THE MANAGEMENT REPORT

ORPHÉE SA

2018

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

Geneva, March 21, 2019

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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**
Fax:	**+41 (0) 22 884 90 99**
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 analysers.

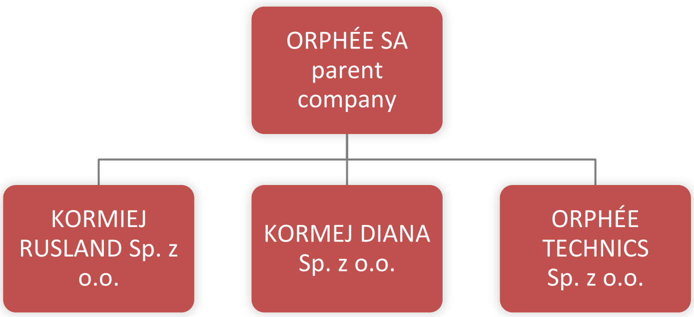
A highly developed distribution network consists of around 140 distributors in more than 100 countries.

II. The Capital Group Orphée SA

The Capital Group Orphée SA ("the Group") is composed of the following entities as of 31 December 2018:

1. Orphée 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 2018 (excluding the jointly controlled company Diesse Diagnostica Senese S.p.A.).



As of 31 December 2018, Orphée SA holds shares in the following companies:

Company 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%	Until September 28, 2018 consolidation using the equity method, after this date the investment treated as fixed assets held for sale
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. An important element for the consolidation and the future successful operations was carried out in the third quarter 2017, the successfully completed offer of L series shares PZ Cormay, addressed to the shareholders of Orphée. In total, PZ Cormay acquired 16 851 352 shares issued by Orphée and currently owns 30 731 308 Orphée shares, representing 79,6% in the share capital of Orphée and corresponding to 89,6% of votes at the general meeting of the company.

In 2018 Company recorded decrease of EBIT – from -475k CHF in 2017 to -874k in 2018. While the level of net revenues remains almost unchanged, the deterioration was primarily due to the nonrecurring reversal of litigation provision in 2017 (275k CHF) and 2% increase of operating expenses (from 9 113k in 2017 to 9 270k in 2018).

One of the objectives of the Management Board of Directors for 2019 is increase in sales and profitability, allowing to achieve a positive operating result.

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

The number of full-time equivalents on a yearly average during the year 2018 did not exceed 10 employees. As of 31 December 2018, there were 4 people employed, 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, among others, customer service and logistic services.

V. RESEARCH AND DEVELOPMENT ACTIVITIES

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

The company PZ Cormay S.A. is in the process of commercialization of two new haematology analysers, Hermes Senior and Hermes Junior. Both of them are 3-Diff and 5-Diff class. Hermes Senior offers a throughput of 120 samples per hour and is dedicated to medium and big laboratories. Hermes Junior, with 80 samples per hour throughput is dedicated to fulfil the needs of smaller and medium laboratories. In December 2018 Hermes Senior was registered in Polish Office for Registration of Medicinal Products, Medical Devices and Biocidal Products without any objections. As a result the Company may start the process of introducing Hermes Senior into trading on the Polish and European market and start the registration procedure in the countries where it is required.

2. 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. 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. No effect of this decision in financial statement in 2018 is observed.

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 looks for possibility to develop 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 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 are 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 2018, 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,
- Wojciech Suchowski - Member of the Board.

On 29 May 2018, the Ordinary General Meeting of Shareholders of Orphée SA undertook the following actions:

- appointment of the Members of the Board of Directors for the 2018 financial year in the following composition: Mr Janusz Płocica, Mr Domingo Dominguez, Mr Krzysztof Rudnik and Mr Wojciech Suchowski,
- appointment of Mr Janusz Płocica as the Chairman of the Board of Directors of Orphée SA for the 2018 financial year,
- appointment of Mr Janusz Płocica and Mr Wojciech Suchowski as members of the Remuneration Committee for the current financial year.

The Member of the Board, Mr Piotr Skrzyński, referred to his appointment on 29 June 2017 notified his resignation as Director of Orphée SA with effect as of the 28th February 2018. In the remaining scope, the personal composition of the Board of Directors remains unchanged.

2. Auditor of the Company

On 29 May 2018 the Ordinary 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 year of 2018.

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

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.

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. 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 filed, on October 30, 2017, an application to the Court that both claims be joined. On February 26, 2019 the Court decided against joining the cases. Orphée concluded not to appeal from the decision of the Court.

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.

4. Economical scenarios of investment in shares of Diesse Diagnostica Senese S.p.a

Basing on all possible scenarios of possessing the full control over Diesse Diagnostica Senese S.p.a., the Board of Directors has revised the former fusion strategy. As a result, on 28th September 2018 Orphée SA signed the letter of intent concerning sales of entire number of shares, guarantying full exclusiveness of financial research and negotiations to potential buyer. Despite, the final transaction may not materialize.

Until the day of publication, no further decisions were made.

VIII. ORDERS AND ASSIGNMENTS

The Company's short-term sales on the local markets worldwide is conducted based on distribution agreements. The sales process 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 520 k CHF.

In 2019, 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 2018 included 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.

X. RELEVANT AGREEMENTS

On 19th December 2018 Board of Directors signed the annex to the contract with BIT Group France, that extends the contract to the date of 31st December 2020.

Dated March 21, 2019

Board of Directors of Orphée SA