMANCE

In the past period Orphée SA continued to realize the recovery program of Company financial situation, including the operational integration with PZ CORMAY Capital Group and optimization of sales and management costs. The effects of the recovery program achieved so far confirm it was the right decision. An important element for the future successful operations is a shareholders consent for share swap between Orphée SA and PZ Cormay S.A., with a ratio [1,0] Orphée SA share for [0,8] PZ Cormay S.A. share. It will allow to create a capital group, in which PZ Cormay S.A. will fully control the Orphée Capital Group and Orphée SA will be delisted from New Connect.

After the turmoil of previous years resulting from the changes in the composition of the Management Board of Directors, the Company recorded a significant improvement in the operating result of 2016. That improvement was achieved primarily due to increased revenues while reducing operational costs (13% increase in sales and a concurrent 16% decrease of operational costs as compared to 2015). The net loss incurred in the amount of CHF 8,3 million (vs. 5,8 in 2015) was mainly affected by "one-off" result of impairment of Diesse Diagnostica S.p.a.- CHF 7,2 million.

IV. THE NUMBER OF FULL-TIME POSITIONS ON ANNUAL AVERAGE

During the whole 2016 there were 6 people employed in the Company, based on full time employment. The Company's business operations are based on outsourcing of services provided particularly by PZ Cormay S.A. for functions such as sales, customer service, warehouse management and logistics, product marketing, accounting, financial reporting and some others.

V. RESEARCH AND DEVELOPMENT ACTIVITIES

1. The Company's own activities

In 2015 Orphée SA signed an agreement for development of a new, 3-DIFF haematology analyser, capable of performing 60 tests per hour. Market roll-out of the analyser is scheduled for 2018. As of 31 December 2016, the total outlays on the project exceeded CHF 1 690 000.

2. R&D activity of PZ Cormay S.A. influencing the future sales results of Orphée SA

Currently, PZ Cormay S.A is in the process of commercialization of two new haematology analysers, Hermes Senior and Hermes Junior. Both of them will be 3-Diff and 5-Diff class. Hermes Senior will offer 120 samples per hour throughput and is dedicated to medium and big laboratories. Its market launch is planned for the second half of 2017. Hermes Junior, with 80 samples per hour throughput is dedicated to fulfil the needs of smaller and medium laboratories. Market launch of Hermes Junior is scheduled for 2018. Both new analysers will be sold under Orphée brand names as Mythic 120 and Mythic 80.

VI. THE CONDUCT OF A RISK ASSESSMENT

Risk related to general macroeconomic situation

Products offered by Orphée SA are dedicated to medical laboratories operating within the health care centres. Company's Board of Directors observes that the demand for laboratory testing equipment and reagents cannot drop below the minimum level which accommodates the basic healthcare needs in the area of disease detection and diagnostics. On the other hand the demand for diagnostic devices offered by the Company is directly linked to the economic growth, which influences the financial standing of the healthcare sector and hence the budgets of medical laboratories for investments in new equipment. Therefore, a slow-down of GDP growth may lead to a lower demand for products offered by the companies of Orphée Capital Group . The companies have a limited influence on the market development, however, they endeavour to minimise negative effects of possible unfavourable changes in the economy through geographical diversification of their sales.

Risk of changes in legal regulations and their interpretation

The legal regulations relevant for the territories on which Orphée Capital Group operates are subject to changes and their impact on its performance can be negative. Due to the fact that the Group is active within the area strictly regulated, the risk of changes in the provisions governing production and introduction of medical products to trade needs to be indicated as well. In the event of discrepancies in interpretation of binding provisions or emergence of new regulations, one can assume detrimental consequences for the operations conducted or possible impact on the financial result.

Risk of technological development in the scope of in-vitro diagnostics

The quick development of the global laboratory diagnostics is a reason why the market success of Orphée SA depends on its ability to perform constant monitoring of the technological advancement as well as reaction time needed to adjust its products to the market expectations. In order to effectively compete in the market, it is necessary to continuously conduct research and development works and invest in new product lines.

It is possible that new technologies will emerge on the market which would then create the need to modify the devices and reagents currently offered by Orphée SA to ensure that the demand would not weaken and the sales revenues would not go down. At the same time one shall underline that the Company actively works on development of current and new products and technologies on the in-vitro diagnostic market, which helps in mitigating the scale of increased risk.

Foreign currency risk

Orphée SA generates most of its sales revenues on the foreign markets and significant part of the revenues is obtained in foreign currencies (mainly EUR). Therefore, majority of sales revenues recorded on the export markets involves the foreign currency risk which may lead to the reduction of sales profitability in the event of unfavourable exchange rates fluctuations affecting the currencies in which the raw materials and goods are purchased as well as the currencies in which the sales revenues are generated. In order to minimise the foreign currency risk, Orphée SA uses natural hedge by purchasing raw materials and goods in EUR currency in which the Company obtains revenues.

Risk involved in sales on the Russian market

Orphée SA executes most of its sales revenues on the international markets. Currently, the Board of Directors does not envisage sales threats on the foreign markets. The Russian Federation remains one of the key markets for the Group. The Board of Directors monitors the geopolitical events linked with the situation in Ukraine including the activities of the Russian Federation. The economic sanctions imposed presently on the Russian Federation as well as the risk of introducing further sanctions may result in similar actions taken by the Russian Federation towards the countries which applied these restrictions. Furthermore, weakness of the Russian Rouble, if maintained in future, may trigger Russia to reduce imports and, in the most extreme case, introduce the ban on import of analysers and reagents for laboratory testing from the countries imposing the sanctions which would lead to a substantial drop in sales revenues and, hence, would have a negative impact on the financial result and financial standing of Orphée SA The Company is taking up measures aimed at

mitigating the aforementioned risk, mainly through geographical diversification of sales and intensification of sales activities on the markets other than the key ones.

Risk of possible enhanced competition

Orphée SA operates in the field of distribution of equipment as well as production and distribution of reagents on the in-vitro diagnostics (IVD) market. The specific nature of its operations derives from the product offer which is addressed to the target group from the healthcare sector. Therefore, the target group of the Company is limited to the entities operating in just one sector. Orphée SA competes with many other manufacturers and distributors worldwide. The operations of the Company is significantly influenced by the increasing competition from the existing producers of reagents and medical equipment, especially when bidding for major and prestigious contracts. The increased competition from other market players on the market where the Company performs could lower sales margins obtained by the Company and thus, hinder its development, financial results and financial standing.

VII. EVENTS WITH A SIGNIFICANT IMPACT ON BUSINESS PERFORMANCE OF ORPHÉE SA OCCURRED IN THE REPORTING PERIOD AND AFTER ITS END

1. Personal changes to the composition of the governing bodies of Orphée SA

As of 31 December 2016, the Board of Directors was composed as follows:

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

In 2016 the composition of the Board of Directors was not changed.

On 7 March 2016, the Ordinary General Meeting of Shareholders of Orphée SA undertook the following actions:

- appointment of the Members of the Board of Directors for the 2016 financial year in the following composition: Mr Janusz Płocica, Mr Domingo Dominguez, Mr Krzysztof Rudnik, Mr Piotr Skrzyński and Mr Wojciech Suchowski,
- appointment of Mr Janusz Płocica as the Chairman of the Board of Directors of Orphée SA for the 2016 financial year,
- appointment of Mr Janusz Płocica and Mr Wojciech Suchowski as members of the Remuneration Committee for the current financial year.

2. Auditor of the Company

On 28 June 2016, the Extraordinary General Meeting of Shareholders of the Company appointed the company "BDO Ltd", a chartered accountant with the seat in Geneva to act as the Auditing Body for the years of 2016.

3. Execution of an annex to the preliminary contract for sale of an organised part of the enterprise of 15 July 2014

On 17 December 2015, the Company and PZ Cormay S.A. concluded an Agreement Amending the Preliminary Contract for Sale of an Organised Part of the Enterprise dated 15 July 2014, which amended the repayment terms of the advance for the Company in the amount of PLN 15 494 000 to the date of 31 December 2016.

On 16 December 2016 the Annex related to Preliminary Contract for Sale of an Organized Part of the Enterprise was signed. It changed the date of the advance repayment for 30 June 2017. Other provisions of an agreement remained unchanged.

Until 31 December 2016 PZ Cormay SA repaid the advance to Orphée in the amount of 13 824 000 PLN.

4. Dispute with Diagnostica Holding s.r.l.

In the reporting period Orphée SA was a party to the arbitration proceeding concerning acquisition of the company Diesse Diagnostica Senese S.p.A. In January 2014, Diagnostica Holding s.r.l. claimed that Orphée SA violated the agreement, which gave Orphée SA the right to acquire and Diagnostica Holding s.r.l. the right to sell further 50% shares with voting rights in the company Diesse Diagnostica Senese S.p.A. In the Arbitrator's Judgment the following circumstances were confirmed:

- Diesse Shares Purchase Agreement of 14 February 2013 as well as the Shareholders Agreement remain in force.
- The Option Agreement was terminated. The Company is obliged to cover the costs of the proceedings and legal charges, however, it is not liable for the compensation against Diagnostica Holding S.r.l. in the claimed amount of EUR 6,750,000.00.

On 25 January 2016, the Company received a statement of claim through De Premiere Instance (the Court of First Instance) in Geneva lodged to U.N.E.P. Coste d'Appello di Milano (The Court of Appeal in Milan) by Diagnostica Holding s.r.l. ("Diagnostica"). The statement of claim challenges the Decision of the Arbitration Court in Milan issued on 30 December 2014 with respect to claims for damages. In the claim, Diagnostica demand EUR 6,750,000 as a compensation for damages. On 2015 the Company booked a provision of CHF 330,000 for the court dispute costs, on 31.12.2016 the amount of the provision was CHF 290,000. On 24 June 2016 the answer to the lawsuit was filed, in which the Company questions all claims presented in the lawsuit filed by Diagnostica Holding s.r.l.

5. Liquidation of a subsidiary

At the meeting on 27 January 2016 the Board of Directors of Innovation Enterprises Limited with the registered office in Carrigtwohill, the Republic of Ireland (a subsidiary) decided upon launching the company's liquidation procedure. A motion for starting the liquidation procedure and appointing the joint temporary liquidators, Mr Neil Hughes and Mr Joseph Walsh from Hughes Blake, Chartered Accountants of Joyce House, Holies Street, Dublin 2 were filed with the High Court in Dublin, the Republic of Ireland on 28 January 2016. On 29 January 2016, the Company was informed that the High Court in Dublin approved the appointment of Mr Neil Hughes and Mr Joseph Walsh as liquidators. According to the assessment of the Board of Directors of Orphée SA, the subsidiary's liquidation proceedings shall not impact the financial results of Orphée SA with additional costs. The statements prepared so far for 2014 and 2015 take into account the total loss of share value of the subsidiary as well as the lack of possibility of repayment of the loan granted to the subsidiary by Orphée SA (the financial statements include all the necessary write-offs and provisions).

6. Civil claim against Orphée SA before the ordinary civil court

Orphée SA is involved in a legal dispute with a private individual, which refers to claims related to a loan agreement dated 8 January 2010 of amount of 2 mln CHF. This person filed a court order for payment.

In the Company's opinion the received request for payment is unjustified. The company points out that according to the agreement the loan can be cancelled. The loan agreement envisages that the loan amount should become payable in case of Orphée SA achieving net profit of at least 2 million CHF during the loan period. At the same time in case of failure in achieving by the PZ Cormay Capital Group net profit of 3 million CHF within 5 years from the date of signing the Agreement, the loan can be subject to cancellation. Until the final resolution of the dispute, the Company booked a provision of the amount of claim.

Orphée SA has already took all necessary legal actions to defend its position in the court proceeding and receive court confirmation of the cancellation of the loan.

7. Impairment test on the value of shares in Diesse Diagnostica Senese s.p.a.

As a result of the impairment test performed as of December 31, 2016 on the value of shares in Diesse Diagnostica Senese s.p.a. (hereinafter "Diesse") recognized in the financial statement of Orphée for the year 2016, there was an indication to recognize an impairment associated with the investment in shares of Diesse.

Summary of the carrying amount and recoverable amount of investment in Diesse (data in '000 CHF)

Name of unit	Carrying amount of investment (including goodwill)	Recoverable amount of investment	Positive difference between amount and recoverable amount	Impairment amount
Diesse - Diagnostica Senese s.p.a.	18 750	11 564	7 186	7 186

The following table presents a summary of the key assumptions used to arrive at the recoverable amount.

Assumptions	Diesse - Diagnostica Senese s.p.a.
Average nominal increase in sales during 2017-2021 (CAGR)	2,8%
Average EBITDA margin during 2017-2021	18,6%
Average discount rate during 2017-2021	7,4%
Growth rate during residual period (after 2021) - nominal	2,4%

VIII. ORDERS AND ASSIGNMENTS.

The Company's short term sales on the local markets worldwide is conducted based on distribution agreements. The sales is performed following the orders with a time span not longer than three months. As of the date of this report, the value of current backorder amounts to over CHF 600,000.

In 2017, the Board of Directors will focus on strengthening the Company's position on the current markets as well as on further expansion into new markets and broadening the product portfolio offered to distributors. The Board's aspiration is to achieve a significant increase in revenues with a concurrent increase of gross margin.

Orphée SA intends to actively engage in marketing initiatives in order to gain new markets. The Company participates in the sector's trade fairs to build new business contacts. The events in 2016 include among others: MEDLAB in the United Arab Emirates, Clinical Lab Expo in USA (AACC), Medica in Germany.

IX. FUTURE PROSPECTS.

The markets on which Orphée SA concentrates the Company's trade activities are characterised in general by a rapidly growing IVD market. Key markets cover Eastern Europe, Asian markets, countries in North Africa , Middle East and Latin America. The aforementioned markets constitute around 20% of the worldwide IVD market. It is worth emphasising that the number of laboratory tests per capita carried out on these markets is visibly smaller than in the developed countries and creates strong basis for further growth of Company's revenues there.

Dated 21 March 2017

Board of Directors of Orphée SA