

# SYGNIS

SYGNIS<sup>®</sup>

Annual Report

2016







## Content

Content	3
Highlights 2016	6
Management Foreword	10
Company Presentation	14
The SYGNIS Share	22
Report of the Supervisory Board	25
Group Management Report	32
Consolidated Financial Statements	60
Notes	66
Confirmations	100
Corporate Governance Report	104
Editorial and Financial Calendar	113

A close-up photograph of a person wearing white gloves and a blue lab coat, operating a microscope. The person's hands are adjusting the microscope's stage. The background is a blurred laboratory environment with blue and white tones. A semi-transparent blue banner is overlaid on the top right of the image.

# Annual Report 2016

# 2016 Annual Report

SYGNIS<sup>®</sup>



# Highlights 2016

## Launching of products based on TruePrime™ Technology

In July 2016 SYGNIS announced the global launch of **TruePrime™ Single Cell WGA Kit V2** for whole genome amplification (WGA) from a broader range of cell types and an increased number of applications. SYGNIS' TruePrime™ product family covers a series of kits for WGA without the need of random primers based on SYGNIS' proprietary TruePrime™ technology. This innovative DNA amplification technology is based on a combination of proteins working together to amplify smallest amounts of DNA in a very efficient way.



TruePrime™ Single Cell WGA V2 Kit shows the same outstanding features as its predecessor but with superior sensitivity.

In addition to this, the kit provides new lysis conditions which allow WGA from a broader range of cell types and at the same time increase the number of applications.

In November 2016 SYGNIS launched one of their most relevant and promising products: **TruePrime™ Liquid Biopsy kit**. A ready to use amplification kit for ct-DNA (circulating tumor DNA), to be used in the detection, analysis and monitoring of early tumor stages.

Whilst the underlying technology for the TruePrime technology is already covered by granted patents, in several jurisdictions and additional patent application to protect this very commercially attractive application has been submitted.

In addition to becoming a valuable tool in oncology research this technology will also have utility in the field of precise medicine and has the potential to take up a pivotal role in the diagnosis and monitoring of cancer. The last ten years have seen enormous progress in both the understanding of cancer disease as well as the development of targeted therapies. Liquid biopsy is one of the fastest developing areas in this field, with a huge potential to revolutionize diagnostic medicine.

**COvCheck**, a ready to use quality control tool for whole genome amplification (WGA) coverage to determine the quality and integrity of the amplified DNA.

With this unique tool in their portfolio, SYGNIS is providing the NGS market with a new technology to amplify DNA and verify the quality of the amplified DNA before entering in the sequencing step was also launched in November.



fering. With this acquisition Sygnis expanded its portfolio in the proteomic market, acquired a sales force in UK, Singapore and the USA, and optimized the combined structure expenditure.

## Successful completion of capital increase

SYGNIS closed a cash capital increase to finance the acquisition of Expedeon Holding Ltd. The rights offering and the subsequent private placement were completed successfully.

Existing shareholders subscribed a total number of 3,016,734 new shares. A further 1,801,466 shares were placed at a subscription price of EUR 1.10 per share with qualified investors in a subsequent rump placement, which resulted in gross proceeds of EUR 5.3 million.

15,719,889 shares were offered to Expedeon shareholders against contribution in kind. The new shares carry full dividend rights as of 1 January 2016.

## Relevant Publications

In December 2016 SYGNIS announced the publication in Nature Communication of the TruePrime™ novel method for whole genome amplification. Nature Communication is one of the most important references for researchers. With this publication Sygnis has validated worldwide the quality of its science and technology.

## SYGNIS acquires Expedeon Holdings Ltd.

In July 2016 Sygnis acquired successfully the profitable Company Expedeon Holdings Ltd. To finance the transaction, the AGM approved that the Company's share capital be increased by up to EUR 20,538,089.00 from EUR 16,803,891.00 to EUR 37,341,980.00 by issuing up to 20,538,089 shares by way of a rights of-





### Annual General Meeting

At the Annual General Meeting of SYGNIS held on 20 June 2016 shareholders representing about 44 percent of the capital approved all proposals of the Management. Main decisions related to the discharge of the members of the Supervisory and the Management Board for the past fiscal year, the creation of new authorized capital and the acquisition of Expdeon partially done by cash and partially by a contribution in kind.

### TruePrime™ in most of the key NGS and oncology conferences during 2016

During 2016 the company has been actively promoting their product lines in all the key

congresses and conferences targeting mainly NGS users and oncology researchers. The company attended more than 10 key international events, promoting their product lines and showing new data supporting the high level performance of its technology to potential customers.

### New appointments to the company

With the acquisition of Expdedon, Dr. Heikki Lankriet, CEO and founder of Expdedon, joined Sygnis management board as Co-CEO/CSO. Dr. Lankriet has more than 15 years of experience managing biotech companies.

### CBS Acquisition

In December of 2016 the company announced the acquisition of the profitable US company C.B.S. for 900.000 dollars. From the total consideration, 540.000 \$ was paid in cash from existing cash balances and 360.000\$ in the form of 275.311 new shares in SYGNIS AG issued from authorized capital. With this acquisition the company expanded its portfolio with complementary products in the electrophoresis market, and reinforced their position in the US territory. CBS was cash positive and had revenues of 1,5M \$ in 2016.



# Foreword by the Management Board



## Dear Shareholders,

This year SYGNIS has taken an important step in becoming a reagent and tools company, focused on high value added products. The company has also continued along the path started in 2014, developing its own products, based on its patented technology and the company has now launched three proprietary kits targeting the NGS market.

In July 2016 SYGNIS launched **TruePrime™ Single Cell WGA Kit V2** for whole genome amplification (WGA) from a broader range of cell types and an increased number of applications. TruePrime™ Single Cell WGA V2 Kit shows the same outstanding features as its predecessor but with superior sensitivity.

In November 2016 SYGNIS launched one of its most relevant and promising products: **TruePrime Liquid Biopsy kit**; a ready to use amplification kit for ct-DNA (circulating tumor DNA), to be used in the detection, analysis and monitoring of early tumor stages.

In addition to becoming a valuable tool in oncology research, this technology will also have utility in the field of precise medicine and has the potential to take up a pivotal role in the diagnosis and monitoring of cancer. The last ten years have seen enormous progress in both the understanding of cancer disease as well as the development of targeted therapies. Liquid biopsy is one of the fastest developing areas in this field, with huge potential to revolutionize diagnostic medicine. With this kit, Sygnis has developed cutting edge technology for oncology research, with potential clinical applications. Although li-

quid biopsy is still an emerging approach to diagnose cancer, researchers are convinced that the future in the early detection of cancer rests with this technique. The Sygnis kit is a validated tool to address the DNA amplification requirements of this technique, placing the Company in a very large and high growth clinical market.

As a validation of the quality of TruePrime technology, Sygnis has published an article in **Nature Communication** regarding the TruePrime™ novel method for whole genome amplification. **Nature Communication** is one of the most important references for researchers. The whole team is very proud of the article and the worldwide recognition of our TruePrime technology by the scientific community.

The last kit launched during 2016 was **Cov-Check**, a ready to use quality control tool for whole genome amplification (WGA) coverage to determine the quality and integrity of the amplified DNA. With this unique tool in its portfolio, Sygnis is providing the NGS market with new technology to amplify DNA and verify the quality of the amplified DNA before entering in the sequencing stage.

The Company continued its growth through development of new and innovative products (always covered by patents), targeting high growth markets, offering added value to customers. Innovation ensures Sygnis can maintain high gross margins and also enables the Company to compete against larger companies in this space.

## Expedeon Acquisition

With the aim of becoming a leading company in the Life Science reagent and tools market, the Company has started to implement an acquisition strategy alongside its organic developments to enhance its pace of growth. In July 2016 the Company successfully acquired **Expedeon Holdings**, a proteomic company based in Cambridge, UK, and with additional sites in San Diego, California (USA) and Singapore.

Expedeon is a company focused on the proteomics market with its own sales force very well positioned in the UK and USA, two main markets for NGS users. With this acquisition Sygnis has extended its portfolio into proteomics; Expedeon products are innovative, covered by patents and aim to offer the end customer valuable advantages, such as for instance enhanced performance, superior product quality and ease of use compared with alternatives. These unique selling point enable the company to achieve high gross margins.

Sygnis has also acquired a company with a sales force in the main markets for its products, the UK and USA. Additionally the acquisition provided the company with manufacturing capabilities in the USA thereby avoiding complications and cost associated with deliveries from the EU. The strong relationship that Expedeon also has with Sigma Aldrich and Tanon (Chinese market) through its OEM deals, will be used to facilitate the introduction of Sygnis genomic products to potential OEM deals with these companies.

After the acquisition, several restructuring measures were implemented in the Company targeting the reduction and optimization of the cost base. All the manufacturing activities in Europe have been consolidated at our UK facility. The Company has retained

its headquarters in Germany and will continue to expand the commercial and financial activities in Germany. The activities in our Spanish facility will focus on the genomic R&D whilst the San Diego, USA and Cambridge UK, sites will retain and expand their manufacturing, marketing and sales activities. The office in Singapore will solely focus on sales and business development.

In August 2016 Dr. Heikki Lanckriet was appointed as a Co-CEO/CSO of Sygnis and also a member of the Management Board of the Company. With this new member, Sygnis reinforced the management team, having on board a high level business and scientific director with more than 15 years experience managing companies in the industry. Dr. Lanckriet was one of the founders and main shareholders of Expedeon and became a significant shareholder of Sygnis following the acquisition.

## Capital Increase

To finance the acquisition of Expedeon, Sygnis completed a capital increase, in part subscribed with cash and in part by way of a contribution in kind. The rights offering and the subsequent private placement were completed successfully. Through these transactions, including the contribution in kind, the Company's share capital increased by EUR 20,538,089.00 from EUR 16,803,891.00 to EUR **37,341,980.00** through the issue of 20,538,089 shares by way of a rights offering.

Existing shareholders subscribed a total number of 3,016,734 new shares. A further 1,801,466 shares were placed at a subscription price of EUR 1.10 per share with qualified investors in a subsequent rump placement, which resulted in gross proceeds of EUR 5.3 million. This cash was used to settle part of the consideration to Expedeon shareholders, to meet the transaction expenses and to



create a cash buffer for potential new small acquisitions aiming to expand the business. 15.719.889 remaining shares were subscribed by Expedeon shareholders against contribution in kind.

### Financials

In 2016, our **revenues grew more than 300%**. The acquisition of Expedeon played an important role in this growth, through the sales of the proteomic products and the introduction of genomic products by the Expedeon sales force into the UK and US markets.

In 2016 Expedeon was a profitable company with a turnover of more than 3M euros. These two parameters improved Sygnis combined revenues and earnings, although only five months of the combination is reflected in the 2016 report as the acquisition was formally concluded in August 2016.

This important improvement in the top line revenues is not immediately reflected in the EBITDA of the Company due to non-recurring costs associated with restructuring and integration.

The EBIT of the company also includes several non-cash items relating to fair value accounting under IFRS in relation to the acquisition of Expedeon and the write down of a historic deferred tax asset in accounts of the Spanish subsidiary. The EBIT reflects a fair value charges to cost of goods of €526 thousand and amortization of capitalized intangible assets of €239 thousand in administrative expenses. The deferred tax write down of €420 thousand relates to previous tax losses carried forward in the consolidated balance sheet but which are now being expensed in accordance with IFRS as the Spanish subsidiary has yet to reach profit.

Following the successful capital increase completed in July 2016 to finance the acqui-

sition of Expedeon, operating cash outflows were largely offset, with year end cash and cash equivalents standing at €3.8 million.

The balance sheet reflects the acquisition of Expedeon Holdings, showing an significant increase in goodwill of €17.9 million. Total assets increased by €24 million to €38 million.

### CBS acquisition

In December 2016 Sygnis announced the **acquisition of C.B.S. Scientific**, a USA (San Diego, California) located company focused in the electrophoresis market. (This was concluded in January 2017.) The company was acquired for 900.000 dollars. From the total consideration, 540.000 \$ was paid in cash from existing cash balances and \$360.000 in the form of 275.311 new shares in SYGNIS AG issued from authorized capital. With this acquisition, the company expanded its portfolio with complementary products in the electrophoresis market, and reinforced its position in the USA. CBS was cash positive and had revenues of \$1.5 million in 2016. C.B.S. will consolidate its accounts with Sygnis group starting in January 2017.

### Outlook

SYGNIS is growing towards being positioned as a significant reagent and tools company with a focus on value added markets. Following the Expedeon and CBS acquisitions, Sygnis has a broad portfolio covering the proteomic and genomic markets, the two main components of molecular biology.

The Company now has its own sales force able to introduce products in the main geographic markets of the UK, USA, continental Europe and Asia as well as strong OEM deals with large and important partners in the reagent arena such as Sigma Aldrich and Tanon.

By the end of the year, the integration of Expedeon was completed successfully, opti-

mizing the combined cost structure and with a sales force completely trained in Sygnis genomic products.

The global position of the new company is stronger than 2015, showing an important progress in terms of market share, portfolio, revenues and presence in the market. The entire team is very proud of the new position achieved by the Company during 2016, through a combination of strategic acquisitions, new products launches and the optimization of the combined structure with the fast integration of Expedeon.

We would like to thank our shareholders for their ongoing support and their confidence in our strategy, and especially those new shareholders that subscribed new shares in the latest capital increase in July 2016. We would like to extend our appreciation to all

SYGNIS employees for their efforts and the dedication over this exciting period. Our staff have shown great commitment during 2016 to integrate Expedeon and Sygnis both quickly and successfully. This success has been down to the attitude and the performance of the whole SYGNIS and Expedeon team. We would like to thank all of you for your trust in our Company and our team.

Heidelberg, 24 April 2017

Pilar de la Huerta Co-CEO	Dr. Heikki Lackriet Co-CEO	David Roth CFO
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# Company Presentation

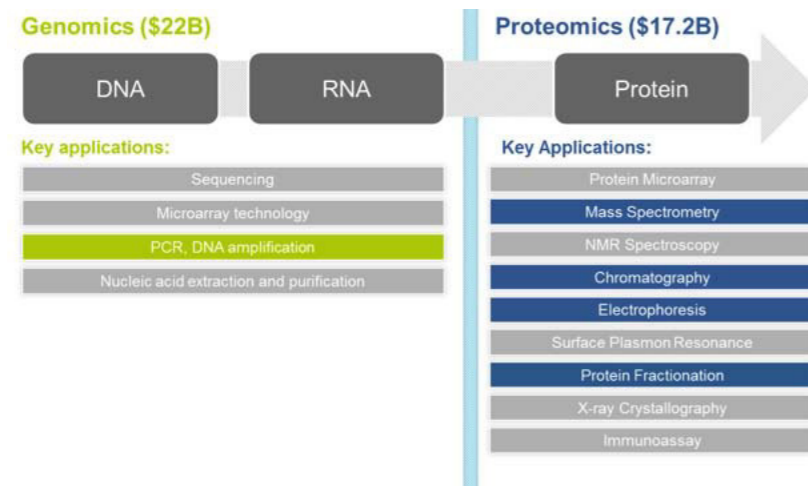


## SYGNIS from single cell to whole proteome

2016 has been transformative for Sygnis in a year where innovation and commercialization became the focal points of the organization. One of the highlights of the year was undoubtedly the acquisition of Expedeon, a UK based proteomics company with an extensive commercial infrastructure both in Europe and the United States. Through the acquisition of Expedeon the company attained a comprehensive, innovative product portfolio spanning the entire molecular biology spectrum in addition to extended sales channels across the globe comprising a direct sales force in key territories. This has enabled the company to make a successful transition to a fast growing commercially focused entity.

## Core Markets

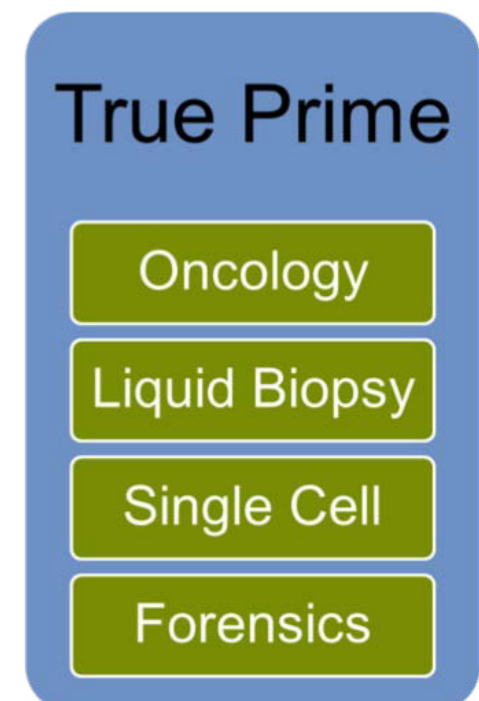
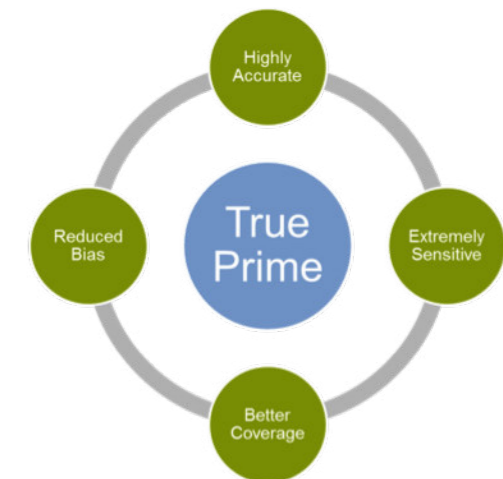
The molecular biology market is characterized by two market segments: Genomics and Proteomics. Sygnis has evolved into a Life Sciences Tools & Reagents company developing and commercializing innovative, high added value products and services for Life Science Research. The company has core technologies in fields of sample preparation for Next Generation Sequencing, electrophoresis and molecular quantitation and analysis thereby spanning the entire molecular biology market spectrum from DNA across RNA to protein.



## Next Generation Sequencing

The genome, the DNA within a cell, contains the genetic code of an organism which is encrypted with just four letters, A, T, G, C representing the nucleotide bases adenine, thymine, guanine and cytosine that build DNA. DNA can therefore be characterized as a sequence of nucleotides. The parts of the genome that contain the code for proteins are generally referred to as genes. Unwanted variations or mutations of the DNA sequence in these genes trigger changes in protein expression and which sometime affect the overall cellular function. While naturally occurring gene variations are responsible for many of the physical differences including height, hair, eye color, to name just a few, gene variations also can cause medical predisposition to complex genetic diseases such as cancer, diabetes, cardiovascular disease, and Alzheimer's disease. Moreover gene variations can also affect a patient's response to certain drug treatments including adverse side effects. Being able to read the variations in our genetic code is the key to understanding and ultimately treating many gene related conditions that impact our wellbeing and life expectancy. Whole genome sequencing by NGS enables scientists to read and determine the complete DNA sequence of an organism.

The amplification of DNA. i.e. the process of copying DNA molecules, through whole genome amplification is an extremely sensitive process subject to bias, inaccuracy and contamination. Although several techniques



## TruePrime™

Before DNA can be sequenced several processing steps are required to obtain sufficient, high quality DNA suitable for the NGS process.



have been developed broadly dividable into PCR-related protocols and those based on multiple displacement amplification (MDA), none of them have addressed the problems mentioned above. Current MDA protocols for whole genome amplification are based on an enzyme called Phi29 DNA polymerase which has extraordinary properties for the amplification of DNA. Like many other DNA polymerases, Phi 29 needs synthetic DNA molecules, called oligonucleotides or primers, to start the reaction. It is these primers that are the main source of bias and amplification errors. **SYGNIS' TruePrime™ MDA technology stands for a revolutionary change** in the way DNA or RNA is amplified. Whilst Trueprime also relies on the Phi29 DNA polymerase, it does not require any synthetic random primers due to the combination with a recently discovered primase, TthPrim-Pol resulting in absence of contaminations and artefacts, excellent coverage breadth and uniformity, low nucleotide error rates and high recovery of variants (SNVs (Single Nucleotide Variations) or CNVs (Copy Number Variations)). Furthermore, TruePrime™ shows superior sensitivity, is easy to use and is fully compatible with all commonly used NGS platforms such as Illumina and Ion Torrent.

**Sygnis' TruePrime technology is truly a disruptive ground breaking technology to accurately and reliably amplify (copy) DNA molecules in biological samples.** The

key benefits of Trueprime are: sensitivity, accuracy, coverage and quality. Trueprime enables accurate and high quality amplification of the smallest amounts of DNA to a quantifiable level. Moreover whereas competing methods suffer from inaccurate and or biased amplification resulting in poor coverage across the genome. Trueprime enables reliable, highly accurate and complete amplification of the genome. Trueprime is therefore well positioned to take a pivotal role in applications such as single cell analysis, liquid biopsy (both very important fields of research for oncology applications) or forensics where the amount of DNA is critically low and requires accurate and reliable amplification.

### Single Cell Analysis

One of the latest discoveries in the field of oncology is that a single tumor in a patient can be composed of a variety of populations of cells each with their own mutations. This dynamic nature of the cancers comprising a multitude of mutations has a significant impact on the potential success rate of treatments. Minor populations of cells could have mutations that could lead to reoccurrence of the tumor and/or metastases even if the cells with the target mutations of treatment had all been destroyed. This change in perception of the tumor biology forces researchers and clinicians to focus on identifying mutati-

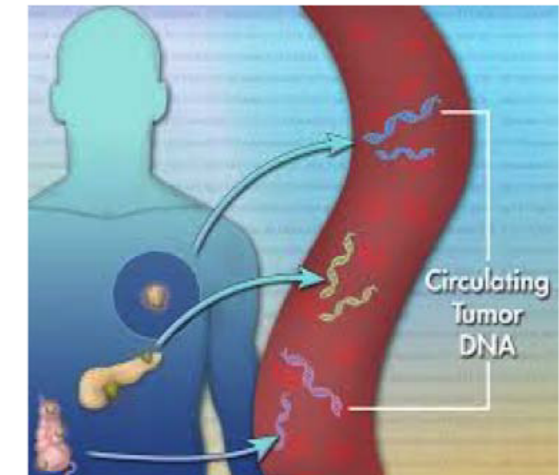
ons on a single cell basis, as a relevant mutation can occur just in a small population of cells in a tumor.

Successful analysis of DNA from a single cell requires unbiased, accurate and complete amplification. Trueprime technology excels in such a challenging environment providing researchers with a reliable tool for single cell DNA analysis. A single human cell contains approximately 7 picogram (10-12 gram) of DNA. Trueprime will accurately and reliably amplify this DNA in excess of 1,000,000 times in a mere 3 hours of time providing researchers with ample material from a single cell for NGS analysis.

### Liquid Biopsy

Liquid biopsy, the analysis of tumor-derived DNA fragments in the blood, has the potential to revolutionize diagnostic medicine particularly in oncology. In contrast to conventional biopsies which require surgical intervention liquid biopsy can be performed on a regular basis thereby allowing frequent monitoring of a patient's response to treatment. Moreover in light of the dynamic nature of tumors comprising varying populations of cells with different mutation profiles, liquid biopsy provides the clear benefit that it can provide information about the entire tumor mutation profile rather than the fractional view which is obtained through the conventional biopsy approach.

The current the success rate of the liquid biopsy approaches is related to tumor mass stage and whilst successful in some tumor types such as colon carcinoma, it has proven ineffective in in others such as glioblastoma. The main reason for the observed inefficacy in different cancer types is the lack of sensitivity of the existing methods. Limitations due to low abundance of cell-free DNA (cfDNA) are particularly inherent where cfDNA is analyzed by NGS. NGS however is much preferred over targeted PCR-based approaches as it enable analysis of the



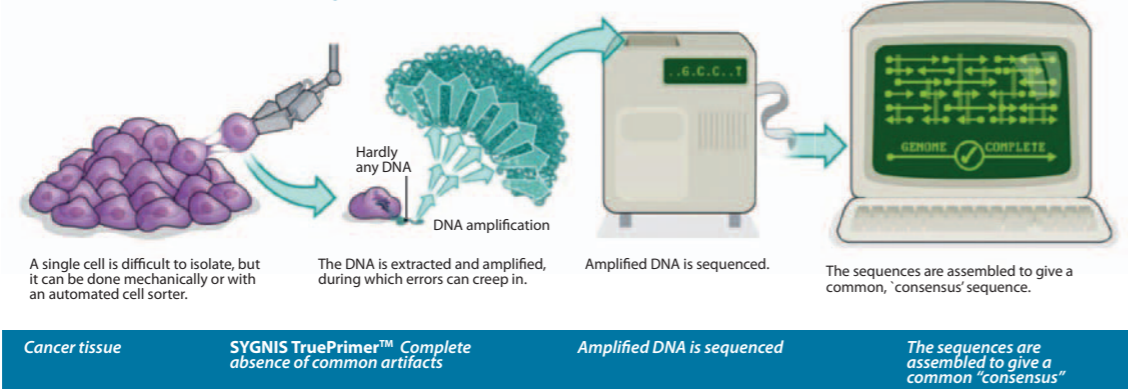
whole mutation landscape whereas the PCR approach is only applicable for a few already known mutation hotspots.

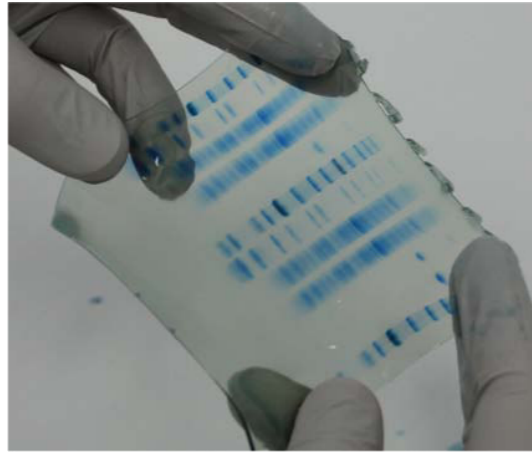
Sygnis has developed TruePrime LB, a method for accurate and selective amplification of cancerous cell free DNA also known as circulating tumor DNA (ctDNA) enabling the analysis of early tumor stages. The method enables generation of sufficient DNA material permitting reliable NGS for every liquid biopsy sample. In addition to becoming a valuable tool in oncology research Trueprime LB is expected to have utility in the field of precise medicine and has the potential to take up a pivotal role in the diagnosis and monitoring of cancer. Estimations for the global liquid biopsy market in 2020 range upwards from a conservative \$1.3 billion. SYGNIS's TruePrime LB technology is well positioned to take a central role in the highly valuable market segment.

### Electrophoresis

Electrophoresis is a widely used laboratory technique which also has some clinical applications. The method relies on the use of an electric field and molecular sieve to separate and purify biomolecules such as DNA, RNA or proteins. The technique is unique in that is has utility in both genomic and proteomic research thereby crossing the user base on

#### Single cell analysis (SYGNIS TruePrime™ technologies)





both sides of the molecular biology market spectrum. The global electrophoresis market in 2012 was estimated at \$1.4B of which 53% was gel electrophoresis<sup>1</sup>. Through the acquisition of Expedeon and CBS Scientific, Sygnis obtained world leading technology, products and expertise in this lucrative field. At its facilities in Cambridge, UK and San Diego, USA Sygnis manufactures a comprehensive range of innovative, patented high quality electrophoresis reagents and devices for use in proteomics and genomics research. One of the key technologies of the company reside in unique polymerization technology enabling the manufacture of stronger and more reliable composite polyacrylamide gels, the molecular sieves that facilitate the separation of the DNA, RNA or proteins. These products not only offer increased performance but also provide better consistency and reproducibility compared to alternative approaches.

**Quantitation and Analysis**

The advancement of personalized medicine through NGS DNA sequencing and the progress of protein biomarker identification is more and more driven by throughput, sensitivity and sample volume requirements. However,

biological samples such as those generated for single cell analysis or liquid biopsy are often precious and therefore analysis techniques that are not only highly sensitive but also non-destructive are much preferred.

Scientists working in important fields such as oncology face the problem of accurate quantitation of the biomolecules such as DNA, RNA and proteins in small volumes frequently, often less than 10µL. Such molecules can readily be quantified by measuring the amount of UV light they absorb, a technique referred to as UV-spectroscopy. Sygnis addresses the shortcomings of micro volume spectroscopy with its proprietary Versawave fibre-coupled micro volume UV spectrometer. Unlike any other micro volume spectrophotometer this device enables highly accurate, reproducible analysis in a non-destructive way: the sample is fully recovered after analysis.

The micro-volume spectroscopy market has grown fast over the last decade with a total market size estimated around \$100 million dollar per annum. Whilst the market is dominated by Thermo Fisher, Sygnis' unique technology enabling non-destructive analysis should enable to company to obtain meaningful market share in the foreseeable future.



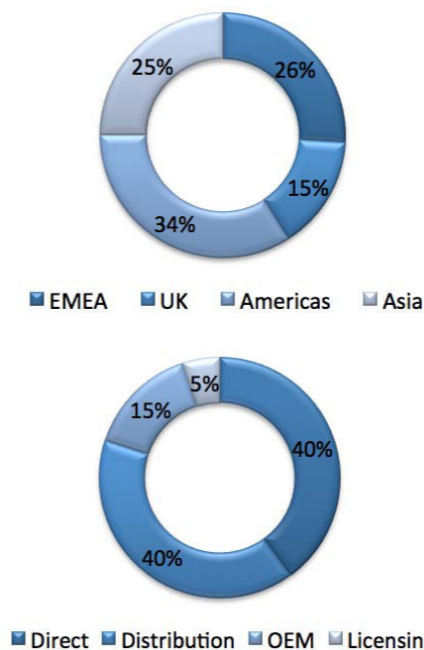
(1) Transparency Market Research: Electrophoresis Equipment and Supplies Market (Gel Electrophoresis, Capillary Electrophoresis and Electrophoresis Accessories) - Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2013 - 2019  
<http://www.transparencymarketresearch.com/electrophoresis-equipment-supplies.html>

**Customer Base**

Whilst several of Sygnis' technologies have clinical diagnostic application the current Sygnis products and services offering is targeted at in-vitro and research use only. The key driver for this approach is the limited regulatory burden to bring products to market compared to diagnostic or pharmaceutical products. Sygnis products are used across the world with sales in Europe including UK accounting for 41% of total revenues followed by 34% for America and the remaining 25% in Asia.

The company sells its offering predominantly through its sales force in the key territories alongside a global network of distributors to facilitate faster product uptake. We take pride in our sales force as it allows us to build strong relationships with our loyal customer base which forms the basis for sustainable revenue growth through expansion of the product offering. Our distribution network is comprised of a combination of partnerships with large multinational distributors of scientific products such as Thermo Fisher, VWR or Sigma Aldrich (now Merck) who provide global access to our product range and smaller, more specialized local distributors who in many cases have a closer relationship with their customer base and can be very effective regionally. Additionally we also OEM-manufacture for key partners who enable us break in to more challenging markets such as China for example.

Our products are in demand for both non-profit fundamental life science research as well as more commercial driven research. Our client base therefore incorporates leading universities across the globe such as Cambridge & Oxford University in UK as well as many leading institutions in the US including Harvard, Princeton, MIT and Yale. We also continue to observe an ever increasing demand for our products from many blue chip pharma companies such as Novartis, GSK, Pfizer, Astra Zeneca. Moreover we observe strong loyalty in our customer base with high level of repeat sales corroborating the high quality of performance of the products we offer.



**Innovation & Intellectual Property**

Innovation is what drives product development at Sygnis. Our objective is to move boundaries and develop products which will assist with the advancement of life sciences and healthcare as a whole. Our product development strategy is focused around core high added value workflows we have identified such as single cell analysis, liquid biopsy and protein biomarker research which all target fast growing market segments. Through innovation we are able to protect our intellectual property by means of patents which in turn provides us with a strong



competitive position in the market place allowing our products to attract premium pricing and deliver high gross margins.

We derive value from our intellectual property in a three pronged approach. Our main objective is to develop and commercialize laboratory kits. These kits are consumable products to be used by our customers at their facilities. Therefore the kits facilitate a direct knowledge transfer to the end-user. For newly emerging fields such as single cell DNA and liquid biopsy there can be a larger barrier of entry for new customers due to their inexperience in these new fields. To mitigate this issue we have recently launched a services platform, TrueAdvance, a DNA amplification and validation service focused on single cell and liquid biopsy applications. By offering these services we can provide customers access to our world-leading expertise in these

fast growing fields. Moreover the unique and proprietary sample validation service we offer ensures our customers avoid costly sequencing of suboptimal samples which can substantially reduce sequencing and bioinformatics costs even for the most experienced NGS scientists.

Finally we also derive value from our technologies through licensing. We already have licenses in place with Qiagen and ThermoFisher on a range of products however several of our technologies have clear potential in clinical diagnostics. As we obtain further validation of the clinical application of our technologies, particularly in the field of liquid biopsy, we would aim to license these applications to selected partners.

# The SYGNIS share

## Turbulent stock market year for investors

The German stock market performance in 2016 was relatively good. Whilst the DAX index increased by 6.8% during the year, the index and the stock exchange market showed considerable volatility in part driven by two significant political events with an important impact on the economic markets.

The first storm appeared in June with the unexpected Brexit vote. The announcement of UK leaving the European Union produced an important downside pressure on all markets over several days. However, once the initial shock of the vote had been adsorbed in the days after the referendum, the DAX's held ground and started a gentle and constant recovery.

In autumn, Europe woke up to a second political surprise in the wake of the USA elections. Whilst the DAX lost a little ground in October it soon recovered and closed strongly in December a trend which continued into 2017.

As a result of all these all important global geo-political events, the German stock exchange has been subject to several downward movements during the year. However, the markets showed good resilience and recovery against unexpected events which resulted in a modest increase in the year end close compared to 2015

## Weak year for the SYGNIS share

The SYGNIS share started the year at a price of €1.9 and finished at a price of €1.2. During the first half of the year, the SYGNIS share price gradually decreased reaching a bottom on July 6, which coincided with the subscription period for the rights offering to fund the acquisition of Expedeon Holdings Limited. The capital increase was announced at a subscription price of €1.1 and short term trading activities following on from the rights issue resulted in the share price moving towards subscription price.

The share suffered from the Brexit upheaval more than the general market. One explanation is the announcement of the rights issue to acquire Expedeon group the day after the Brexit referendum. To ensure the successful completion of the acquisition the Company felt it necessary to launch the capital increase with a lower price than perhaps would have been the case in the event of a different outcome in the Brexit referendum.

In the second half of the year the share price stabilized around the €1.2 mark with some positive movement following the liquid biopsy product release in November. A strong upward movement was observed in early 2017 with the share reaching highs just over €2. This upward trend can perhaps be attributed to the market's appreciation of the Company's revenue growth momentum in combination with the successful integration of Expedeon and the completion of the CBS acquisition in January 2017.

In 2016 the share's average daily trading in volume (XETRA) increased to 24,288 (prior year: 14,786).

## Capital increases

In November 2015 the Management and Supervisory Board of SYGNIS AG resolved to issue up to 3,855,694 new shares from authorized capital against cash contributions (€ 1.90 per share) through a rights offer to the existing shareholders in the ratio 7:2 and a subsequent private placement of non-subscribed new shares. 2,962,552 shares from this capital increase were issued for cash contributions in December 2015. As an exception the existing shareholder Genetrix S.L., Madrid (Spain) had been allowed to make the contribution for 315,789 new shares not in cash, but by transferring a loan repayment claim against Sygnis Biotech S.L.U. as a contribution in kind. Genetrix had subscribed for the respective number of new shares using this option. In February 2016 the Management Board and the Capital Increase Committee of the Supervisory Board formally resolved to issue another 315,789 new shares to Genetrix S.L. against the aforementioned contribution in kind.

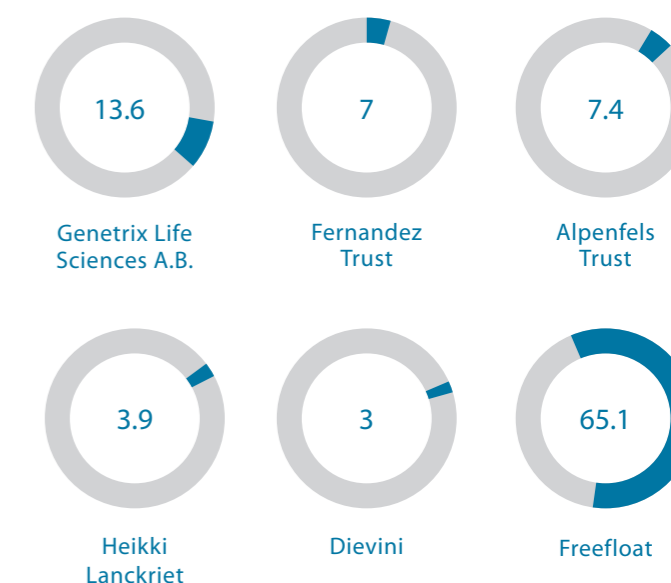
In October/November 2015 Management and Supervisory Board had resolved to issue 30,616 new shares from authorized capital against cash contributions under exclusion of the subscription rights of the existing shareholders. Such resolutions were amended and the respective capital increase was implemented in January/February 2016.

On 20 June 2016 the Annual General Meeting decided to issue up to 20,538,089 new shares from an ordinary capital increase against cash contribution through a rights offer to the existing shareholders in the ratio 9:11 and a subsequent private placement of non-subscribed new shares within which the shareholders of Expedeon Holdings Ltd. were allowed to make their contributions for 15,719,889 new shares not in cash, but by transferring all shares in Expedeon Holdings Ltd. as contribution in kind (with an additional cash compensation of € 1,700,000.00 being granted). Management and Supervisory Boards were authorized to determine further details and determined a subscription price of € 1.10 per share for the cash contributions and negotiated resp. approved details of the terms of the contribution in kind. 4,818,200 shares from this capital increase were issued for cash contributions in August 2016. 15,719,889 additional new shares were issued against acquisition of Expedeon Holdings Ltd. in October 2016.

On 21 December 2016 Management and Supervisory Boards of SYGNIS AG have in principle and subject to a satisfactory result of the at that time ongoing negotiations on details of the terms resolved to issue 275,311 new shares from authorized capital under exclusion of the subscription rights of the existing shareholders against acquisition of all shares in C.B.S. SCIENTIFIC CO. INC. (with an additional cash compensation of \$ 540,000.00 being granted). This capital increase was implemented in March 2017.



## Shareholder Structure (%)







**Report of the  
Supervisory Board**

**2016**  
Annual Report

SYGNIS<sup>®</sup>

# Report of the Supervisory Board



## The Supervisory Board reports below on the performance of its duties during the fiscal year 2016. The business focus is on the development and marketing of innovative technologies in the molecular diagnostic field.

In the reporting year, the Supervisory Board performed the tasks required by law and the memorandum and articles of association with diligence. It examined the Company's situation and future at various meetings (plenary sessions and committees) as well as advised the Management Board on the management of the Company, ensuring that it performed properly and in accordance with the law at all times.

### Cooperation between the Management Board and the Supervisory Board

The Management Board provided the Supervisory Board with regular, timely and comprehensive written or oral reports on key aspects and events, particularly those relating to the economic and financial situation and their impact on the Company and its employees, as well as fundamental issues concerning corporate planning and strategy, the risk situation as well as compliance. The Management Board presented, justified and discussed with the Supervisory Board all relevant issues, including also any deviation from approved plans. Furthermore, the Management Board ensured that the Supervisory Board was fully involved at an early stage in all decisions of material strategic and operational significance to the Company. It consulted with the Supervisory Board in advance to determine the course of action to be taken. Matters requiring the approval of the Supervisory Board were presented to the Supervisory Board for resolution in good time. Following thorough examination and detailed consultation with the Management Board, the Supervisory Board voted

on the Management Board's draft resolutions and reports. In urgent cases, resolutions were passed outside of scheduled meetings by written procedure or by telephone.

The Supervisory Board was also informed between meetings of important business transactions by means of written reports and, whenever it was deemed necessary, a resolution was drawn up in writing in close coordination with the Chairwoman of the Supervisory Board. The Chairwoman of the Supervisory Board and the Chairman of the Audit Committee were also kept up to date by the Management Board on all relevant key developments and decisions taken in the Company. Where necessary, the Chairwoman of the Supervisory Board arranged for important matters to be dealt with in plenary sessions or by the appropriate Supervisory Board committee. As a result, the Supervisory Board was informed of current developments and upcoming decisions at all times.

The Supervisory Board held 3 physical meetings and 3 telephone conferences in the fiscal year 2016. Each member of the Supervisory Board attended at least half of the Supervisory Board meetings in the reporting period. Prior to each Supervisory Board meeting, the Management Board sent detailed reports and comprehensive draft resolutions to the members of the Supervisory Board. Referring to the reports received from the Management Board, the Supervisory Board discussed in detail at each meeting the development of the business and any decisions of significance to the Company taken in the committees and plenary sessions.

### Focus of Supervisory Board activities

From an early stage, the Supervisory Board was closely involved in all decisions of significance for the Company. Decisions were based on the Company's agreed business strategy. The discussions held and decisions taken by the Supervisory Board were based on comprehensive documentation provided by the Management Board in advance of each meeting.

The Management Board's reports during the past fiscal year 2016 focused on providing detailed updates of the financial status of the Company, the development of the projects, the new business strategy, the acquisition of Expedeon Holdings Ltd., Cambridgeshire (UK) and C.B.S. SCIENTIFIC CO. INC., California (USA) and the negotiations around these acquisitions, the integration processes of the companies, the funding process through the rights offer and other significant corporate matters. The information provided by the Management Board was substantiated occasionally by oral reports from the Chairman of the Audit Committee.

The Management Board reported in the plenary session on a regular basis on the liquidity situation and the financial planning of the SYGNIS group.

The discussions of the Supervisory Board focused on the financial situation of the Company and the deviations to the business plan, the launch of three proprietary kits, the development of the projects, the acquisition of Expedeon Holdings Ltd., the right offering needed for that acquisition, the acquisition of C.B.S. SCIENTIFIC CO. INC., the update on the budget as well as the establishment of the marketing and commercialisation strategy. The Supervisory Board also discussed the agenda items for the Annual General Meeting and the terms of the capital increase through a rights offer. Via the Audit Committee and at plenary sessions, the Supervisory Board was also updated regularly on the Group's risk situation and risk management as well as compliance.

Already in November 2015 Management and Supervisory Board of SYGNIS AG had resolved to issue up to 3,855,694 new shares from authorized capital against cash contributions (€ 1.90 per share) through a rights offer to the existing shareholders in the ratio 7:2 and a subsequent private placement of non-subscribed new shares. 2,962,552 shares from this capital increase were issued for cash contributions in December 2015. As an exception the existing shareholder Genetrix S.L., Madrid (Spain) had been allowed to make the contribution for 315,789 new shares not in cash, but by transferring a loan repayment claim against Sygnis Biotech S.L.U. as contribution in kind. Genetrix had subscribed for the respective number of new shares using this option. In February 2016 the Management Board and the Capital Increase Committee of the Supervisory Board formally resolved to issue another 315,789 new shares to Genetrix S.L. against the aforementioned contribution in kind.

Also already in October/November 2015 Management and Supervisory Board had resolved to issue 30,616 new shares from authorized capital against cash contributions under exclusion of the subscription rights of the existing shareholders. Such resolutions were amended and the respective capital increase was implemented in January/February 2016.

On 20 June 2016 the Annual General Meeting decided to issue up to 20,538,089 new shares from an ordinary capital increase against cash contribution through a rights offer to the existing shareholders in the ratio 9:11 and a subsequent private placement of non-subscribed new shares within which the shareholders of Expedeon Holdings Ltd. were allowed to make their contributions for 15,719,889 new shares not in cash, but by transferring all shares in Expedeon Holdings Ltd. as contribution in kind (with an additional cash compensation of € 1,700,000.00 being granted). Management and Supervisory Board were authorized to determine further details and determined a subscription price of € 1.10 per share for



the cash contributions and negotiated resp. approved details of the terms of the contribution in kind. 4,818,200 shares from this capital increase were issued for cash contributions in August 2016. 15,719,889 additional new shares were issued against acquisition of Expedeon Holdings Ltd. in October 2016.

On 21 December 2016 the Management and Supervisory Board of SYGNIS AG have in principle and subject to a satisfactory result of the at that time ongoing negotiations on details of the terms resolved to issue 275,311 new shares from authorized capital under exclusion of the subscription rights of the existing shareholders against acquisition of all shares in C.B.S. SCIENTIFIC CO. INC. (with an additional cash compensation of \$ 540,000.00 being granted). This capital increase was implemented in March 2017.

Following the ordinary meetings, the Supervisory Board reviewed the efficiency of its control and advisory activities, including cooperation with the Management Board. The results were used to further optimise the activities of the Supervisory Board.

### Management Board matters

Mrs Pilar de la Huerta was the sole member of the Management Board until 1 August 2016. She held both positions, CFO and CEO until that date. On 1 August 2016, Dr. Heikki Lankriet was appointed as member of the Management Board for a five-year term. He assumed the function of a Co-CEO and also CSO, and Mrs. Pilar de la Huerta was maintained as Co-CEO and CFO. Since then the Company had two members in the Management Board.

### Composition of the Supervisory Board and the Committees

Prof. Dr. Friedrich von Bohlen und Halbach and Pedro-Agustín del Castillo Machado have both resigned from their position as a member

of the Supervisory Board with effect as of the end of the General Meeting on 20 June 2016 to allow the General Meeting to elect two new members of the Supervisory Board coming from Expedeon board: Mr. Tim McCarthy and Dr. Trevor Jarman, who were elected with effect from the date of the close of the Annual General Meeting on 20 July 2016 for the period until the end of the AGM, which decides on the approval of the relief of the Supervisory Board for the fiscal year 2016.

In a first meeting following the AGM the Supervisory Board appointed Mr. Joseph M. Fernandez as new Deputy Chairman of the Supervisory Board and appointed new members of the Committees of the Supervisory Board:

(A) Mr. Tim McCarthy was appointed a new member of the Audit Committee now consisting of:

- Franz Wilhelm Hopp (Chairman)
- Maria Jesus Sabates Mas
- Tim McCarthy (since 20 June 2016, until then: Mr. Pedro Agustin del Castillo)

(B) Mr. Tim McCarthy was appointed a new member as well as Chairman of the Capital Increase Committee now consisting of:

- Tim McCarthy (Chairman) (since 20 June 2016, until then: Prof. Dr. Friedrich von Bohlen und Halbach)
- Cristina Garmendia Mendizabal
- Franz Wilhelm Hopp

(C) Mr. Trevor Jarman was appointed a new member of the Nomination and Remuneration Committee now consisting of:

- Joseph M. Fernandez (Chairman)
- Franz Wilhelm Hopp
- Trevor Jarman (since 20 June 2016, until then: Mr. Pedro Agustin del Castillo)

### Activities of the Committees

The existing Committees as sub-committees support the work carried out in the plenary sessions of the Supervisory Board. The committees prepare the resolutions and the topics to be discussed by the full Supervisory Board. The chairman of each committee subsequently reported to the Supervisory Board at the next plenary session on the details and results of the work performed at the committee meetings.

The Audit Committee held four ordinary meetings in the reporting period. Its activities mainly focused on monitoring the accounting process, the audit of the separate and consolidated financial statements and management reports for the fiscal year 2016, discussing the audit reports and defining the areas of audit focus with the external auditors. The Audit Committee discussed the quarterly reports with the Management Board prior to publication. The committee also dealt with the examination and review of financial planning, the risk management system and the effectiveness of the internal control system. The committee prepared the Supervisory Board's proposal to the annual general meeting for the election of external auditors, awarded this engagement for the annual and consolidated financial statements and monitored the independence of the external auditors as well as any non-audit services they had provided.

The Capital Increase Committee passed two resolutions by e-mail during the fiscal year 2016.

The Nomination and Remuneration Committee had no meetings nor activities during the past fiscal year.

### Corporate Governance

The Supervisory Board, as in the past, regularly dealt with the continuing development of corporate governance and its implementation

at SYGNIS. The corporate governance report, which is part of this annual report, contains further details of corporate governance at SYGNIS. In April 2017, the Supervisory Board and the Management Board of SYGNIS AG issued the declaration of compliance with the German Corporate Governance Code in accordance with Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] and made it permanently available on the Company's website. It is a component of the corporate governance report included in this annual report.

The Management Board and Supervisory Board of SYGNIS AG are committed to the interests of the Company. In performing their duties, they pursue neither personal interests nor do they grant other persons unjustified advantages. Secondary activities are to be disclosed to the Supervisory Board and require the Supervisory Board's approval. The members of the Management Board and of the Supervisory Board inform about any conflict of interests without delay. There were no conflicts of interests regarding members of the Management Board and Supervisory Board in the fiscal year 2016. Significant transactions between the Company and the members of the Supervisory Board or parties related to members of the Supervisory Board require Supervisory Board approval. This also applies in the case of consultancy or other service agreements between a Supervisory Board member and the Company.

Since 28 February 2015 to 31 December 2016, SYGNIS Biotech S.L.U., Madrid, Spain, provided IT services to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain. On the other hand, since 4 August 2015 Science & Innovation Link Office, S.L. (SILO), Madrid, Spain, provided consulting services for competitive projects to SYGNIS Biotech S.L.U., Madrid, Spain. The member of the Supervisory Board of SYGNIS Mrs. Dr. Cristina Garmendia and the former member Mr. Pedro Agustín del Castillo are main shareholders of Science & Innovation Link Office, S.L. (SILO), Madrid, Spain. For IT services

rendered to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain, SYGNIS Biotech S.L.U. charged €0.5 thousand per month to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain. For consulting services received from Science & Innovation Link office, S.L. (SILO), Madrid, Spain, for competitive projects, SYGNIS Biotech S.L.U., Madrid, Spain, paid €1.8 thousand per month to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain.

Due to a public soft loan, SYGNIS Biotech S.L.U. received from Spanish institutions for its R&D activities in Spain, the new main shareholder Genetrix S.L., Madrid, Spain, pledged 350,000 shares of its interest in SYGNIS AG to secure this loan. According to the agreement on the payment of a share pledge fee between SYGNIS and Genetrix S.L., Madrid, Spain, it was agreed that SYGNIS has to compensate Genetrix S.L., Madrid, Spain, for creating this pledge as a security for SYGNIS' fulfilment of its obligation arising from the public loan received from the Spanish institution by paying a so called share pledge fee. This fee accrues yearly at a rate of 3% calculated over the loan amount. The pledged shares shall be released from the pledge once a corporate transaction takes place (e.g. share or asset deal of SYGNIS AG to a third party) or if SYGNIS Group is deemed to be cash positive under the conditions according to the agreement on the payment of a share pledge fee between Genetrix S.L., Madrid, Spain, and SYGNIS.

### Annual and Consolidated Financial Statements

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, rendered an unqualified audit opinion on the annual financial statements for the period from 1 January 2016 to 31 December 2016, which were prepared by the Management Board in accordance with the provisions of the HGB ["Handelsgesetzbuch": German Commercial Code], and the management report of SYGNIS AG, as well as the consolidated financial statements ending

31 December 2016 prepared in accordance with IFRSs and Sec. 315a HGB and the group management report of the SYGNIS Group (SYGNIS AG and its subsidiaries).

The external auditors are of the opinion that the consolidated financial statements and the separate financial statements, prepared in accordance with the applicable financial reporting standards, give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group. The Supervisory Board's Audit Committee awarded the audit engagement in accordance with the resolution taken by the annual general meeting of SYGNIS AG on 20 June 2016.

This year's audit focused on the Purchase Price Allocation due to Expedeon holdings acquisition, the consolidation with the new subsidiaries coming from Edxpedeon Holding, on the impairment testing of intangible assets (including goodwill) and the verifiable documentation of the valuation assumptions as well as the reporting in the notes to the consolidated financial statements, the group management report (including the opportunities and risk report) and securing of long-term financing to safeguard the Company's ability to continue as a going concern.

The annual financial statements, the consolidated financial statements, the management reports and the audit reports of the external auditors were presented to the members of the Supervisory Board in good time. Following detailed initial discussion at the meeting of the Audit Committee held on 24 April 2017 a resolution was passed on the same day recommending them for approval to the Supervisory Board. The Chairman of the Audit Committee presented a detailed report in the plenary session on 24 April 2017 of the Supervisory Board on the Audit Committee's examination of the annual financial statements, the consolidated financial statements and the management reports. The auditor attended the Audit Committee and Supervisory Board meetings to report

on the key scope and findings of the audit and was available to answer the Supervisory Board's follow-up queries and supply supplementary information. Following its own in-depth examination and discussion, the Supervisory Board raised no objections to the financial statements or the audit by the external auditors. The Supervisory Board accepted the findings of the audit and, in accordance with the recommendation of the Audit Committee, approved the annual financial statements of SYGNIS AG and the consolidated financial statements for the fiscal year 2016 on 24 April 2017. The financial statements are therefore adopted.

The Supervisory Board would like to thank the Management Board and all of the Company's employees for their personal commitment and excellent performance in the past fiscal year.

Madrid, 24 April 2017



**Dr. Cristina Garmendia**  
Chairwoman of the  
Supervisory Board





# Group Management Report

# 2016 Annual Report

SYGNIS<sup>®</sup>

# Group Management Report for the 2016 fiscal year



## I. Basic information of SYGNIS AG and SYGNIS Group

### Business model of SYGNIS AG and SYGNIS Group

The activities of Sygnis AG and the wider SYGNIS Group (hereinafter also referred to as SYGNIS) can be divided into sales and marketing, manufacturing and research and development. The group's genomic R&D and newly launched service offering is handled at its state of the art laboratory facility in Madrid, Spain whilst product manufacturing is split across the manufacturing plants in Cambridge, UK and San Diego USA each approximately 1,100 sqm large. Sales activities are driven from the offices in Heidelberg, Germany, Cambridge, UK, San Diego, USA and Singapore. Following on from the acquisition of the Expedeon group in the summer of 2016 the group has decided to rename and rebrand its subsidiaries to Expedeon. The main reason for this change is to leverage the brand awareness of the Expedeon brand within the Life Science community to support sales growth.

Sygnis' core business model is the development and commercialisation of innovative high added value kits for genomics and proteomics research whilst positioning the Company to extract value from applications of its technology in either clinical diagnostics or pharmaceuticals. During 2016 the product portfolio has expanded immensely and now comprises a wide range of novel tools and technologies for molecular biology. The Company's focus remains on DNA amplification with Trueprime a disruptive technology in this field. Furthermore the company has now also acquired a strong position in electrophoresis, biomolecule quantitation and analysis and now offers products along the entire molecular biology value chain. The Company also continues to license the Caco2 cell line (mostly used for pharmacokinetic assays in the pharmaceutical industry).

### Internal management system of SYGNIS AG and SYGNIS Group

The financial management system of SYGNIS AG and SYGNIS Group is based on monthly reports that also show deviations from budget. Significant deviations are updated in the short- and long-term financial planning. By simulating different scenarios, the planning tool used for this purpose enables the Management to identify and assess opportunities and risks at an early stage and determine their influence on the future development of the Group, particularly with regard to the liquidity and revenue indicators and the net result.

The management of the development activities is based on detailed project plans that contain defined milestones associated with specified reporting and information obligations. The results are continuously monitored by the internal project teams and reported to the Management and Supervisory Board on a regular basis.

## II. Report on Economic Position

### a. Macroeconomic and sector-specific environment

#### Economic development

The world economy will continue to lose some of its momentum based on the growth forecast of the

International Monetary Fund (IMF). In 2016, the world economy only grew by 3.1%. For the current year 2017 the IMF expects a growth rate of 3.4%. For 2018 the IMF estimates a higher growth of 3.6%. The forecast remains unchanged against the Autumn prediction. For Germany the IMF has increased their expected growth rate by 0.1 points for 2016 and 0.2 points for 2017. As a result, the IMF forecasted a growth rate for Germany of 1.5% for 2016 and 2017. This forecast is middling compared with the growth rates of other European countries such as Spain and Great Britain. Overall, the economic growth in Europe will be mainly driven by the consumer spending. In addition, the low inflation rate puts downward pressure on prices of exporters and this will have negative impact on the German economy.

For China the IMF expects a decrease in the economic growth from 6.7% in 2016 to 6.5% in 2017 and 6.0% in 2018. This is in line with the forecast. However, the change in the economic structure from an industrial economy to a service economy will adversely affect China's economy.

*Source: IMF*

#### Capital markets

The German stock market performance in 2016 was relatively good. Whilst the DAX index increased by 6.8% during the year the index and the stock exchange market showed considerable volatility in part driven by two significant politics events with an important impact on the economic markets.

The first storm appeared in June with the unexpected Brexit vote. The announcement of UK leaving the European Union produced an important downside pressure on all markets during several days. Even though, once the initial shock of the vote had been adsorbed in the days after the referendum, the DAX's held ground and started a gentle and constant recovery .

In autumn Europe woke up to a second political surprise in the wake of the USA elections. Whilst the DAX lost a little ground in October it soon recovered and closed strongly in December a trend which continued into 2017.

As a result of all these all important global geo-political events, the German stock exchange has been subject to several downward movements during the year. However the markets showed good resilience and recovery against unexpected events which resulted in a modest increased year end close compared to 2015.

#### Development of the pharmaceutical and biotechnology industry

The ageing population of the western world in combination with increased health and life style expectations from the populations of emerging economies such as China or India, continues to support the solid growth trend in the health care industry. Based on the US market research institute IMS Health, pharmaceutical spending reached the USD 1.1 trillion mark in 2016, an increase of approximately 3% year-on-year. By 2021, it is expected to rise to USD 1.5 trillion.

Public funding for Life Science research remains well supported. A good indicator for public funding support is the budget of the National Institute of Health (USA) which increased with 3.3% in 2016 to \$31.3 billion with the National Cancer Institute accounting for a dominant 16.3% of the total NIH budget.



Closer to home the €75 billion Horizon 2020 programme demonstrated the EU's continued investment in research and innovation.

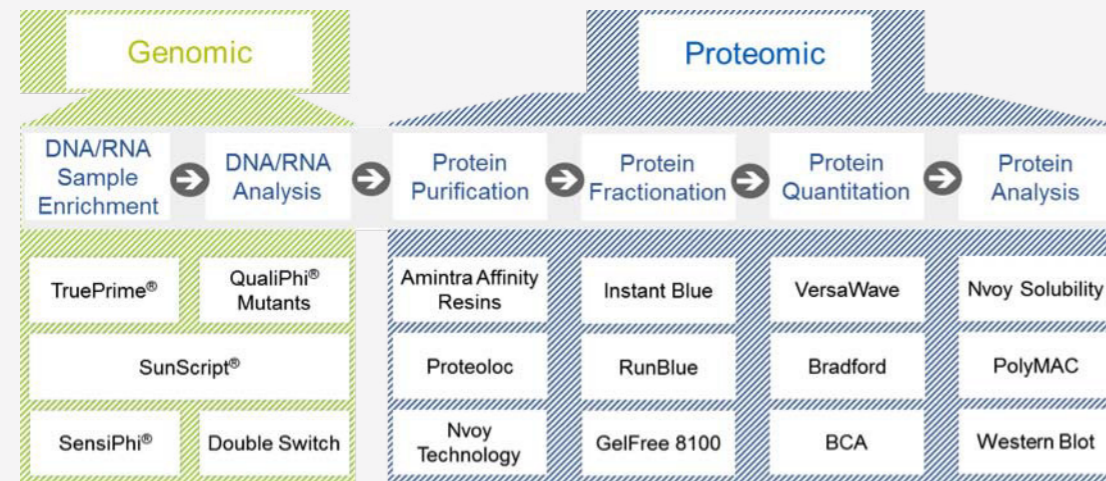
b. Business performance of the SYGNIS Group

### 1. General performance

2016 has been transformative for Sygnis. The Company has grown and matured on many levels and has become a more vertically integrated commercial entity with strong growth potential.

Innovation, the company's core value, has been strengthened as the group continued to develop high added value products. Additionally the company has extensively expanded its product offering through the acquisition of the Expedeon group in July 2016. This acquisition also substantially enhanced the company's sales and marketing capabilities with operations including a sales force in key territories such as Germany, USA and UK and Singapore. The company now offers products across the entire molecular biology spectrum covering the genomics and proteomics market segments. Trueprime, remains one of the company's flagship technologies with disruptive applicability in the fields of liquid biopsy and single cell analysis.

Notable NGS product milestones in 2016 were the launch of our liquid biopsy kits targeting amplification of cancerous cell free DNA in blood, The launch of the enhanced single cell DNA amplification kit and the launch of Covcheck a unique product enabling validation of the quality of amplified DNA samples before engaging in costly next generation sequencing experiments.



With the addition of new proteomics product lines, the customer reach has expanded and the company is now able to target customers across the molecular biology value chain. The main end-users of the product are researchers at leading academic institutions, laboratories affiliated with government authorities, hospitals as well as pharmaceutical, biotechnology or molecular diagnostics companies engaged in life science research. Our customers are served via our own sales force in combination with a network of distributors to extend our reach into the market. Additionally, the company has several OEM partners enabling to company to penetrate in geographically more challenging markets such as China.

Revenues continued to improve strongly in 2016, with the addition of Expedeon sales channels and products. Total revenues amounted to €1,789 thousand in 2016 (previous year: €555 thousand).

The reported net loss for 2016 was €4,388 thousand compared with €4,011 thousand in the previous year. The increase in the net loss reflects a number of non-cash items relating to the fair value accounting for Expedeon group acquisition as well as the write down of deferred tax assets in Spain under IFRS accounting rules. It also includes transactions and reorganisation costs associated with that transaction.

These entries lifted the result from a loss of €2.7 million to the reported €4.4 million. Allowing for these items, underlying performance continues to improve.

The following table (in € thousand) shows the composition of operating income and expenses for the fiscal year 2016 split out for comparison purposes with 2015:

	31 December						2015
	2016 reported	Expedeon fair value non-cash	Expedeon transaction costs	Reorg cost	Spain deferred tax	2016 for comparasion	
<b>Revenues</b>	<b>1,789</b>					<b>1,789</b>	<b>555</b>
<b>Costs of good sold</b>	<b>(1,026)</b>	526				<b>(500)</b>	<b>(27)</b>
<b>Expenses</b>							
Sales	(895)					(895)	(646)
Administration	(2,771)	238	237	306	0	(1,990)	(1,990)
Research and development	(1,219)					(1,411)	(1,411)
Impairment of other intangible assets	0					0	(128)
Other operating income	102					102	52
Other operating expenses	0					0	(215)
<b>Total operating expenses</b>	<b>(5,809)</b>	764	237	306	0	<b>(4,502)</b>	<b>(4,417)</b>
<b>Results of operating activities</b>	<b>(4,020)</b>	764	237	306	0	<b>(2,713)</b>	<b>(3,862)</b>
Finance costs	(128)					(128)	(201)
Finance income	0					0	24
<b>Earnings before taxes</b>	<b>(4,148)</b>	764	237	306	420	<b>(2,841)</b>	<b>(4,040)</b>
Income tax	(240)	(70)				110	29
<b>Net profit / loss for the period</b>	<b>(4,388)</b>	694	237	306	420	<b>(2,731)</b>	<b>(3,480)</b>
thereof allocable to owners of SYGNIS AG	(4,388)	694	237	306	420	(2,731)	(4,011)
Exchange rate adjustments	376					376	396
<b>Other comprehensive income (after taxes)</b>	<b>376</b>					<b>376</b>	<b>396</b>
<b>Total comprehensive income</b>	<b>(4,012)</b>	694	237	306	420	<b>(2,355)</b>	<b>(3,615)</b>
thereof allocable to owners of SYGNIS AG	(4,012)	694	237	306	420	(2,355)	(3,615)
<b>Earnings per share (diluted and undiluted)</b>	<b>(0,20)</b>					<b>(0,12)</b>	<b>(0,30)</b>
Average number of shares out standing	21,915,064					21,915,064	13,426,081

The fair value adjustments for Expedeon group included a €526 thousand charge to cost of goods for Expedeon group inventory held at acquisition date and subsequently sold. In addition, Administrative expenses include €238 thousand for the amortisation of patents and customer lists capitalised on the acquisition of Expedeon, transaction expenses of €237 thousand and reorganisation costs of €306 thousand.

The tax charge for the year includes €420 thousand relating to write down of deferred tax assets in Spain.

Underlying operating cash outflows improved from €3.8 million in 2015 to 3.2 million in 2016 and to below €3.0 million allowing for transaction costs related to the Expedeon group acquisition.

Liquid funds as at 31 December 2016 amounted to €3,795 thousand compared with €4,557 thousand as at 31 December 2015. This increase is mainly driven by the successful capital increase in July 2016 offset by the costs associated with the Expedeon group acquisition and the loss for the year.

### **Key events in fiscal 2016 – in chronological order**

#### ***SYGNIS acquires profitable US vendor for life sciences tools C.B.S. Scientific for US \$ 0.9 million against cash and shares.***

SYGNIS entered into a binding agreement to acquire C.B.S. Scientific Company Inc. (C.B.S.), a profitable life science company headquartered in San Diego, USA.

SYGNIS paid a total of \$ 900,000 of which \$ 540,000 in cash from existing funds and \$ 360,000 in the form of 275,331 new shares of SYGNIS AG from authorized capital.

C.B.S. Has established a strong global brand for electrophoresis devices and scientific instruments in genomics and proteomics research. The products of C.B.S. Are designed for versatility, optimum performance and ease of use. The company's product offering is highly complementary to the SYGNIS product line and includes a wide range of electrophoresis systems, DNA mutation detection systems and DNA workstations to provide a contaminated environment for DNA amplification.

#### ***SYGNIS AG introduces the new TruePrime™ Liquid Biopsy Kit for oncological research and diagnostics on the market***

SYGNIS has launched the new TruePrime™ Liquid Biopsy Kits, a ready-to-use amplification kit for circulating tumor DNA (ct-DNA) used to detect, analyze, and monitor early tumor stages. Liquid biopsy is the analysis of tumor DNA traces in the blood of a patient and has the potential to revolutionize diagnostic medicine, especially in oncology. The current techniques for cf DNA analysis (cell-free DNA) are limited due to lack of sensitivity. These limitations are naturally associated with the low frequency of ct-DNA present in body fluid samples. This is particularly true if such samples are to be analyzed by Next Generation Sequencing (NGS). The underlying technology for TruePrime™ is already secured in several countries by legal patents. Recently, an additional patent application has been filed to protect this commercially attractive application.

The TruePrime™ Liquid Biopsy technology has the potential to become a valuable tool in oncological research and is used in the field of precision medicine. On the other hand, this technology can play a central role in the diagnosis and monitoring of cancer. Over the past decade, there has been tremendous progress in the understanding of cancer and the development of targeted therapies. Liquid biopsy is one of the fastest developing areas in this research area and can revolutionize medical diagnostics.

Estimates for the global liquid biopsy market in 2020 are estimated at 1.3 billion US dollars. SYGNIS's TruePrime™ Liquid Biopsy technology is well positioned to take a central role in this highly attractive market segment.

#### ***SYGNIS receives € 1.9 million of research and development funding from the Spanish government***

The Spanish Ministry of Economy and Competitiveness (MINECO) will provide two funding grants to SYGNIS in the context of its renowned and competitive RETOS program to support SYGNIS DNA research projects in collaboration with the National Center Molecular Biology, the San Carlos Hospital and the Research and Development Foundation Juan Dominguez, all established in Spain. With RETOS, the Spanish government is financing innovations and scientific research projects with great social and economic potential. Small, medium and large enterprises are supported by the provision of public funding or subsidy loans which are issued without interest or low interest rates with long-term maturities.

#### ***SYGNIS acquires Expedeon Holdings Ltd., Cambridge, United Kingdom***

SYGNIS successfully completed its subscription offer and the subsequent private placement on 14 July 2016. As a result of these capital measures, the Company's capital stock, including the contributions in kind, increased by €20,538,089.00 from € 16,803,891.00 to € 37,341,980.00 through the issue of 20,538,089 shares. A total of 3,016,734 new shares were subscribed by existing shareholders.

A further 1,801,466 shares were taken by qualified investors at a price of € 1.10 per share in a subsequent private placement. As a result, the company received gross proceeds of € 5.3 million. The remaining 15,719,889 shares were successfully subscribed by the Expedeon shareholders through contributions in kind. The cash capital increase of € 5.3 million was entered in the commercial register on August 2, 2016, whereby the subscribed capital increased by a nominal € 4,818,200.00. The registration of the capital increase from the contribution of the shares in Expedeon Holdings Ltd., Cambridge, United Kingdom, to SYGNIS AG in the commercial register was completed on 19 October 2016.

#### ***SYGNIS strengthens management team with Dr. Heikki Lanckriet***

Effective 5 August 2016, SYGNIS AG has appointed Dr Heikki Lanckriet, Chief Executive Officer (CEO) of Expedeon Holdings Ltd., Cambridge, United Kingdom, acquired in the summer, as the new Co-CEO and Chief Scientific Officer (CSO) of SYGNIS. The role of the CSO is a newly created position at SYGNIS in the company. Dr. Heikki Lanckriet was also a member of the board of SYGNIS, together with Pilar de la Huer-ta, who after the takeover of Expedeon as co-CEO and chief financial officer (CFO) of SYGNIS.

#### ***SYGNIS enters into co-operation agreement with ECACC on the licensing and distribution of the Caco-2 cell line***

SYGNIS AG's Navicyte Scientific, based in the USA, has signed a co-operation agreement with the ECACC (European Collection of Authenticated Cell Cultures) to coordinate the licensing and distribution of the Caco-2 cell line to commercial companies. The ECACC belongs to Public Health England, a department of the Ministry of Health of Great Britain. Within the scope of the collaboration, ECACC is organizing licensing to use SYGNIS's Caco-2 cell line in the US and then directly provides Caco-2 materials to the company. This new collaboration will expand the Caco-2 activities in Europe and increase the commercialization potential for SYGNIS as ECACC is very active in marketing cell lines to researchers. ECACC has a large customer base and will include the Caco-2 cell line in its project development.

#### ***SYGNIS is introducing the new CovCheck™ kit for quality control in whole genome amplification globally on the market***



SYGNIS has launched the new CovCheck™ kits globally on the market. This next kit is a ready-to-use product for the determination of sequence coverage during whole genome amplification (WGA) and control of the quality and integrity of the amplified DNA. The endpoint PCR-based kit, which includes 24 different sets of primer pairs each binding to a specific human chromosome, allows the simultaneous evaluation of the genomic coverage of four independent single-cell WGA experiments. CovCheck™ is an endpoint PCR-based kit in the usual 96-well plate format. No other available product can test all human chromosomes in a single experiment. Due to its unique and proprietary design, CovCheck™ shows a strong correlation between the amplified samples and the actual coverage of the genome by sequencing. The product brings the next generation sequencing (NGS) analysis to a new level with regard to accuracy and reproducibility and is thus predestined to play a central role in the NGS workflow. CovCheck™ enables a homogeneous and comparable quality control of WGA experiments. This will greatly simplify the workflow and allow considerable cost savings in the case of sequencing samples that do not meet certain quality requirements.

### **SYGNIS announces the global launch of the SunScript™ One Step RT-qPCR Kit**

The SunScript™ One Step RT-qPCR kit is the third product of the SunScript™ product line that allows the transcription and amplification of genomic DNA in a single reaction that can be measured in real-time. The new kit has been developed for a variety of innovative applications such as gene expression patterns or micro-RNA, both of which are critical analytical technologies in oncology and molecular diagnostics research. The company introduced this kit to the market at the beginning of January 2016.

The SunScript™ One Step RT-qPCR kit combines SYGNIS ,unique high-temperature SunScript™ reverse transcriptase with high-quality, optimized components in an instantly ready-to-use kit that allows each user to obtain quantitative, real-time, reproducible, real-time results.

The SunScript™ One-Step RT-qPCR kit shows a better performance compared to all the high-temperature RT kits tested. Due to a generally increased specificity and sensitivity, the new product is excellently suitable even for RNA molecules that are difficult to transcribe and makes it a perfect alternative for any RNA template. The kit has also been designed to be compatible with all qPCR devices. It is optimized for the plate format, which makes it suitable for regular research laboratories and hospitals.

### **SYGNIS presents a new tool for the detection and amplification of cell-free DNA in the blood, a critical step for the early detection and prevention of tumors**

SYGNIS is developing a new tool from the TruePrime™ product line that can recognize and amplify fragments of blood circulating DNA originating from tumor cells. This innovative new product allows researchers to obtain adequate amounts of DNA samples for subsequent analysis.

The product is based on SYGNIS ,proprietary TruePrime™ technology and could be used primarily as an important tool in the liquid biopsy process to detect early-stage tumors, a new approach that is a major advance in cancer diagnosis. Compared to the currently used invasive biopsy of solid tissue, liquid biopsies allow very small amounts of tumor DNA circulating in the patient's blood to be analyzed and the disease to be recognized at a very early stage. So far, the new kit, the first of its kind in the market, has achieved positive results. The kit will be distributed under the name „TruePrime™ Cell-Free DNA Amplification Kit“.

This new method was presented by SYGNIS ,scientific consultants Prof. Margarita Salas and Prof. Luis Blanco, as well as by the board of directors of Pilar de la Huerta to international media in Madrid.

### **Successful completion of capital increase**

To finance the acquisition of Expedeon, Sygnis completed a capital increase, in part subscribed with cash and in part by way of a contribution in kind. The rights offering and the subsequent private placement were completed successfully. Through these transactions, including the contribution in kind, the Company's share capital increased by EUR 20,538,089.00 from EUR 16,803,891.00 to EUR 37,341,980.00 through the issue of 20,538,089 shares by way of a rights offering.

Existing shareholders subscribed a total number of 3,016,734 new shares. A further 1,801,466 shares were placed at a subscription price of EUR 1.10 per share with qualified investors in a subsequent rump placement, which resulted in gross proceeds of EUR 5.3 million. This cash was used to settle part of the consideration to Expedeon shareholders, to meet the transaction expenses and to create a cash buffer for potential new small acquisitions aiming to expand the business.

## **2. Results of operations, financial position and net assets**

### **Results of operations**

As noted above, the underlying results for 2016 present a strong improvement on the previous year:

	<b>Fiscal year ended 31 December</b>		
	<b>Reporte 2016</b>	<b>Adjusted 2016</b>	<b>Reported 2015</b>
Revenues	1,789	1,789	555
Net loss for the period	(4,388)	(2,731)	(4,011)
Net cash out flow from operating activities	(3,215)	(3,215)	(3,815)
Cash and cash equivalents at the end of the period	3,795	3,795	4,557

### **Result**

The increase in the reported net loss reflects a number of non-cash items relating to the fair value accounting for Expedeon group acquisition, the write down of deferred tax assets in Spain and transaction and reorganisation costs associated with the Expedeon group transaction. These entries lifted the result from a loss of €2.7 million to €4.4 million.

The net reported result for 2016 was a loss of €4,388 thousand compared with €4,011 thousand in the previous year. Operating cashflows improved from €3.8 million in 2015 to €3.2 million in 2016.

### **Revenues**

Revenues in fiscal year 2016 amounted to €1.8 million (previous year: €0.6 million) which is in line with the forecast for 2016. Revenues will continue to grow during 2017 with the addition of Expedeon group sales channels for Sygnis products, the launch of new products and the addition of Expedeon group products.

### **Development of operating expenditure**

Compared with the previous year, the total operating expenditure increased by €1.4 million to €5.8 million. This increase reflected the increased operating activity associated with the acquisition of the Expedeon group and the overall higher group sales in 2016.

In addition, the operating expenditure reflects non-cash items arising from the fair value exercise undertaken on the acquisition of the Expedeon group. Cost of goods includes €526 thousand following

the fair valuation of Expedeon opening inventory to selling price less cost of marketing; and administration expenses include €239 thousand from the amortisation of Expedeon patents and customer lists. Operating expenses also include €237 thousand of transaction costs related to Expedeon.

### Operating expenditure

Operating costs consist mainly of personnel expenditures, Legal, consultancy and costs for annual financial statements, Marketing and Investor Relations and rental costs.

### Impairment of intangible assets

An impairment review was undertaken in respect of all intangible assets held at 31 December 2016; no adjustment was made.

With regard to 2015, the Company had recognised a €0.1 million impairment on its Double Switch product.

### Net loss

Net loss in fiscal year 2015 amounted to €4.4 million (previous year: loss of €4.0 million). This result was significantly impacted by the Expedeon acquisition as explained elsewhere as well as the non-cash write of €420 thousand of deferred tax assets brought forward from prior years in Spain.

Underlying Company performance shows a year on year improvement particularly in the latter part of the financial year.

### Financial position

The negative cash flow from operating activities was slightly below previous year's level at €3.2 million (2015: €3.8 million). Cash flow from investing activities amounted to -€1.8 million, compared to -€0.5 million in the previous year. Cash flow from financing activities amounts to €4.2 million, compared to €4.7 million in the year 2015. The variation is due to the lower inflows of cash from capital increases compared with prior year.

Capital structure as of	31 December 2016	31 December 2015
Non-current assets	83%	61%
Current assets	17%	39%
Equity	83%	74%
Non-current liabilities	9%	14%
Current liabilities	8%	12%

### Objectives of financial management

The Company's objective is to reach break-even within the cash balances presently held. Following the strong revenue growth in 2016, this objective is being targeted for Q4 2017.

Financial management of SYGNIS AG is run on the basic principle of maintaining the liquidity of the Company and to strengthen the equity base in the long-term. To anticipate future demands for liquidity, 12-months liquidity plans are used.

Liquid funds as at 31 December 2016 fell by €0.8 million and stood at €3.8 million (previous year €4.6 million). This reflected underlying cash outflows from operating activities and the effect of the Expedeon group acquisition, offset by a capital increase associated with that transaction.

### Asset position

Non-current assets at €31.7 million were significantly higher than in the previous year (€ 8.6 million) and reflects goodwill and other intangible assets recognised following the acquisition of the Expedeon group.

As of 31 December 2015, deferred tax assets for tax loss carry-forwards were recognised amounting to €0.5 million (previous year: €0.8 million). In accordance with IFRS guidance, these amounts were written off in the current year.

Long-term debt as at 31 December 2016 of €2.3 million were €0.4 million above the previous year and mainly consist of soft loans (€1.9 million) with shareholder loans of €0.1 million and bank loans of €0.3 million both in Expedeon group.

Short-term debt increased from €1.7 million in the previous year to €4.4 million. This includes net deferred tax assets of €1.2 million relating to the Expedeon fair value adjustments and also reflects increased operating activity since the Expedeon group acquisition, with trade payables €0.3 million higher. Other current liabilities have increased €0.9 million and include an additional €0.6 million of cash in advance from customers and a year end provision for restructuring. The short term component of soft loans also increased by €0.2 million.

### Overall assessment of financial key performance indicators

In the year 2016 SYGNIS continued with the sales of own kits which were then completed during the latter part of the year with Expedeon group products. The results for 2016 and in particular this revenue growth have created a strong baseline from which to build revenues during 2017 and also improve overall trading performance. As a result, the management board anticipates strong growth in revenues during 2017 with the target of reaching cash flow break even during Q4.

### III. Organisation

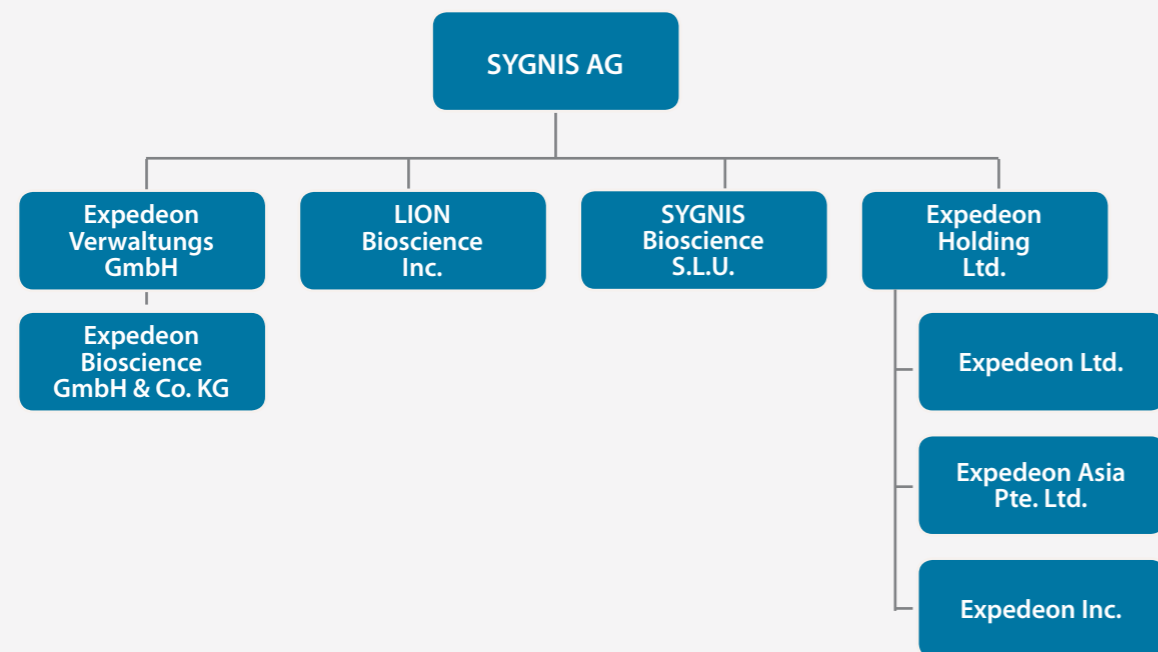
#### Corporate structure

The main operating locations of SYGNIS Heidelberg; Madrid, Spain; Cambridge, UK; and San Diego, USA. The company has rented premises in the technology and business parks in most locations and owns property in Cambridge.

SYGNIS represents a group of companies with SYGNIS AG the parent company listed on the German stock exchange. The development activities are carried out by Expedeon Biotech S.L.U., Madrid, Spain. Both Expedeon Ltd. and Expedeon Inc. manufacture and distribute products. Expedeon Asia Pte. Ltd. is a distribution company. SYGNIS AG holds 100% of the company shares in Expedeon Bioscience GmbH & Co. KG, Expedeon Biotech S.L.U., Expedeon Verwaltungs GmbH, Heidelberg, LION bioscience Inc., Needham / MA / USA and Expedeon Holdings Ltd (a holding company). This in turn holds 100% of the shares in Expedeon Ltd., Expedeon Inc. and Expedeon Asia Pte. Ltd.

As of December 31, 2016, the following corporate structure (each 100% subsidiaries) existed:





**Employees**

The nature of the Group’s business in an innovative sector means that the demands made on personnel in all sections of the Company are high. To meet these requirements, an exceptional team is essential.

The number of employees (full-time equivalent) increased from 20 during 2015 to 31 during 2016.

Employees by function *	31 December 2016	31 December 2015
Research & development*	14	13
Sales, Marketing & Administration	33	8
<b>Total</b>	<b>47*</b>	<b>21*</b>

\* The number of employees also includes three employees that are on maternity leave.

IV. Research & Development

The company does not have its own research and development activities. These are undertaken in its subsidiary Expedeon S.L.U., Madrid, Spain.

SYGNIS’ R&D activities strongly focus on the development and production of new products based on various proprietary platform technologies for the next generation sequencing (NGS) and molecular biology markets. A key strength is the Company’s know-how and IP position in polymerase enzymology. The TruePrime™ technology is able to amplify the whole genomic information of cells or DNA from human beings or any other organism in a way that preserves the essential details of the genomic information better than the current gold standard in the market. SYGNIS has produced key data showing that especially important information on genetic differences (e.g. single nucleotide variants, SNVs) is better preserved than with competing technologies.

TruePrime™ is mainly based on a novel enzyme obtained from the thermophilic bacterium *Thermus thermophilus* called TthPrimPol. SYGNIS utilizes TthPrimPol’s unique capability to synthesize DNA primers together with the highly processive Phi29 DNA polymerase to create a primer-free system of who-

le genome amplification.

SYGNIS has launched a whole suite of kits based on this ground breaking technology. In 2016 the company launch a Trueprime based Liquid Biopsy kit to accurately and reliably amplify circulating tumor DNA in blood. In addition to applicability in oncology research this technology is also expected to have utility in the field of clinical diagnostics. SYGNIS was awarded € 1.9 million of research and development funding from the Spanish government to further advance its Trueprime technology in Liquid Biopsy

During 2016 the Company has made great progress in the development of its own sales channels.

V. Opportunities and risks report

**1. Risks**

**Going concern assumption**

SYGNIS focuses on the research, development and marketing of new tools for DNA amplification and sequencing and proteomics. In the 2016 financial year, the integration of the Expedeon group was a key focus. The online shop of SYGNIS was merged with Expedeon and the sales force was trained in SYGNIS product with all group products now being sold through all sales channels.

The main customers are leading research centers, academic institutions, government-run laboratories, hospitals and reference laboratories as well as pharmaceutical, biotechnology and commercial genomics and molecular diagnostics companies.

The SYGNIS Group’s business plan includes products for next generation sequencing such as TruePrime™, SunScript™ and SensiPhi™ (licensed to Quiagen), licenses for the Caco-2 cell line (mainly used in the pharmaceutical industry for pharmacokinetic studies).

The company’s business plan includes revenue from the sale of its own products and in the form of single payments and sales licenses. Through the acquisition of the Expedeon group, which has wide sales reach, sales will improve. Nevertheless, the assumptions made are subject to uncertainties and the actual realized income may differ from the plans.

The cash position of SYGNIS AG decreased by €762 thousand as at 31 December 2016 compared to the previous year. The future liquidity requirement is determined by a long-term financial planning based on the business plan and a liquidity forecast. Based on the current financial resources and taking into account the business plan, the Management Board of the Company regards the operating expenses of SYGNIS AG as well as the SYGNIS Group to be covered until reaching the full year breakeven in 2018.

The Business Plan contains sales expectations from the sale of its own products already on the market as well as from license fees. If the SYGNIS Group is unable to achieve the expected sales and break even may not be achieved. In the event of this situation, the SYGNIS Group may require further funding from shareholders in 2018 and beyond.

**Fundamentals of risk management**

In compliance with the legal requirements, SYGNIS has set up an effective system for detecting, evaluating, communicating, and managing financial risks and risks to the Company. For this purpose, the Management Board has appointed risk officers and a risk manager within the organisational structure. Regular risk analyses are carried out at Group level for all functional levels of the SYGNIS-Group, including

Research & Development and Management. The risk officers report the risks to the risk manager, who analyses them and submits a quarterly aggregated risk report to the Management Board. Information on major unforeseen risks is transmitted to the Management Board immediately by means of ad-hoc reports.

The key aim of risk management is to identify and monitor strategic, market-related, financial, and business-specific risks and opportunities at an early stage, in order to take whatever action is necessary, proper and appropriate after careful appraisal.

The main instruments used to avoid and reduce risks are cost control and project management. The Management Board receives monthly reports on the earnings, financial and asset positions, and the status of current projects. They are used to monitor the progress of project completion as well as the requirements regarding costs and compliance with the time schedule.

In addition, the extended management team meets on a weekly basis. The Supervisory Board met at least once every quarter, and more frequently when there were important decisions to be made, and was kept informed by the Management Board of current status in those areas of significance for the SYGNIS-Group (progress made in projects, financing and corporate development). The SYGNIS-Group's risk situation is also discussed with the Audit Committee during the examination of the quarterly reports and the annual report.

#### **Accounting-related risk management system and internal control system**

In accordance with Section 315 (2) No. 5 of the German Commercial Code, SYGNIS is required to describe the main features of the internal control and risk management system with respect to the Group accounting process, which also includes the accounting processes for companies included in the consolidated financial statements.

The risk management system and the internal control system (hereinafter referred to as "ICS") also include accounting-related processes and focus on material false statements in the annual and interim financial statements. An ICS is understood to mean the principles, procedures and measures introduced by a Company that focus on the organisational implementation of management decisions.

- to ensure the effectiveness and cost-effectiveness of its business activities by safeguarding the value of its assets, including preventing and revealing asset damage,
- to ensure the correctness and reliability of internal and external accounting, and
- to comply with the legal requirements applicable to the Company.

The Management Board bears overall responsibility for the ICS and the risk management system with regard to the accounting processes when preparing the consolidated financial statements. The control measures at SYGNIS related to accounting are based primarily on the following principles:

- signature rule, including authorisation and approval levels when entering into financial commitments,
- extensive documentation of business transactions,
- clear assignment of responsibilities,
- four eyes principle,
- appropriate financial accounting system including associated authorisation concept,
- use of checklists when preparing quarterly and annual financial statements,
- use of guidelines and work procedures (e.g. accounting standards, guidelines for financial investments and purchasing guidelines), and
- job descriptions.

The monthly, quarterly and annual financial statements are analysed with the aid of appropriate controlling software with respect to budget/actual deviations and accounting mismatches as well as inconsistencies. Prior to publication, the quarterly and annual financial statements are discussed with the Audit Committee, which also carries out its own audit.

The ICS is continually examined for the effectiveness of the controls, and modified if necessary. The Accounting-related internal control system and the early warning system according to section 91 (2) German Stock Corporation Act (AktG) are reviewed during the annual audit.

Fundamental issues arising in the course of preparing the annual financial statements and financial matters arising during the year (e.g. accounting issues and tax issues) are discussed promptly with the Audit Committee. If necessary, additional external consultants are called in to advice on various matters (e.g. valuation of stock options issued in accordance with IFRS, tax losses carried forward and deferred taxes).

The independent auditor is required to inform the Supervisory Board of any accounting-related risks or control weaknesses and any other key weaknesses of the Accounting-related internal control system and the early warning system according to section 91 (2) German Stock Corporation Act (AktG) identified in the course of performing his audit.

#### **Specific business risks**

##### **General industry risks**

SYGNIS is exposed to the typical risks in the industry for companies in the Life Science business. This naturally gives the Company a high-risk profile, which may directly affect the Company's earnings, financial and asset positions, and thus have a direct effect on the Company's valuation.

The biotech/pharmaceutical environment is very dynamic. Both the market environment and the competitive situation can change very quickly. This also applies to the framework for in/out-licensing of projects.

##### **Risks of selling products**

SYGNIS sells its own products. Risks could arise as a result of insufficient market demand, declining customer needs or delays due to shifts in the market launch of further new and innovative products. In addition, the market for SYGNIS products could be impaired by a consolidation of the market. We believe, however, that the diversification of our products and sales guards against this.

##### **Product development risks**

SYGNIS is developing new products and technologies in the molecular diagnostic field. Before setting up new projects, each project is intensively reviewed by external experts and the members of the Supervisory Board during the regular meetings. These reviews include technical aspects and market potential.

##### **Risks of in-licensing**

In order to reduce the Group's dependence on the success of single products, it strives to expand its product portfolio. We are frequently considering options for in-licensing further projects. Extending the product portfolio also increases opportunities in the future marketing. There is a risk, however, that no suitable projects can be in-licensed. There is the added risk of having to pay a very high price for in-licensing, with no guarantee for the success of the project.



**Risks from business combinations**

SYGNIS may acquire further suitable companies or businesses from other companies that could contribute to sustainable corporate development. The acquisition of companies or businesses can expose SYGNIS to risks associated with the integration of new technologies, business units, company locations and staff. Furthermore, risks can also arise when equity instruments are issued and these would lead to a dilution in the value of the shares held by the former shareholders. In the event that such an acquisition does not achieve the anticipated results, additional expenditure could arise from the devaluation of the acquired assets or goodwill.

**IP risks**

Patents are an important factor in the commercialization of products. Monitoring and protection of patents have a very high priority in the Company. Patent rights can be challenged, however, or the granting of a patent for current projects refused. This would result in considerable additional internal expenditure and higher costs. In extreme cases, this might even result in projects being abandoned.

**Personnel risks**

To ensure corporate success, it is extremely important for SYGNIS to hire and retain highly qualified staff. In terms of recruitment, the Company is in competition with other companies. Thus, there is the risk of not being able to hire new staff with the qualifications needed and/or to secure their long-term commitment to the Company. The loss of these staff and the relevant know-how would have an adverse effect on the Company's further business development.

**Financing risks**

Securing sustainable corporate development by external acquisitions, in-licensing of projects, or in-house research and development activities, requires additional funds. The Company evaluates various options for securing these capital requirements. The actual amount of the future capital requirement depends, among other things, on the ability of the Company to generate future product sales or revenues by itself or through research partnerships. In the event that the Company acquires additional capital by issuing shares, this could lead to a dilution in the value of the shares held by the former shareholders.

**Risks associated with the recognition of tax losses carried forward**

In addition to previous regulations on loss deduction in accordance with Section 8 (4) of the Corporate Tax Law (KStG), the German legislators introduced stricter legislation with Section 8c of the Corporate Tax Law, which came into force as part of the corporate tax reform on 1 January 2008, in accordance with which the injection of new business assets is no longer the issue and a transfer of more than 25% of the share capital would result in at least a proportion of the losses carried forward not being deductible. A transfer of more than 50% of the share capital, in accordance with the provisions of Section 8c of the Corporation Tax Law, would result in the entire losses carried forward ceasing to exist.

**Financial risks**

Various financial risks related to financial assets and financial liabilities can have an adverse effect on the asset and earnings position of the Company. These are primarily interest rate risks, credit or default risks, liquidity risks and market price risks.

**Risks from cash flow fluctuations/interest rate risks**

There are currently no significant floating rate items, so that no interest risks of any significance exist.

**Credit or default risks**

Due to the direct distribution of own products, credit or default risks are relevant with respect to the timely collection or the default of trade accounts receivables from customers. The Company has a very solvent customer base. Bad debt losses did not occur so far. In addition, the Company signed long-term agreements with its distributors which minimizes the default risk. Furthermore, outstanding invoices from customers are being monitored constantly and reminders are being sent out to customers for overdue amounts. The correct cash receipt is being monitored on a regular basis.

**Liquidity risk**

Liquidity risk describes the risk arising when the Company is not in a position to meet its liabilities associated with financial instruments when they fall due. This risk can also result from being unable to sell financial assets at an appropriate price.

**Other risks**

SYGNIS continuously monitors all applicable environmental, health and safety, operational as well as other applicable statutory or industrial guidelines and has implemented functions to comply with all of these effectively at each of its business locations. To reduce the potential impact from manifold tax, corporate, employment, competition, IP and other legal frameworks, the Company bases its decision-making and designs its policies and processes on the advice of internal experts in each of these areas and if necessary on the advice of external advisors. Wherever appropriate and indicated, SYGNIS sets aside provisions to cover any potential risks.

**2. Opportunities**

Existing or planned projects require considerably shorter development times and development costs compared with drug development. Furthermore, economic success can be foreseen earlier in development than is the case in drug development. As a result, the Company can use the available resources more efficiently and more purposefully.

The expanded product portfolio in combination with additional sales channels, in particular the sales force active in key markets such as USA, Germany and UK provides opportunities for increased revenue growth. Additionally the company's enlarged, active and loyal customer base provides an excellent platform for new product introductions further stimulating revenue growth.

The company's facilities in key geographic markets support the development of the company's brand awareness and general visibility in the market place. The local presence further facilitates a closer relationship with key customers in the different territories and may create collaborative opportunities in addition to strengthening revenue growth.

**Overall assessment of risk situation**

The Management Board considers the risks to be appropriate overall and trusts the effectiveness of the risk

management system with regards to changes in the environment and the need of the current business. The Management Board considers the opportunities available to the group to be very promising.

#### VI. Disclosures required under Section 315 (4) of the German Commercial Code (HGB)

**1.** The share capital of SYGNIS AG as at 31 December 2016 amounted to € 37,341,980.00 made up of 37,341,980 no-par value bearer shares. These are, without exception, voting ordinary shares. There are no holders of shares with special rights or any other restrictions concerning voting rights.

There are sale restrictions with regard to 6,932,152 shares of the Company agreed between the shareholders dievini Hopp BioTech holding GmbH & Co. KG, Walldorf (1,146,950 shares), der Genetrix S.L., Madrid, Spain, (5,112,962 shares) and Veriphi, S.L., Sant Cugat de Vallés (Barcelona), Spain (672,240 shares) on the basis of a lock-up-agreement which for 6 month, i.e. until 27 December 2016 extended to all the above-mentioned shares. After that date each party can sell up to 25% of its shares, after another three months 50%, after another quarter 75%. 1.5 years after the conclusion of the agreement, the lock-up obligation will be terminated completely.

In the context of the transfer of all shares in Expedeon Holdings Limited to SYGNIS AG as contribution in kind, former Expedeon shareholders, who together acquired 13,000,689 new shares in SYGNIS AG, have undertaken not to dispose of their shares for different periods:

**a)** Alpenfels Family Trust (2,783,390 shares), Daniel Jones (772,732 shares) and Heikki Lanckriet (1,478,162 shares) may not sell their shares (5,034,284 shares in total) until 30. June 2017. Thereafter, each party may sell a gradually growing percentage of its shares, namely:

from	1 July 2017	up to 20 %
from	1 October 2017	up to 40 %
from	1 January 2017	up to 60 %
from	1 April 2017	up to 80 %
from	1 July 2018	100 %

**b)** Sarah Roth, Tim McCarthy, Trevor Jarman, Peter De Busschere, Frans De Busschere, Sante Health Ventures I LP, Brenn-Cogen Trust and Fernandez Trust obliged not to sell their shares (6,195,262 shares in total) until 31. December 2016. Thereafter, each party may sell a gradually growing percentage of its shares, namely:

since	1 January 2017	up to 20 %
from	1 April 2017	up to 40 %
from	1 July 2017	up to 60 %
from	1 October 2017	up to 80 %
from	1 January 2018	100 %

**c)** Allan Coxon, Jenny Breton, John Hancock, Memphis Biomed Ventures II LP, Nigel Rowbotham, Southern Appalachian Fund LP, Toby Wilson Water-worth and Trust for Lisa Lanckriet own 1.771.143 shares in total and may sell a gradually growing percentage of them, namely:

since	1 January 2017	up to 20 %
from	1 April 2017	up to 40 %
from	1 July 2017	up to 60 %
from	1 October 2017	up to 80 %
from	1 January 2018	100 %

Both, the lock-up agreement regarding the 6,932,152 shares and the lock-in obligation regarding the 13,000,689 new shares from the Expedeon transaction provide for certain exemptions for over-the-counter transactions..

In the context of the transfer of all shares in C.B.S. Scientific Co. Inc. to SYGNIS AG as contribution in kind, the former C.B.S. shareholders, who will together acquire 275,311 new shares in SYGNIS AG, have undertaken not to dispose of 5/6 of their new shares for the first six month after the registration of their new shares in the commercial register (which was still outstanding as of 31 December 2016). After this period with the beginning of every month 1/6 of the new shares shall be released from the lock-up obligation.

The Management Board is not aware of any further restrictions on voting rights or the transfer of shares, even if they could result from agreements between shareholders.

**2.** In accordance with Section 315 (4) No. 3 of the German Commercial Code, direct or indirect holdings of share capital that exceed 10% of the voting rights are to be disclosed. As to the information given to the Company the following direct or indirect shareholdings exist that exceed 10%:

Shareholder	Percentage of voting rights	
	Direct	Attribution
Genetrix S.L., Madrid, Spanien	13.692 %	

**3.** Pursuant to Section 6 of the Company's Articles of Association, the Management Board comprises of one or more members, while the actual number of additional Management Board members is determined by the Supervisory Board. The Supervisory Board can appoint a chairman and one or more deputy chairmen of the Management Board. The appointment and removal of Management Board members are governed by Sections 84 et seq. of the German Stock Corporation Act (AktG) and the supplementary provisions of the Supervisory Board bylaws. Amendment of the Company's Articles of Association is governed by Sections 133 and 179 of the German Stock Corporation Act in conjunction with Section 9 (7) of the Articles of Association of SYGNIS AG. Under the Articles of Association of SYGNIS AG, a resolution of the Annual Shareholders' Meeting approving an amendment to the Articles of Association requires a simple majority of the share capital represented when the resolution is put to the vote, unless this is prohibited by mandatory statutory provisions.



**4.** The Annual Shareholders' Meeting granted the Management Board authority to issue the following new shares or conversion rights:

**4.1** In accordance with Section 4 para. (4) and para (5) of the Articles of Association of SYGNIS AG, by and including 19 June 2021 the Management Board is authorised, subject to the consent of the Supervisory Board, to increase the share capital of the Company by € 8.126.634.00 (Authorized Capital 2016/I) and by € 7,859,444.00 (Authorized Capital 2016/II) issuing new ordinary no-par-value bearer shares from Authorised Capital 2016/I against contributions in cash and / or in kind, once or several times. The Management Board may, subject to the consent of the Supervisory Board, exclude the legal subscription right of the shareholders:

- insofar as this is required to avoid fractional amounts,
- in order to grant shares against contributions made in kind,
- insofar as it is required for protection against dilution to grant holders of convertible bonds and/or warrant bonds, convertible loans or warrants subscription rights for new shares to the extent that the holders would be entitled to after exercise of their conversion or option rights or performance of a conversion obligation, or
- in case of a capital increase against contributions in cash if the proportion of share capital pertaining to the new shares for which subscription rights are excluded does not exceed 10% of the share capital registered at the time when the authorization became effective\* and when it is exercised and the issue price of the new shares does not substantially fall short of the market price of existing listed shares of the same class.

\* For Authorised Capital 2016/I the authorization became effective on 4 August 2016 when Authorised Capital 2016/I was registered in the commercial register and the share capital was EUR 21,622,091.00.

\* For Authorised Capital 2016/II the authorization became effective on 19 October 2016 when Authorised Capital 2016/II was registered in the commercial register and the share capital was EUR 37,341,980.00.

As at 31 December 2016 the Management Board had not yet used this authorisation, i.e. an authorised capital of € 15,986,078.00 in total (31 December 2015: € 3,559,915.00) remained.

**4.2** In accordance with Section 4 (8) of the Articles of Association of SYGNIS AG, the share capital is contingently increased (contingent capital IV) by up to €500,000 by issuing up to 500,000 ordinary bearer shares, which are equivalent to the previously issued ordinary bearer shares. The contingent capital increase will be carried out only insofar as the holders of stock options issued by the Company prior to 24 November 2016 in accordance with the authorisation given by the Annual Shareholders' Meeting held on 25 November 2011, within the last 15 business days of each calendar month, but on the first occasion no earlier than the entry of the creation of contingent capital IV in the German Commercial Register, exercise their subscription rights and the Company does not grant treasury shares in fulfilment of the subscription rights or the value of the shares to be issued based on the exercise of the subscription rights less the exercise price is paid in the form of a cash payment for the waiver of the beneficiary's corresponding subscription rights. The new ordinary bearer shares resulting from the exercising of these subscription rights carry dividend rights from the beginning of the fiscal year for which a resolution of the Annual General Meeting on the appropriation of retained profits had not yet been made on the date on which the subscription rights were exercised.

**4.5** In accordance with Section 4 (9) of the Articles of Association of SYGNIS AG, the share capital is contingently increased (contingent capital V) by up to €6,500,000 by issuing up to 6,500,000 ordinary bearer shares. The contingent capital increase will be carried out only insofar as the holders of con-

vertible bonds or persons required to exercise their conversion rights on convertible bonds issued or guaranteed by the Company or by a Group Company within the meaning of Section 18 of the German Stock Corporation Act, in which the Company has a direct or indirect shareholding of more than 50 %, in accordance with the authorisation given by the Annual Shareholders' Meeting held on 20 June 2016, exercise their conversion rights or, insofar as they are required to convert the convertible bonds, meet their requirement to convert their convertible bonds and insofar as the contingent capital in accordance with the terms and conditions of the convertible bonds is needed for granting shares to service conversion rights and/or obligations. The issue of new shares is carried out at the conversion price to be determined in each case on the basis of the above-mentioned authorisation. The new shares carry dividend rights from the beginning of the fiscal year for which a resolution of the annual general meeting on the appropriation of retained profits had not yet been made on the date on which the subscription rights were exercised.

**5.** At the reporting date, no material agreements involving the Company existed that would take effect in the event of a change of control following an acquisition bid.

**6.** The Company has made no agreements with members of the Management Board or with personnel on compensation payments in the event of an acquisition bid

## VII. Remuneration report

The remuneration report summarises the key elements of the remuneration system for the Management Board of SYGNIS AG and describes in particular the structure and the amount of remuneration for the members of the Management Board. It also includes a description of the basic principles and the amount of remuneration for the members of the Supervisory Board. It is prepared on the basis of the recommendations of the German Corporate Governance Code and also includes the disclosures that are required in accordance with the relevant legal regulations, primarily the German Commercial Code (HGB). This report is also an integral part of the Corporate Governance Report. The Corporate Governance Report is included in the SYGNIS AG annual report, which can be downloaded at [www.sygnis.com](http://www.sygnis.com).

### **Management Board remuneration**

The overall structure of the remuneration system for the Management Board is deliberated and reviewed on a regular basis by the Supervisory Board's plenary session, which is responsible for determining the appropriate remuneration to be paid to the individual members of the Management Board. In view of the importance of Management Board's composition and the associated remuneration of the individual members, the Supervisory Board has formed a separate Nomination and Remuneration Committee. The non-performance-related components and the basic structures of the performance-related components are included as part of the service contracts agreed with the individual Management Board members.

The aim and purpose of the remuneration system for the board members of our Company is to allow the members of the Management Board to share in the development of the Company's business commensurate with their individual duties and performance for the Group and the successes achieved in managing the economic and financial position of the Company, taking into account the environment in which it competes. The total remuneration of the Management Board is performance-based and in the 2016 fiscal year was made up of various components:

- a non-performance-related component (basic fee) and other benefits
- a performance-related component (variable bonus)

Until the merger with the former X-Pol Biotech S.L., Tres Cantos, Spain, in October 2012, the Company has granted stock options to the Management Board as a component with a long-term incentive effect. In the 2016 fiscal year no further stock options have been granted. The Company will decide in future periods to implement again similar remuneration components.

The non-performance-related components consist of a fixed amount specified in the consulting contract plus benefits.

Pilar de la Huerta was the CEO/CFO of the company until August 1st. At that date, Dr. Heikki Lanckriet was nominated as a Co-CEO/CSO, and Pilar de la Huerta maintains the Co-CEO/CFO position.

The Joint-CEO of the Company, Pilar de La Huerta has not agreed an employment contract with SYGNIS AG. In this respect, Mrs. de La Huerta has received a non-performance-related component as a consulting fee on the basis of a consulting agreement between SYGNIS AG and herself for services rendered to SYGNIS AG. Based on this consulting agreement Mrs. de la Huerta also received a variable bonus. However, she was not granted any stock options. On the other side, Mrs. de la Huerta is also CEO of SYGNIS Biotech S.L.U., Madrid, Spain, and, she entered into an employment contract with SYGNIS Biotech S.L.U., Madrid, Spain.

The performance-related component will also be paid in the form of a variable bonus for fiscal 2016. The amount of the bonus in each case depends solely on the achievement of specific target parameters based on the Company's performance. In the case of Mrs. de la Huerta the maximum achievable bonus is specified as 45% of the Management Board member's remuneration received by SYGNIS Biotech S.L.U., Madrid, Spain, or SYGNIS AG respectively. The amount of the variable bonus is based on a yearly assessment of the Company's performance that was calculated by the achievement of strategic and operational goals, such as the completion of the funding process, the increase of the visibility of the Company at the capital market, in addition to other corporate goals. At the end of the fiscal year, the Supervisory Board assessed the progress made in achieving the goals and specified the bonus, taking due consideration of all relevant factors.

Dr. Heikki Lanckriet has an employment contract with SYGNIS AG since August 1st, 2017. The performance-related component will also be paid in the form of a variable bonus for fiscal 2016. The amount of the bonus in each case depends solely on the achievement of specific target parameters based on the Company's performance. In the case of Dr. Lanckriet, the maximum achievable bonus, subject to Supervisory Board discretion, is specified as 30% of the Management Board member's remuneration received by SYGNIS AG. The amount of the variable bonus is based on a yearly assessment of the Company's performance that was calculated by the achievement of strategic and operational goals, such as the completion of the funding process, the increase of the visibility of the Company at the capital market, in addition to other corporate goals. At the end of the fiscal year, the Supervisory Board assessed the progress made in achieving the goals and specified the bonus, taking due consideration of all relevant factors:

Total remuneration for the Management Board in 2016 was as follows

In € thousands	Non-performance related	Performance related	Other benefits*	Total cash remuneration 2015
Pilar de la Huerta	194	89	14	297
From SYGNIS AG	143	89	12	244
From SYGNIS Biotech S.L.U.	51	0	2	53

In € thousands	Non-performance related	Performance related	Other benefits*	Total cash remuneration 2015
Dr. Heikki Lanckriet	54	100	10	164
From SYGNIS AG	32	100	6	138
From SYGNIS Expedon Ltd.	22	0	4	26

The table below shows which company paid the remuneration to each member of the Management Board in the 2015 financial year:

In € thousands	Non-performance related	Performance related	Other benefits*	Total cash remuneration 2015
Pilar de la Huerta	190	49	14	253
From SYGNIS AG	139	49	0	194
From SYGNIS Biotech S.L.U.	51	0	8	59

\*These mainly include insurance benefits and a company car.

Included in other benefits for Dr Heikki Lanckriet is a pension contribution which is 10% of base salary. There are no other Company pension commitments with respect to members or former members of the Management Board of the SYGNIS Group. Loans, advance payments or benefits other than those mentioned in this remuneration report were not granted to the members of the Management Board in the reporting year. The members of the Management Board did not receive benefits from third-parties that were either promised or granted in view of their position as members of the Management Board.

### Supervisory Board remuneration

The remuneration of the members of the Supervisory Board is determined by the Annual General Meeting and is written in Article 10 of the Articles of Association of SYGNIS AG. In compliance with the German Corporate Governance Code, the individual members of the Supervisory Board of SYGNIS AG receive both a fixed and a performance-related remuneration.

The fixed salary each member receives amounts to €20,000. The Chairman receives twice the amount and the Deputy Chairman one and a half times the amount of remuneration received by a member of the Supervisory Board. Besides this salary, each chairman of a Supervisory Board committee receives €10,000 remuneration, provided the committee meets at least twice during the financial year. In addition, Supervisory Board members receive a variable remuneration amounting to 10 % of the fixed salary in each case for the first financial year in which a positive return on equity is achieved. In the following years, the percentage of the basic salary in each case, which is to be paid as a variable salary, is equivalent to the return on equity (percentage) based on the Group financial statements. Members of the Supervisory Board who are active members only for part of the financial year receive an appropriate pro rata reduced remuneration. All Supervisory Board members are reimbursed for any expenses arising from the performance of their duties:



In € thousands	Fix	Variable
Dr. Cristina Garmendia Mendizábal	0	-
Joseph M. Fernandez	20	-
Dr. Franz-Wilhelm Hopp	30	-
María Jesús Sabatés Mas (since 14 July 2014)	0	-
Dr. Friedrich von Bohlen und Halbach (from 20 June 2016)	0	-
Pedro-Agustín del Castillo Machado (from 20 June 2016)	0	-
<b>Total</b>	<b>50</b>	<b>-</b>

A part of the Supervisory Board has for the time being agreed to the deferral of the remuneration for the 2015 financial year.

The Company has not granted any loans to members of the Supervisory Board.

### Professional liability insurance (D&O insurance)

SYGNIS AG has taken out liability insurance cover (D&O liability insurance) with a deductible for members of the Supervisory Board, for members of the Management Board and for senior management members of affiliated companies both inside and outside Germany. The deductible is based on the legal requirements and the recommendations of the German Corporate Governance Code. The insurance policy covers the legal defence costs when a claim is made and, if necessary, any damages to be paid that are covered by the insured sum of the policy. The insured sum is deliberately low in order to ensure that the premium remains appropriate to the Company's financial situation. In the case of liability that exceeds the insured sum, each of the individual members of the Management Board and the Supervisory Board is held personally responsible in full.

### VIII. Diversity in the workforce, in the Management Board and in the Supervisory Board

SYGNIS-Group explicitly supports diversity with respect to the engagement of new personnel for leadership positions. In 2016, the proportion of women of the total workforce of the SYGNIS-Group was 42%. The proportion of women in the leadership positions was 45%.

Due to the Law for the Promotion of Women in Leadership Positions, the Company has to establish concrete goals for the two management levels. Executives that report directly to the Management Board constitute the second level with management responsibility below the Management Board in the SYGNIS-Group. The proportion of women at the level of the Management Board was 50% in 2015 whereas the proportion at the second level of the management was 33%. SYGNIS-Group's objective is to retain a gender balance at all levels of management.

The proportion of women in the Supervisory Board was 33% in 2016.

### IX. Events of special significance since the end of fiscal year 2016

For the subsequent events report, please refer to the notes to the financial statements.

### X. Outlook

The following section may contain forward-looking statements that are based on the Management Board's estimates and expectations on future developments, including financial forecasts and the Company's future business situation. These expectations are subject to risks and uncertainties, as described in the section entitled "Opportunities and Risks Report". Actual results, due to a large number of factors that are beyond the control of the Management Board, may differ significantly from the estimates given

### Product development and commercialization opportunities

The SYGNIS Group's objective is to continue developing and marketing innovative, high added value products for proteomics and genomics research. The company's products targets lucrative markets such as NGS sequencing, single cell DNA analysis and liquid biopsy. These are rapidly growing market segments where the company's products are poised to take a central role. The visibility of the Company on the capital market and the shareholder value is therefore expected to rise.

The Management Board is convinced that continuing to develop a more vertically integrated company, developing, manufacturing and commercialising a ranges of innovative products will deliver a higher growth in shareholder value. The company's objective is therefore to continue expanding its sales and marketing infrastructure, focussing on key markets including USA, Germany, United Kingdom and China whilst continue to invest in research and development of new high added value products for use in genomics and proteomics research with a focus around NGS and in particular Liquid Biopsy applications. Furthermore the Company has the ambition and opportunity to leverage its strong OEM relationships with key partners to stimulate revenue growth in geographically challenging markets such as China.

The company offers a wide range of products which are being sold to researchers for use at their own facilities. Single Cell DNA analysis and Liquid biopsy are at the cutting edge on life science research and to facilitate access to Sygnis' world leading expertise and technology in these fast growing fields the company has the objective to launch a series of fee based services. Customers will have the opportunity to send samples to our laboratories, and our expert team of scientist will purify, amplify, validate and if desired sequence and analyse the DNA. These services will lower the barrier for entry for customers wanting to engage in Single Cell or Liquid Biopsy. Furthermore Sygnis' unique and proprietary sample validation technology, CovCheck, will deliver higher quality results and reduce costs per sample which makes the services also very attractive for high throughput users.

Sygnis Acquired Expedeon in July 2016 and also announced the acquisition of CBS Scientific in December 2016. These acquisitions have enabled the company to accelerate growth and advance the commercialisation of its Trueprime technology. Following the acquisition of Expedeon, and commercialisation of Trueprime kits through the newly acquired sales channels, the Trueprime revenue stream has been growing very strongly from quarter to quarter demonstrating the synergistic impact of the transaction. It is the company's objective to continue exploring synergistic acquisition which add shareholder value both in the short and long term.

### Financial outlook

The revenues in the fiscal year 2017 are dependent on the success of the sales strategy and planned expansion of the sales and marketing infrastructure and effort. SYGNIS has increased its sales force during the initial months of 2017, with a focus on US where approx. more than 50% of NGS users are located and Germany. The Management Board is confident about the business strategy and model and anticipates strong revenues growth for 2017 and beyond.

Whilst we anticipate continued strong investment in Research and Development throughout 2017, the increased focus on commercialization of our products and technologies will lead to a reduction in overall Research & Development expenditure. The synergies and scale effects from the acquisitions are expected to yield cost efficiencies in General Administration expenses. Based on the projected strong revenue growth and reorganised and optimised cost structure the Management Board forecasts the company to move into an operational break-even position in the second half of the year with cash generation expected in 2018.

The company's cash and cash equivalent at the 2016 year end amounted to € 3.8 million. With the projected revenue growth these financial resources are expected to suffice to move the company into break-even in 2017

#### **Overall assessment of the outlook**

The outlook is a result of different planning assumptions based on discretionary decisions. Especially revenue expectations are subject to uncertainty that cannot be influenced by the Management Board. However, the Management Board considers the Group in a good position to reach its financial forecasts in 2017.

#### XI. Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and the group management report includes the business results and the position of the Group As well as the principal opportunities and risks associated with the expected development of the Group.

Heidelberg, 24 April 2017

Pilar de la Huerta  
Co-CEO

Dr. Heikki Lackriet  
Co-CEO

David Roth  
CFO



SYGNIS<sup>®</sup>





# Consolidated Financial Statements

2016  
Annual Report

SYGNIS<sup>®</sup>

# Consolidated Financial Statements

## Consolidated statement of financial position

(in € thousands)	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
Property, plant and equipment	5	957	269
Goodwill	6	23,829	5,942
Other intangible assets	7	6,926	1,678
Deferred tax assets	14	0	420
Other Non-current assets		0	136
<b>Non-current assets</b>		<b>31,712</b>	<b>8,593</b>
Trade receivables		771	206
Inventory		1,092	100
Other current assets	8	672	577
Cash and cash equivalents	9	3,795	4,557
<b>Current assets</b>		<b>6,330</b>	<b>5,440</b>
<b>Total assets</b>		<b>38,042</b>	<b>14,033</b>
<b>EQUITY AND LIABILITIES</b>			
Issued capital	10	37,342	16,457
Capital reserves	10	12,871	8,749
Accumulated loss		(19,225)	(14,837)
Other comprehensive income		419	44
<b>Equity</b>		<b>31,407</b>	<b>10,413</b>
Deferred tax liabilities	14	1,152	0
Financial liabilities	12	2,285	1,913
<b>Non-current liabilities</b>		<b>3,437</b>	<b>1,913</b>
Financial liabilities	12	421	204
Trade payables		656	322
Other current liabilities	13	2,121	1,181
<b>Current liabilities</b>		<b>3,198</b>	<b>1,707</b>
<b>Total equity and liabilities</b>		<b>38,042</b>	<b>14,033</b>

## Consolidated statement of comprehensive income

(in € thousands, apart from disclosures on shares)	Note	Fiscal year ended 31 December	
		2016	2015
<b>Revenues</b>	15	<b>1,789</b>	<b>555</b>
<b>Costs of goods sold</b>		<b>(1,026)</b>	<b>(27)</b>
<b>Expenses</b>			
Sales		(895)	(646)
Administration		(2,771)	(1,990)
Research and development		(1,219)	(1,411)
Other operating income		0	(128)
Other operating expenses		102	(215)
<b>Total operating expenses</b>		<b>(5,809)</b>	<b>(4,417)</b>
<b>Results of operating activities</b>		<b>(4,020)</b>	<b>(3,862)</b>
Finance costs		(128)	(201)
Finance income		0	24
<b>Earnings before taxes</b>		<b>(4,148)</b>	<b>(4,011)</b>
Income tax	14	(240)	29
<b>Net profit/loss for the period</b>		<b>(4,388)</b>	<b>(4,011)</b>
thereof allocable to owners of SYGNIS AG		(4,388)	(4,011)
Exchange rate adjustments (after deducting deferred taxes of 0 T€)		376	43
<b>Other comprehensive income (after taxes)</b>		<b>376</b>	<b>43</b>
<b>Total comprehensive income</b>		<b>(4,012)</b>	<b>(3,968)</b>
thereof allocable to owners of SYGNIS AG		(4,012)	(3,968)
<b>Earnings per share (diluted and undiluted)</b>	23	<b>(0.20)</b>	<b>(0.30)</b>
Average number of shares outstanding	23	21,915,064	13,426,081



## Consolidated statement of cash flows

(in € thousands)	1 January - 31 December	
	2016	2015
<b>Operating activities:</b>		
Net loss for the period	(4,388)	(4,011)
Operating activities:		
Depreciation of property, plant and equipment	278	50
Amortisation and impairment of intangible assets	534	298
Losses (gains) on the sale of property, plant and equipment and intangible assets	0	(67)
Other non-cash items	1,129	260
Share-based payment expense	0	0
Change in operating assets and liabilities:		
Trade receivables and other current assets	(216)	(510)
Trade payables	(234)	6
Other current liabilities	119	192
Inventories	(322)	0
Deferred tax	0	195
<b>Cash outflow from operating activities</b>	<b>(3,100)</b>	<b>(3,556)</b>
Interest paid	(115)	(259)
<b>Net cash outflow from operating activities</b>	<b>(3,215)</b>	<b>(3,815)</b>
<b>Investing activities:</b>		
Business acquisitions, net of cash acquired	(1,129)	0
Investments in property, plant and equipment and intangible assets	(182)	(176)
Investments in development expenses recognized as an asset	(491)	(406)
Proceeds from the sale of property, plant and equipment and intangible assets	0	71
Payments for long term security deposits	0	(19)
<b>Cash outflow from financing activities</b>	<b>(1,802)</b>	<b>(530)</b>
<b>Financing activities:</b>		
Cash in(out) flow due to repayments of current financial liabilities	129	(345)
Capital increase by way of cash contribution (less costs of issuing equity of €1,116 thousand)	4,115	5,086
<b>Cash inflow from financing activities</b>	<b>4,244</b>	<b>4,741</b>
Net change in cash and cash equivalents	(773)	397
Exchange differences	11	396
<b>Cash and cash equivalents at the beginning of the period</b>	<b>4,557</b>	<b>3,764</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>3,795</b>	<b>4,557</b>

Cash and cash equivalents include cash on hand, bank balances and short-term deposits with a term of less than three months.

The Company has no credit lines open as of 31 December 2016. For 2016, cash outflows for investing activities include an amount of €491 thousand (previous year: €446 thousand) spent on development activity.

## Consolidated statement of changes in equity

(in € thousand, apart from disclosures on shares)	Issued capital Number	Amount	Capital reserves	Accumulated loss	Other comprehensive income		Total	Total Equity
					Accumulated cash exchange differences	Exchange effect on long term assets		
<b>1 January 2015</b>	<b>10,822,662</b>	<b>10,823</b>	<b>8,698</b>	<b>(10,826)</b>	<b>(353)</b>		<b>(353)</b>	<b>8,343</b>
Capital increases against cash (after deducting transactions costs of €981 thousand))	3,112,552	3,113	1,973					5,085
Capital increases against contribution in kind			600					600
Expenses from share-based increases against cash	2,522,272	2,522	(2,522)					0
Expenses from share-based compensation								0
Result recorded directly in equity					396		396	396
Net loss for the year				(4,011)				(4,011)
Total comprehensive income				(4,011)	396		396	(3,615)
<b>31 December 2015</b>	<b>16,457,486</b>	<b>16,458</b>	<b>8,749</b>	<b>(14,837)</b>	<b>43</b>		<b>43</b>	<b>10,413</b>
<b>1 January 2016</b>	<b>16,457,486</b>	<b>16,458</b>	<b>8,749</b>	<b>(14,837)</b>	<b>43</b>		<b>43</b>	<b>10,413</b>
Capital increases against cash (after deducting transactions costs)	4,818,200	4,818	482					5,300
Capital increases against contribution in kind	15,719,889	15,720	3,986					19,706
Reclassification of capital increases against cash	346,405	346	(346)					0
Result recorded directly in equity					11	365	376	376
Net loss for the year				(4,388)				(4,388)
Total comprehensive income				(4,388)	11	365	376	376
<b>31 December 2016</b>	<b>37,341,980</b>	<b>37,342</b>	<b>12,871</b>	<b>(19,225)</b>	<b>54</b>	<b>365</b>	<b>419</b>	<b>31,407</b>

## Notes to the consolidated financial statements 31 December 2016

### A. Basis of the consolidated financial statements

#### 1. Business objective and business divisions of the Company

SYGNIS-Group (hereinafter referred to as "SYGNIS" or "the Company") with its parent company SYGNIS AG, Heidelberg, is a biotech company listed on Prime Standard segment of Deutsche Börse, the main German stock exchange. The Company is focused on the development and marketing of new molecular-diagnostic technologies, e.g. in the field of DNA amplification and sequencing. The business address of SYGNIS AG is: Waldhofer Strasse 104, 69123 Heidelberg, Germany. The main shareholder is Genetrix S.L., Madrid, Spain (former: Genetrix Life Sciences A.B., Uppsala, Sweden).

The Company's consolidated financial statements as of 31 December 2016 were prepared in accordance with the International Financial Reporting Standards (IFRSs) and the International Accounting Standards (IASs) of the International Accounting Standards Board (IASB) as well as the interpretations of the Standing Interpretations Committee (SIC) and of the International Financial Reporting Standards Interpretation Committee (IFRS IC) as adopted by the EU. All those standards (IFRSs/IASs) and interpretations (IFRICs) subject to mandatory adoption for the fiscal year 2016 were considered. The consolidated financial statements further satisfy all standards and interpretations as ratified by the IASB.

Unless a different currency unit is used in individual cases, all amounts in the consolidated financial statements are stated in euro ("€"). Due to rounding differences, figures in tables and cross-references may differ slightly from the actual figures.

Preparation of these consolidated financial statements was completed by the Management Board on 19 April 2017. The consolidated financial statements were approved by the Supervisory Board on the 24 April 2017.

#### 2. Accounting policies

The accounting policies adopted are consistent with those of the previous reporting year of SYGNIS except as follows.

The application of numerous new standards, interpretations and amendments to existing standards became mandatory for the 2016 fiscal year. The following new or amended standards and interpretations became mandatory for the first time in the 2016 fiscal year and have no material effects on the consolidated financial statements of SYGNIS:

- IFRS14 Regulatory Deferral Accounts
- Amendments to IFRS11 Joint Arrangements: Accounting for the acquisition of shares in joint ventures
- Amendments to IAS16 Property, Plant and Equipment and IAS38 Intangible Assets: clarification of permitted write down methods
- Amendments to IAS41 Agriculture
- Amendments to IAS27 Consolidated and Separate Financial Statements: Equity method in individual financial statements
- Improvements to IFRS 2012-2014
- Amendments to IFRS7 Financial Instruments: Disclosures
- Amendments to IAS19 Employee Benefits

- Amendments to IAS34 Interim Financial Reporting
- Amendments to IAS1 Presentation of Financial Statements
- Amendments to IFRS10, IFRS12 and IAS28 Investment Companies – application of exemption from consolidation

The application of the following standards, interpretations and amendments to existing standards was not yet mandatory for the 2016 fiscal year. SYGNIS also did not choose to apply them in advance. Their application will be mandatory for the fiscal years following the dates stated in the following table:

#### Overview of relevant new standards and interpretations as well as changes to existing standards and interpretations

	Effective date for SYGNIS
<b>Changes in Standards</b>	
IAS 7 "Statement of Cash Flows (Disclosure Initiative)"	01/01/2017*
IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"	01/01/2017*
IFRS 2 "Group Cash-settled Share-based Payment Arrangements"	01/01/2018*
Changes to IFRS 10 und IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	deferred for interdeterminate period
Annual improvement from the IFRS Standards Cycle 2014 -2016	1 January 2017 / 1 January 2018*
<b>New Standards</b>	
IFRS 9 "Financial Instruments"	01/01/2018
IFRS 15 "Revenue from Contracts with Customers"	01/01/2018
IFRS 11 Interpretation 22 Foreign Currency Transactions and Advance Considerations	01/01/2018*
IFRS 16 "Leases"	01/01/2019*

\* not yet endorsed

The changes to IFRS 10 and IAS 28 have no impact on the financial statements of SYGNIS.

#### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.



**(a) Classification and measurement**

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

**(b) Impairment**

IFRS 9 requires the Group to record expected credit losses on all of trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity due to receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

**(c) Hedge accounting**

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

**(a) Sale of goods**

Contracts with customers in which the sale of products is generally expected to be the only performance obligation are not expected to have any impact on the Group's profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer.

**(b) Presentation and disclosure requirements**

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new. In 2016 the Group developed and started testing of

appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

**Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture:** The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. This is not expected to affect the Group.

**IAS 7 Disclosure Initiative – Amendments to IAS 7**

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

**IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

**IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2**

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group presently has no share based payments.

### IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

### 3. Summary of significant accounting policies

#### Basis of consolidation

The consolidated financial statements are generally prepared in accordance with the historical cost convention, except for the first-time recognition of assets and liabilities in connection with business combinations and available-for-sale financial assets that were measured at fair value.

The group entities' fiscal year ends on 31 December. The financial statements of the subsidiaries are prepared for the same reporting year as for the parent, using consistent accounting policies. All intercompany clearing accounts and transactions were eliminated in the course of consolidation.

Subsidiaries are consolidated in full on the date of acquisition, i.e., the date on which control is transferred to the Group, and are deconsolidated as soon as the parent loses control over the subsidiary.

#### Scope of consolidation

These consolidated financial statements include the financial statements of SYGNIS AG and its subsidiaries. The Company holds all of the shares in each of the following subsidiaries:

- Expedeon Bioscience GmbH & Co. KG (formerly SYGNIS Bioscience GmbH & Co. KG), Heidelberg
- Expedeon Verwaltungs GmbH (formerly SYGNIS Verwaltungs GmbH), Heidelberg

- LION bioscience Inc., Needham, MA, USA
- Expedeon BIOTECH S.L.I. (formerly SYGNIS BIOTECH, S.L.U.), Madrid, Spain
- Expedeon Holdings Limited, Cambridge, UK since 18 July 2016
- Expedeon Limited, Cambridge, UK, since 18 July 2016
- Expedeon Asia Pte. Limited, Singapore, since 18 July 2016
- Expedeon Inc., San Diego, USA, since 18 July 2016

#### Foreign currency translation

The annual financial statements of the Company's subsidiaries were prepared in their functional currency, which corresponds to the local currency. Accounts in the statement of financial position are translated into the reporting currency (euro) at the rates prevailing at the end of the reporting period, apart from equity which is translated at the rates prevailing on the closing date of each transaction. The income and expense accounts were translated at the weighted average exchange rate over the fiscal year. Any differences arising from currency translation are recognised in a separate item within equity (other comprehensive income).

In the fiscal year 2016 exchange rate gains of €11 thousand (previous year: exchange rate losses of €12 thousand) were recognised in the item "Other operating expenses (previous year: other operating income)"; these resulted from the translation of foreign currency assets and liabilities. In addition, unrealised exchange rate gains of €365 thousand from consolidation at group level were recognised in other comprehensive income in the fiscal year 2016 (previous year: exchange rate losses of €396 thousand).

These items do not include differences on foreign currency loans and receivables that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss

The exchange rates of the currency material to the consolidated financial statements developed as follows:

	Rate at the end of the year		Average rate for the year	
	31 December 2016	31 December 2015	2016	2015
	Equivalent of 1 €	Equivalent of 1 €	Equivalent of 1 €	Equivalent of 1 €
US-Dollar	1,0592	1,0887	1,1069	1,1095
Pound Sterling	0,8562		0,8623	
Singapore-Dollar	1,523		1,5193	

#### Significant accounting judgments, assumptions and estimates

##### Accounting judgments

In the process of applying the accounting policies, management has made the following judgments which have a material effect on the amounts recognised in the financial statements. Decisions based on estimates are not considered.

##### Obligations from operating leases

The Company has determined that all the risks and rewards of ownership of these properties which are leased under operating leases are to be legally assigned to the owner.



**Estimates and assumptions**

Preparation of the consolidated financial statements requires estimates and assumptions by the Management Board that affect the amount of assets, liabilities, income, and expenses reported in the consolidated financial statements and the contingent assets and contingent liabilities reported. Actual results may differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

**Impairment of goodwill**

The Company tests goodwill for impairment at least once a year. This requires an estimation of the value in use of the underlying cash generating units (CGUs) to which the respective goodwill is allocated. In order to estimate the value in use, management must estimate the anticipated future cash flows of the individual CGUs, assess the prospects for success of the underlying projects and an appropriate discount rate. The review of goodwill is based on a planning period of five years which corresponds to the current business plan assumptions. The long-term nature of the planning horizon means that the related assumptions and forecasts are subject to great uncertainty, in particular with regard to whether the products can be developed successfully, whether the planned out-licensing agreements could be closed and whether the budgeted revenues can be generated. The carrying amount of goodwill of €23.8 million as of 31 December 2016 (31 December 2015: €5.9 million) is allocated to the SYGNIS group as one CGU.

**Deferred tax assets**

When calculating deferred taxes on loss carry-forwards the Company had to make several assumptions. These assumptions especially relate to achieving sufficient positive taxable income in the future. Due to the long planning horizon assumptions and estimations are characterized by a high uncertainty. Deferred tax assets on loss carry-forwards amounted to €258 thousand as of 31 December 2016 (31 December 2015: €402 thousand). In total, deferred tax assets amounted to €258 thousand. They were offset with deferred tax liabilities amounting to €1,410 thousand, so the carrying amount was €1,152 thousand.

**Business combination**

In the context of the purchase price allocation arising from the acquisition of the Expedeon group, the Company undertook an assessment of the carrying value of the assets and liabilities of that group. The valuation was in part substantiated using the discounted cashflow method. To estimate the value, management was required to estimate the prospective future cashflows of the CGU, the likelihood of the success of underlying projects and an appropriate discount rate. In addition, the contribution of individual assets to the cashflow was also estimated.

A summary of the valuation of assets and liabilities can be found in note 4.

**Property, plant and equipment**

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. The carrying amounts of property, plant and equipment are tested for impairment as soon as there is any indication that the carrying amount of an asset exceeds its recoverable amount.

Depreciation is performed over the useful life of the fixed assets on a straight-line basis as follows:

- Office fixtures and fittings.....4 to 10 years
- Laboratory equipment.....3 to 10 years

Leasehold improvements are depreciated over their useful lives or, if shorter, over the term of the lease.

An item of property, plant and equipment is derecognised on disposal. Any gain or loss arising on derecognition of the asset – calculated as the difference between the net realisable value and the carrying amount of the asset – is recognised through profit or loss in the statement of comprehensive income in the period in which the asset is derecognised.

The residual values of the assets, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted if necessary.

**Business combinations and goodwill**

Acquisitions are accounted for in accordance with IFRS 3 “Business Combinations”. Correspondingly, the results of the acquired entity are included in the consolidated financial statements from the date of acquisition. Acquisition accounting is performed in accordance with the acquisition method. Any excess of cost over the Group’s interest in net assets measured at fair value is recognised as goodwill.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s CGUs that benefit from the synergies. A CGU to which the goodwill is allocated,

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined pursuant to IFRS 8 “Operating Segments”.

An impairment loss is determined by calculating the recoverable amount of the CGU to which goodwill relates. If the recoverable amount of the CGU (group of CGUs) is lower than its carrying amount, an impairment loss is recorded. Impairment losses for goodwill may not be reversed if underlying conditions change.

**Intangible assets acquired separately and during a business combination**

Intangible assets acquired separately are initially measured at cost. The cost of an intangible asset acquired in a business combination is its acquisition-date fair value. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. With regard to intangible assets, it is initially important to determine whether they have a finite or an indefinite useful life.

Intangible assets with finite useful lives are amortised as follows on a straight-line basis over their economic useful lives:

- Software licenses and other licenses .....3 to 10 years
- Rights of use and patents..... 4 to 20 years
- Customer lists ..... 5 years

In addition, such intangible assets with a finite useful life are tested for impairment whenever there is any indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each fiscal year at the latest. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or

method, as appropriate, and treated as changes in accounting estimates in accordance with IAS 8.32 et seq.

Intangible assets that are not yet available for use are not amortised but are rather tested for impairment on an annual basis.

### Leases

The determination of whether an arrangement forms the basis for a lease is based on the substance of the arrangement and requires an estimate of whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are expensed immediately.

The Group did not have any finance leases at the end of the reporting period. Operating lease payments are recognised as an expense directly in the statement of comprehensive income on a straight-line basis over the lease term. The details of any material future expenses are provided under section "other financial obligations".

### Impairment of non-current and intangible assets

The Group assesses whether there is any indication that an asset may be impaired as of the end of each reporting period. If there is any indication of impairment or if an annual impairment test is required, the Group makes a formal estimate of the recoverable amount. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset exceeds its recoverable amount, the asset is described as impaired and written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recorded in the statement of comprehensive income as expenses incurred in the respective function and, if the amounts are material, stated as a separate item in the results of operating activities.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognised for an asset in previous years may no longer exist or may have decreased. If such indications exist, the recoverable amount is estimated. A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If applicable, the carrying amount of the asset is increased to its recoverable amount. The increased carrying amount may not exceed the carrying amount that would have been determined after amortisation or depreciation had no impairment loss been recognised for the asset in previous years. The amount of the reversal is posted to profit or loss, unless the asset is recognised at the revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the amortisation/depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment losses of €0.1 million were recognised on intangible assets in 2015 (previous year: €0.3 million).

### Investments and other financial assets

Financial assets as defined by IAS 39 are allocated to the "loans and receivables" (LaR), "held to maturity" (HtM), "available for sale" (AfS) and "at fair value through profit or loss" (FVPL) categories. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments which are not measured at fair value through profit or loss, any directly attributable transaction costs. Securitised equity instruments for which there is no quoted price in an active market, meaning their fair value is difficult to establish, are reported at the lower of cost or market. The Group determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, reassesses this designation at each fiscal year-end.

Regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date on which the entity entered into the obligation to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the asset within the period generally established by regulation or convention in the marketplace.

### Receivables

Receivables (category LaR) are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Gains and losses are recognised through profit or loss when the receivables are derecognised or impaired.

### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and any gain or loss is recognised in a separate item under equity. On derecognition of the investment or identification of impairment, any cumulative gain or loss that had previously been recognised directly in equity is released to the statement of comprehensive income. Impairment losses are not recorded on available-for-sale financial assets until one or more (loss) events occur pursuant to initial recognition and there are objective indications of impairment and such loss will have an effect on the future cash flow of the asset that can be estimated reliably. Objective indications of the impairment of securitised debt instruments include but are not limited to failure to pay or delay in interest or principal payments.

Available-for-sale financial assets are disclosed under current assets if management intends to sell them within 12 months of the end of the reporting period.

### Fair value of financial instruments

All financial instruments recognised at fair value in the consolidated financial statements are categorised into the following hierarchy levels in accordance with IFRS 13:

- **Level 1:** Fair values that are measured using quoted prices in active markets.
- **Level 2:** Fair values that are measured using valuation techniques whose significant inputs are based on directly or indirectly observable market data.
- **Level 3:** Fair values that are measured using valuation techniques whose significant inputs are not based on observable market data.

Financial instruments regularly measured at fair value are reassessed at the end of the fiscal year to determine whether reclassifications have to be made between the levels of the hierarchy. The fair value of financial instruments carried at amortised cost is determined on the basis of the expected future cash flows, using the benchmark interest rates for matching risks and maturities at the balance sheet date.



The carrying amount of cash and cash equivalents, receivables, current assets and current liabilities approximates fair value due to the relatively short-term maturity of these instruments.

The carrying amount of financial assets and financial liabilities approximates their fair value on the basis of the market price (level 1).

### Inventory

Inventories relate to finished products and consumables for research activities. The valuation was carried out on the basis of the lower of manufacturing or acquisition costs and fair value. As of the balance sheet date the stock was listed by physical inventory. As of 31 December 2016 raw materials, auxiliary materials and consumables amount to €457 thousand (prior year €34 thousand) are recognized at cost in inventories and €635 thousand (prior year €66 thousand) are shown as finished goods measured at conversion costs according to IAS 2.12 et seq. These amounts include a fair adjustment of €284 thousand arising on the acquisition of the Expedeon group. From the sale of finished goods an amount of €1,026 thousand (prior year €27 thousand) had to be expensed as costs of goods sold in 2016. This includes an amount of €526 thousand in respect of the fair value adjustment for inventories held by Expedeon group on the date of acquisition.

### Trade receivables

Trade receivables, which generally have 14-60 day payment terms, are recognised at the original invoice amount less an allowance for any uncollectible amounts. A bad debt allowance is recognised when there is sufficient objective evidence indicating that the receivables are fully or partially uncollectible or it is likely that they cannot be collected, and the amount of the allowance can be determined sufficiently reliably. Receivables are written off as soon as they become uncollectible.

Trade receivables as of 31 December 2016 amount to €771 thousand (prior year €206 thousand) and include bad debt allowances of €59 thousand (prior year €15 thousand). Excluding the bad debt allowances trade receivables had the following aging structure as of 31 December 2016: Not due 70% (31 December 2015: 89%), due between 1 day and 30 days 18% (31 December 2015: 1%) and due since more than 30 days 13% (31 December 2015: 10%).

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term deposits with a term of less than three months.

Dependent on the term of the rent agreements bank balances held as rent deposits are disclosed under other non-current assets or other current assets as earmarked funds as they cannot be used by the Group for operating activities.

### Financial liabilities

Financial liabilities are initially recognised at fair value less any transaction costs directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Current liabilities are disclosed at the amount repayable.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Group expects at least a partial reimbursement of the expenses for which provision has been made (e.g., from an insurance policy) the reimbursement is only recognised as a separate asset if the reimbursement is virtually certain. The expense relating to a provision is presented net of any reimbursement in the statement of comprehensive income. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Furthermore, the definitive risks and rewards of ownership of the goods have to have passed to the buyer.

Revenue from the sale of own products is recognised when goods and products are delivered and the significant risks and rewards incidental to ownership have been transferred to the buyer.

Revenue from Caco-2 license fees is recognised over the respective contractual period on a straight-line basis. If a perpetual license has been agreed in license agreements, the license fees are recorded in the period in which the fees are due and receipt of payment is likely. Service fees in connection with research and development cooperation work are reported in the period in which the service is rendered.

Revenue from the out-licensing of own products (license agreement QualiPhi) is recognised in the period in which the fees are due and receipt of payment is likely. Non-refundable one time payments are recorded as revenue in the period in which the payment is due and receipt of payment is likely.

### Government grants

The Company receives government grants and subsidies from various government support programs. Depending on the structure of the support program in question, the Company decides whether these grants and subsidies are recognised as revenue or are offset against the costs incurred. Government grants and subsidies for the research and development costs which can be directly allocated to a program are offset against the corresponding expenses. €78 thousand were offset against the corresponding expenses in the fiscal year 2016 and €87 thousand in 2015.

### Research and development costs

Research and development costs are expensed in the period in which they are incurred. Total research and development costs, before offsetting against government grants and subsidies, were €1,325 thousand in 2016 and €1,876 thousand in 2015.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from internal development is recognised if, and only if, all of the following requirements according to IAS 38.57 Intangible Assets have been fulfilled:

- proof of the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- proof of the intention to complete the intangible asset to use or sell it;
- proof of the ability to use or sell the intangible asset;
- proof how the intangible asset will generate probable future economic benefits;
- proof of the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- demonstration of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for the capitalisation of development costs is the sum of expenditure incurred from the date when the intangible assets first met the aforementioned recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, capitalised development costs are reported at cost less accumulated amortization and impairment losses, on the same basis as intangible assets acquired separately. The useful life of such capitalised development costs is assumed under consideration of the individual project and amounts to up to five years for the currently capitalised assets. Amortisation is recorded on a straight-line basis.

#### Income taxes

##### Current tax assets and liabilities

Current tax assets and liabilities for the current and previous periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

##### Deferred taxes

Deferred tax is recognised using the liability method on all temporary differences as of the end of the reporting period between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax liabilities are recognised for taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and unused tax loss carry-forwards and unused tax credits, to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry-forward of unused tax loss carry-forwards and tax credits can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reviewed at the end of each reporting period and recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

For transactions and other events recognised in other comprehensive income, any taxes on income are also recognised in other comprehensive income, not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets and current tax liabilities and these relate to income taxes levied by the same taxation authority on the same taxable entity.

#### Earnings per ordinary share

Earnings per share are calculated by dividing the Group's profit or loss by the weighted average number of outstanding ordinary shares. For calculation of average number of outstanding shares in the fiscal year 2016, reference is made to note 23.

## B. Notes to the statement of financial position

### 4. Acquisition Accounting

On 18 July 2016, the Company acquired 100% of the voting shares of Expedeon Holdings Limited, a non-listed company based in England, specialising in the provision of proteomics tools to scientists. The Company acquired Expedeon Holdings Limited to combine the business of Sygnis AG and the Expedeon group and in particular to benefit from market position of the Expedeon group in the USA and UK.

#### Acquired assets and liabilities

The fair value of the identifiable assets and liabilities of Expedeon Holdings Limited as at the date of acquisition were:

Assets	Fair value In € thousand
Land and buildings	777
Cash and cash equivalents	571
Trade receivables	343
Inventories	1,377
Patents and licences	2,985
Customer lists	2,165
Other assets	65
	<b>8,283</b>
Liabilities	
Trade payables	381
Deferred income	353
Provision for restructuring	257
Financial liabilities	534
Provisions	437
Deferred tax liability	1,219
Other liabilities	56
	<b>3,237</b>
<b>Sum of separately identifiable net assets at fair value</b>	<b>5,046</b>
Goodwill	17,546
<b>Purchase Consideration Transferred</b>	<b>22,592</b>

The deferred tax liabilities reflect primarily the accelerated tax deductions on tangible and intangible assets. The goodwill of €17,546 thousand comprises the fair value of expected synergies arising from acquisition.



From the date of acquisition, Expedeon Holdings Limited contributed €1,311 thousand of revenue and €640 thousand loss to earnings before tax from continuing operations of the Group. These results include sales of Sygnis products through Expedeon group sales channels. In addition, the loss includes fair value adjustments arising on sale of inventories and amortisation of intangible assets fair valued at the date of acquisition. If the combination had taken place at the beginning of 2016, the group's revenue from continuing operations would have been €3,217 thousand and the loss before tax from continuing operations would have been €4,127 thousand which includes fair value adjustments and costs associated with the Expedeon group transaction.

Consideration	In € thousand
Inssued shares valued as at 18 July 2016	20,892
Cash consideration	1,700
	<b>22,592</b>

The Company has by way of consideration for the acquisition of Expedeon Holdings Limited issued 15,719,889 ordinary shares. The fair value of the shares has been calculated with reference to the recorded share price on the date of acquisition, which stood at €1.329. The fair value of consideration therefore stood at €20,892 thousand in addition to cash consideration of €1,700 thousand.

#### Analysis of cashflows in relation to the acquisition

	In € thousand
Transaction costs arising from the acquisition (included in the cashflows under operating activities)	(237)
Cash acquired included in the cashflows under investing activities	571
Transaction costs associated with the issue of shares (included in the cashflows under financing activity after tax)	(1,116)
<b>Actual outflows arising from the acquisition</b>	<b>(782)</b>

The transaction costs of €237 thousand have recorded as an expense and included in administrative expenses. The costs associated with the issue of shares of €1,116 thousand have been treated as a reduction in the value of shares and offset against share capital.

#### 5. Property, plant and equipment

In € thousand	31 December 2016	31 December 2015
Land and buildings	392	0
Laboratory equipment	442	245
Office fixtures and fittings	85	25
Other	38	0
	<b>957</b>	<b>270</b>

Depreciation of property, plant and equipment amounted to €96 thousand in 2016 and €50 thousand in 2015.

#### 6. Goodwill

	In € thousand
Goodwill resulting from business combinations	
<b>Book value goodwill as of 31 December 2015</b>	<b>5,942</b>
Impairment fiscal year 2016	0
Impairment cumulated until fiscal year 2016	0
Acquired goodwill during 2016	17,546
Foreign exchange movement on goodwill acquired	341
<b>Book value goodwill as of 31 December 2016</b>	<b>23,829</b>

Goodwill arose from the Reverse Acquisition of SYGNIS AG by SYGNIS Biotech S.L.U., Madrid, Spain, (hereinafter referred to as "SYGNIS Spain") in the fiscal year 2012 and the 2016 acquisition of the Expedeon group. The goodwill was allocated to SYGNIS Group as the cash generating unit. Impairment testing is carried out at least annually and if there is any indication of impairment in accordance with IAS 36.

The recoverable amount of the CGU SYGNIS was used as base for the calculation of the value in use. As of 31 December 2016 the recoverable amount exceeded its carrying amount and was €36 million. No intangible assets with indefinite useful lives are allocated to this CGU. The fair value of the CGU is based on the projected discounted cash flows from the assets allocated to the CGU. These assets relate primarily to expected future sales arising from the product portfolio held by Sygnis across genomics and proteomics. The estimated cash inflows are based on customary assumptions of market prices that are made within the industry. These assumptions take into account the corresponding likelihood of success using probabilities and the expenses yet to be incurred to arrive at a final result for the CGU. This final result is then discounted over the planning period of five years using an interest rate of 12% p.a. The Company has used a growth rate of 0% to extrapolate cash flow projections beyond the period covered by the planning period.

If the revenue assumptions are not realised or only to a reduced amount within the planning period, it may be necessary to recognise an impairment on goodwill or even to write it off in full. In estimating the fair value of the CGU, the Management Board does not expect to have a reasonable possible change in a key assumption. An impairment test is performed at the end of each fiscal year or in case of triggering events. The impairment test performed at 31 December 2016 and 31 December 2015 showed no evidence of impairment of the goodwill. When calculating the value in use sensitivity analyses were performed. Neither a change in the interest rate of 5% points nor a revenue reduction of 20%-40% points resulted in an impairment loss of goodwill. The company assesses the appropriateness of its assumptions used in the sensitivity analysis with respect to deviations in interest rates and revenues on a yearly basis in order to better reflect the current market conditions with respect to interest rates, market risk premium, beta-factor and capital structure as well tax rates in the valuation model. Therefore, the company assumed that an increase in the interest rate of 5% points adequately reflects the existing risk arising from changes in the interest rate instead of using 10% points as in previous years.

#### 7. Other intangible assets

In € thousands	Useful life	31 December 2016	31 December 2015
Acquired patent and licence rights	9 to 19 years	3,182	310
Customer lists	5 years	1,985	0
Capitalised development expenses	5 years	1,722	1,451
Software licenses and other licenses	3 to 10 years	37	65
		<b>6,926</b>	<b>1,826</b>

Amortisation and impairment losses on other intangible assets amounted to €514 thousand in the fiscal year 2016 and €298 thousand in the fiscal year 2015. These are included in expenses research & development and administration.

### Acquired patent and license rights

Acquired patent and license rights were resulting from the Reverse Acquisition in the fiscal year 2012 and the acquisition of Expedeon Group in 2016. SYGNIS based its calculation of fair value for the marketing potential of the acquired patents and license rights on various assumptions, in particular the estimated market revenues of current and future products and services including potential licensing revenue from partners.

In relation to Expedeon, the value of the marketing possibilities for patent rights relates to a range of electrophoresis products, protein detection and quantitation products and protein stabilising products and technologies. In relation to the Reverse Acquisition, the value of the marketing possibilities for patent rights relates to protein-protein interactions (Double Switch) and the Caco-2 cell lines.

The amortisation for the year was €104 thousand. In 2015, an impairment amounting to €128 thousand was recognised in fiscal year 2015 in respect of Caco-2 cell lines.

### Capitalised development expenses

In fiscal year 2016 the group has capitalised development expenses amounting to €491 thousand (previous year: €406 thousand).

As of 31 December 2016, the total amount capitalised amounts to €1,722 thousand (31 December 2015: €1,451 thousand). In fiscal year 2016 no impairment loss was recorded.

### Customer lists

Upon the acquisition of Expedeon group, a fair value exercise was undertaken using assumptions regarding the future cashflows arising from revenues less marketing costs expected to derive from the customer lists held by Expedeon Holdings Limited and its subsidiaries at the time of the transaction. These cashflows are discounted using an interest rate of 12% p.a. The customer list is capitalised at €2,165 thousand and is being amortised over its considered useful life of five years.

### 8. Other current assets

In € thousands	31 December 2016	31 December 2015
VAT credits	74	122
Security deposits	27	103
Prepaid expenses	182	233
R&D credits Spain	112	114
RETOS loans due	257	0
Other	20	5
	<b>672</b>	<b>577</b>
<i>thereof financial assets</i>	578	450

R&D credits for Spain have been reclassified from deferred tax assets to other current assets since the company is entitled to claim the reimbursement from the Spanish tax authorities in less than one year.

### 9. Cash and cash equivalents

Cash and cash equivalents break down as follows:

In € thousands	31 December 2016	31 December 2015
Cash on hand and at banks	3,712	4,557
Overnight and time deposits	83	0
	<b>3,795</b>	<b>4,557</b>

### 10. Equity

The changes in equity of the Group is shown in the statement of changes in equity.

#### Goals of equity management

The equity management of the Company aims to maintain an equity ratio of at least 25%. The measures of the equity management include regular discussions between Management Board and Supervisory Board during the Supervisory Board meetings.

#### Issued capital

Equity amounts to €37,341,980.00 as of 31 December 2016 (31 December 2015: €16,457,486.00) and relate to the issued capital of SYGNIS AG. It is divided into 37,341,980 no-par-value bearer shares with an imputed share in capital of €1.00 each.

In June 2016, the Management Board with the approval of the Supervisory Board and the Annual General Meeting agreed a capital increase of €20,358,089.00. This took place on 14 July 2016 where 4,818,200 shares were issued for cash and 15,719,889 were issued in consideration for the acquisition of Expedeon Holdings Limited, Cambridge, UK. The reference price for the share issue for cash was €1.10 per share. The capital increase was issued from approved shares. The capital increase for cash was recorded in the commercial register on 2 August 2016; the capital increase for non-cash consideration was recorded in the commercial register on 19 October 2016.

In 2015 SYGNIS AG has resolved additional several capital increases against cash amounting to €150 thousand. The capital increase was divided into six tranches and the registration in the Commercial Register was done in November 2015, the issued capital was thus increased to €13,494,934.00. The total subscription price amounted to €366 thousand.

In October and November 2015 SYGNIS AG issued further equity of €31 thousand with a total subscription price of €72 thousand, which was registered in the Commercial Register on 1 February 2016. The capital increases were also executed by using the authorised capital of the Company and the new shares were fully subscribed by the US based investment company YA Global Master SPV LTD, Jersey City, USA (YA Global).

In December 2015, the Management Board with the approval of the Supervisory Board has resolved a capital increase against cash of €2,962,552.00, which was completed on 10 December 2015. The subscription price amounted to €5,628,848.80. The capital increase was executed by using the authorised capital of the Company. This capital increase was recorded in the commercial register on 16 December



2015. Thus, issued capital was increased to €16,457,486.00. In addition, the main shareholder Genetrix S.L., Madrid, Spain, also participated in the capital increase with a contribution in kind and signed additional 315,789 new shares. The registration of the new shares from this contribution in kind in the Commercial Register was closed on 17 March 2016, after the reporting period..

### Authorised capital

The Management Board was authorised by resolution of the annual general meeting of SYGNIS AG on 20 June 2016 to cancel the remaining existing authorized capital and create a new authorized capital excluding subscription rights of shareholders with the consent of the Supervisory Board and corresponding amendment to the articles of association. The share capital of the Company may be increased until 19 June 2021 by issuing new ordinary bearer shares as no-par-value shares against contributions in cash and / or in kind, once or several times, in total by not more than €7,859,444.00 (authorized capital 2016/II).

At the annual general meeting of SYGNIS AG on 20 June 2016, a resolution was also passed allowing the Company to conditionally increase capital stock by a maximum of €6,500,000.00 by issuing up to 6,500,000.00 ordinary bearer shares (conditional capital V). Conditional capital V can be used for convertible bonds issued in one or more option programs.

### Capital reserves

In December 2015, new shares amounting to €346,405.00 were issued and registered in 2015. Therefore, the nominal amount was transferred from the capital reserves to issued capital.

In the context of the capital increase for cash in 2016, new shares with a nominal value of €4,818,200.00 and a purchase price of €5,300,020.00 were issued. The share premium of €481,820.00 was added to capital reserves.

In the context of the capital increase for non-cash consideration the shareholders of Expedeon Holdings Limited, Cambridge, subscribed for 15,719,889 new shares at a total price of €20,891,732.48. The share premium of €5,171,843.48 was added to capital reserves.

In total, the share premium on shares issued of €5,633,663.48 was added to capital reserves. The Company debited costs associated with the capital increase of €1,116 thousand (prior year €981 thousand) directly to capital reserves.

### 11. Deferred tax liabilities

Deferred tax liabilities were created for the recognition of individually identifiable intangible assets in connection with the Reverse Acquisition of SYGNIS AG by SYGNIS Spain. At 31 December 2016, no assets were carried forward in this respect.

Deferred tax liabilities arose on the fair value of assets and liabilities acquired following the acquisition of the Expedeon group. This amounted to €1,222 thousand of which €70 thousand was amortised.

### 12. Financial liabilities

The non-current financial liabilities break down as follows:

In € thousands	31 December 2016	31 December 2015
Soft loans		
INNFACTO Program	1,115	1,115
Madrid Network Programm	393	448
ENISA Program	200	300
RETOS Program	187	0
CDTI Program	0	51
	<b>1,895</b>	<b>1,913</b>
Bank loans	283	0
Shareholder loans	107	0
	<b>2,285</b>	<b>1,913</b>

The current financial liabilities break down as follows:

In € thousands	31 December 2016	31 December 2015
Soft loans		
INNFACTO Program	205	143
Madrid Network Programm	71	57
Others	100	4
	<b>376</b>	<b>204</b>
Bank loans	45	0
	<b>421</b>	<b>204</b>

The Company receives for its R&D activities at the site in Madrid public loans from Spanish institutions. The soft loan of the INNFACTO program bears no interest and has a term of 10 years. The Company has recognised the payments received amounting to €1,637 thousand at amortised costs using the effective interest method as of 31 December 2016 amounting to €1,320 thousand (31 December 2015: €1,258 thousand).

The soft loan of the Madrid network program bears no interest and has a term of 13 years. The Company has recognised the payments received totalling €625 thousand at amortised costs using the effective interest method as of 31 December 2016 amounting to €464 thousand (31 December 2015: €505 thousand).

Bank loans are held by Expedeon Limited against property owned by that company; in addition, shareholder loans were acquired upon the acquisition of Expedeon group and are due in 2019.

### 13. Other current liabilities

Other current liabilities can be broken down as follows:

In € thousands	31 December 2016	31 December 2015
Bonus	117	177
Supervisory Board remuneration	286	173
Legal & consulting services	76	129
Deferred income	702	112
Tax payments	21	99
Audit of financial statements	160	90
Annual report and Annual General Meeting	85	75
Invoice accruals	204	63
Redundancy and restructuring provisions	78	16
Other personnel expenses	257	0
Other	135	47
	<b>2,121</b>	<b>1,181</b>
<i>thereof financial liabilities</i>	<b>2,121</b>	<b>1,181</b>

Included in deferred in deferred income is €458 thousand received from customers as payments in advance.

### 14. Income tax expense and deferred taxes

Income tax expenses are classified by origin as follows:

In € thousands	Year ended 31 December 2016	Year ended 31 December 2015
Current taxes	109	0
Deferred taxes	(349)	(29)
	(240)	(29)

The theoretical tax expenses on the basis of the loss before taxes of €4,413 thousand (previous year: loss of €4,040 thousand) and the average tax rate of 30% (previous year: 30%) are reconciled to the current tax expense as follows:

In € thousands	31 December 2016	31 December 2015
Loss for the year before taxes	(4,148)	(4,040)
Theoretical tax expenses	(1,244)	(1,212)
Deferred tax on fair value recognition	71	0
Tax impact of non-deductible operating expenses	0	28
Change deferred tax assets	(433)	(34)

Spanish R&D tax credits	112	0
Losses without deferred taxes	1,274	1,217
Utilization of unrecognised tax loss carry-forwards	(4)	(14)
Other effects	(16)	(12)
Income taxes	<b>(240)</b>	<b>(29)</b>

Deferred tax assets from temporary differences between the carrying amount and the tax base of assets and liabilities are shown in the table below. The deferred tax liabilities of €1,239 thousand (previous year: €100 thousand) relate to intangible assets that were identified in the course of the purchase price allocation performed during the Reverse Acquisition in 2012 and the acquisition of Expedeon group in 2016. They were offset with deferred tax assets of €259 thousand.

In € thousands	31 December 2016	31 December 2015
Deferred tax assets		
Other current and non-current	36	19
Inventories	0	7
Unused tax losses	222	402
R&D Credits (Spain)	112	90
Deferred tax assets, net	370	520
Deferred tax liabilities		
Intangible assets	1,399	100
Stocks	5	0
Property	7	0
	<b>1,411</b>	<b>100</b>

The Company's deferred tax assets are recorded to the extent it is probable that such tax benefits would be realised in future years. A non-recognition of deferred tax assets is applied if the realisation of the expected benefits from the deferred taxes are not more likely than not. As of 31 December 2016, deferred tax assets on tax loss carry forwards and short term provisions amounting to €259 thousand were offset with deferred tax liabilities of €1,441 thousand. As of 31 December 2015 deferred tax assets on tax loss carry forwards amounted to €402 thousand. Furthermore, the Company recognized deferred tax assets of €112 thousand for 2016 R&D Credits in Spain which are shown in other current assets.

The unused tax losses amounted to approx. €82.2 million as of 31 December 2016 (31 December 2015: €84.1 million). Of the total unused tax losses, around €68.2 million is due to the US subsidiary Lion bioscience Inc., Needham/MA, USA and a further €6.3m in relation to Expedeon group with the remainder split between Germany (€9.1 million) and Spain (€7.9 million).

In Germany, unused tax losses can be carried forward indefinitely. German tax law provides for minimum taxation of tax loss carry-forwards under corporate income tax and trade tax, effective since 2004. As a result, the loss deduction is limited per assessment period to €1 million plus 60% of any taxable income in excess of the €1 million threshold. Under US tax legislation, they can be used within a period of 20 years, or 15 years for losses incurred prior to August 1997. Tax losses available Expedeon Inc. of €6.1 million are capped at about €250 thousand per annum due to change of control provisions following the acquisition by Sygnis. Under Spanish tax legislation, tax losses can be carried forward and used indefinitely for the first time since 2015. However, Spanish tax law provides for minimum taxation of tax



loss carry-forwards under corporate income tax which is comparable to the German legislation. As a result, the loss deduction is limited per assessment period to €1 million plus 60% (from 2017 onwards the percentage will be increased to 70%) of any taxable income in excess of the €1 million threshold.

The expiry of tax loss carry-forwards for which no deferred tax asset has been recognised is summarized in the table below:

In € thousands	31 December 2016	31 December 2015
Expiry within 1 - 5 years	60,158	41,690
Expiry within 6 - 10 years	11,762	27,316
Expiry within 11 - 15 years	1,815	471
Expiry within 16 - 20 years	557	17
Unlimited usability of unused tax loss carry-forwards	7,924	14,570
<b>Total</b>	<b>82,216</b>	<b>84,064</b>

In total, the change in tax loss carry-forwards compared with the previous year mainly results from losses acquired in Expedeon Inc. and the non-recognition of German losses.

For the calculation of the amount of the unused tax losses in Germany it was recognised that, under current legislation due to the capital increases and the transfer of shares of SYGNIS AG in the course of the fiscal year 2012 and previous years, the tax loss carry-forwards incurred before 4 December 2012 will no longer be available. These tax loss carry-forwards are not included in the table above.

### C. Notes to the statement of comprehensive income

#### 15. Revenues

Total revenues amounted €1,789 thousand in 2016 (previous year: €555 thousand). An amount of €185 thousand (previous year: €252 thousand) result from the marketing of the Caco-2 license rights in the USA which are attributable to LION Bioscience Inc.

#### 16. Personnel expenses

Personnel expenses break down as follows:

In € thousands	2016	2015
Wages and salaries	2,210	1,343
Social security	247	220
Personnel expenses for stock options	0	0
Other personnel expenses	8	42
<b>Total</b>	<b>2,465</b>	<b>1,605</b>

Employee structure as of 31 December 2016 and 2015:

	2016	2015
Research & Development	14	13
Sales und Administration	33	8
<b>Total</b>	<b>47</b>	<b>21</b>

The average number of employees for 2016 was 31 employees (previous year: 20 employees).

### D. Other notes

#### 17. Other notes on financial instruments

Based on the relevant items of the statement of financial position, the relationship between the categories of financial instruments pursuant to IAS 39, classification pursuant to IFRS 7 and the carrying amounts of financial instruments is presented in the table below. Financial instruments are allocated to hierarchy level 1 in accordance with IFRS 13.

In € thousands		31 December 2016		31 December 2015	
	Measurement category pursuant to IAS 39	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>					
Cash and cash equivalents	(1)				
thereof cash on hand and at banks		3,713	3,713	4,557	4,557
thereof cash on short term deposit		82	82		
Financial assets	(2)	0	0	0	0
thereof current		0	0	0	0
thereof non-current		0	0	0	0
Trade receivables	(1)	771	771	206	206
Other assets	(1)	672	672	713	713
thereof current		672	672	577	577
thereof non-current		0	0	136	136
<b>Total</b>		<b>5,238</b>	<b>5,238</b>	<b>5,476</b>	<b>5,476</b>
<b>Financial liabilities</b>					
Financial liabilities	(3)	2,706	2,706	2,117	2,117
thereof current		421	421	204	204
thereof non-current		2,285	2,285	1,913	1,913
Trade payables	(3)	656	656	322	322
Other liabilities	(3)	2,121	2,121	1,181	1,181
thereof current		2,121	2,121	1,181	1,181
thereof non-current		0	0	0	0
<b>Total</b>		<b>5,483</b>	<b>5,483</b>	<b>3,620</b>	<b>3,620</b>
<b>Thereof aggregated into the measurement categories of IAS 39</b>					
(1) Loans and receivables		5,238	5,238	5,476	5,476
(2) Available-for-sale financial assets		0	0	0	0
(3) Liabilities carried at amortised cost		5,483	5,483	3,620	3,620

### Fair values

Fair values of financial instruments are equivalent to level 1 according to IFRS 13. Cash and cash equivalents, trade receivables, other assets, trade payables and other liabilities fall due within the short term. Consequently, their carrying amounts at the end of the reporting period approximate their fair value.

The fair value of non-current financial liabilities was based on the historical interest rate for borrowing at similar terms and conditions with the same due date and credit rating and approximates the carrying amount.

The table below shows the net gains and losses as well as the gains and losses recognised directly in equity for the respective measurement categories:

In € thousands	Net gain / loss Year ended 31 December		Recognised directly in equity Year ended 31 December	
	2016	2015	2016	2015
<b>Measurement category pursuant to IAS 39</b>				
Loans and receivables	0	0	0	0
Available-for-sale financial assets	0	0	0	0
Liabilities carried at amortised cost	(478)	(382)	0	0
	(478)	(382)	0	0

The net gains and losses per measurement category are determined as follows:

In € thousands	Net gain / loss Year ended 31 December	
	2016	2015
<b>Measurement category pursuant to IAS 39</b>		
Loans and receivables		
Gain (loss) on sale of securitised debt instruments	0	0
	0	0
Liabilities carried at amortised cost		
Valuation of soft loans at amortised cost	(478)	(382)
	(478)	(382)

### 18. Financial risk management

In the fiscal year, the business activities of SYGNIS was concentrated on the development and marketing of new molecular biological technologies, for example on the field of DNA amplification and sequencing. So far, these activities are only to a low extent covered by license income. The operating activities are largely financed by equity, soft loans and loans given by shareholders or investors.

The possibility of obtaining additional equity or receiving further license income critically depends on the progress made in the development and marketing of the Company's products or technologies. In this regard, the capital structure of the Group only plays a subordinate role. For this reason, management focuses on the management and monitoring of the individual development projects, the amount of available liquidity and on securing future cash requirements.

Financial and operational risks are effectively monitored and communicated within the framework of the risk management system set up by the Management Board. In the process, the risks are reported by the risk officer to the risk manager who analyses and aggregates the results in a regular risk report to the Management Board. The financial risks of the Group are described below.

### Cash flow risks / interest rate risks

Fluctuations in market interest rates have a particular impact on the cash flows from floating-rate assets and liabilities. The management has made a conscious decision not to enter into any cash flow hedges for interest rate risks as it places more importance on investing its cash in short-term investments to ensure their availability to fund operating activities.

As of the end of the reporting period, the Company has invested available liquid funds exclusively in current bank accounts and short term deposits with a daily availability. Accordingly, there is no material risk from interest fluctuation when reinvesting the amounts as they fall due. The primary goal of the investing activities of SYGNIS is not to lose the funds it invests.

### Foreign currency risk

The consolidated financial statements of the Company have been prepared in Euro. Currency risks exist in particular where receivables or liabilities are carried in another currency or will arise in the ordinary course of business. The assets and liabilities of the Company carried in foreign currency relate primarily to those denominated in US dollars and result, among other things, from the business activities of LION bioscience, Inc. The Company reviews the need for currency hedges over the course of the year in order to mitigate the currency risk. As the assets denominated in US dollars are not significant to the group assets, management does not see a significant currency risk.

### Credit risk

Financial instruments which could possibly result in a concentration of credit and default risks for the Company mainly constitute cash and cash equivalents and trade receivables. Cash and cash equivalents are primarily denominated in Euro and are generally secured by capital. The maximum default risk corresponds to the carrying amount of financial instruments.

The Company only carries a small amount of trade receivables. Where necessary, allowances have been recognised for uncollectible receivables.

### Liquidity risk

Liquidity risk describes the risk arising when the company is not in a position to meet its liabilities associated with financial instruments when they fall due. This risk can also result from being unable to sell financial assets at an appropriate price.

In the case of new investments, the Company tries to secure its liquidity and to safeguard its invested capital.

### 19. Going concern assumption

The Company focusses on research, development and marketing and sales of new tools for DNA amplification and sequencing and a range of electrophoresis products, protein detection and quantitation products and protein stabilising products and technologies.

With the acquisition of Expedeon group in 2016, the Company has widened its sales channels and created greater opportunity for the sales of its own and Expedeon branded products. Consequently, Sygnis now sells group products through a combination of direct sales, distribution channels as well as some licensing agreements as well as through its web portal.

The Company has prepared a business plan following the Expedeon acquisition which reflects the assumptions surrounding income and expenditure through to a break-even point expected during the course of 2017. Following the successful capital increase in relation to the acquisition of the Expedeon group, the liquidity position of the Company as at 31 December 2016 was €3.8 million.

Based on the business plan and the financial resources that are currently available, the Company's Management Board believes the Company has adequate cash resources to carry it through until break-even is reached.

## 20. Contingent liabilities and other financial obligations

### Financial obligations

The Company's financial obligations from rental agreements and other long-term contracts are not material to the results of operations generated by the Company.

Total rental expenses for facilities in Madrid (Spain) and Heidelberg (Germany) amounted to €192 thousand in the fiscal year 2015 and €192 thousand in the fiscal year 2016.

In addition, the Company has contractual obligations to pay sales royalties in case of any product sales by the license partner (Qiagen), from kits sales and from the marketing of the Caco-2 license rights in the USA.

### Litigation

The Company is occasionally involved in legal disputes in the course of its business activities. The Company is not aware of any events which would have a significantly adverse effect on the results of operations, liquidity position or financial position. Risks arising from litigation are covered by the recognition of suitable provisions.

## 21. Transactions with related parties

Pursuant to IAS 24 "Related Party Disclosures", transactions with related parties must be disclosed. Related parties within the meaning of IAS 24.9 mainly include the Management Board and the Supervisory Board. With regard to the remuneration and shareholdings of members of the Management Board and Supervisory Board, reference is made to the comments in note 24 on "Composition of company boards".

In the 2015 fiscal year the Company maintained business relationships with Coretherapix, S.L.U., Madrid, Spain, which is a subsidiary of Genetrix S.L., Madrid, Spain, (former: Genetrix Life Sciences A.B., Uppsala, Sweden) (main shareholder of SYGNIS AG). In this regard, SYGNIS has received services in the areas of competitive projects and IT. SYGNIS has expensed amounts of €25 thousand in fiscal 2015. Since 28 February 2015, SYGNIS Biotech S.L.U., Madrid, Spain, provided IT services to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain. On the other hand, since 4 August 2015 Science & Innovation Link Office, S.L. (SILO), Madrid, Spain, provided consulting services for competitive projects to SYGNIS Biotech S.L.U., Madrid, Spain. The members of the supervisory board of SYGNIS Mrs. Dr. Cristina Garmendia and Mr. Pedro Agustín del Castillo are main shareholders of Science & Innovation Link Office, S.L. (SILO), Madrid, Spain. For IT services rendered to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain, SYGNIS Biotech S.L.U. charged €0.5 thousand per month to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain. For consulting services received from Science & Innovation Link Office, S.L. (SILO), Madrid, Spain, for competitive projects, SYGNIS Biotech S.L.U., Madrid, Spain, paid €1.8 thousand per month to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain.

Since 2013, the Company held a loan from Genetrix S.L., Madrid, Spain, (former lender of the loan was Genetrix Life Sciences, A.B.) and one of the main shareholders dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany, with a total amount of €713 thousand. Genetrix S.L. had participated in this loan with an amount of €600 thousand and dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany, with €113 thousand. The loan from dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany, including accumulated interest expenses amounted to €150 thousand and was repaid on 31 December 2015 by the Company. The nominal amount of the loan from Genetrix S.L., Madrid, Spain, amounting to €600 thousand had been swapped to equity as part of a capital increase by way of a contribution in kind in December 2015.

The accumulated interest expenses of €195 thousand were completely repaid on the 31 December 2015 to Genetrix S.L., Madrid, Spain.

Due to a public soft loan SYGNIS received from Spanish institutions for its R&D activities in Spain, the main shareholder Genetrix S.L., Madrid, Spain, pledged 350,000 shares of its interest in SYGNIS AG to secure this loan. According to the agreement on the payment of a share pledge fee between SYGNIS and Genetrix S.L., Madrid, Spain, it was agreed that SYGNIS has to compensate Genetrix S.L., Madrid, Spain, for creating this pledge as a security for SYGNIS' fulfillment of its obligation arising from the public loan received from the Spanish institution by paying a so-called share pledge fee. This fee accrues yearly at a rate of 3% calculated over the loan amount. The pledged shares shall be released of the pledge once a corporate transaction takes place (e.g. share or asset deal of SYGNIS AG to a third party) or if SYGNIS Group is deemed to be cash positive under the conditions according to the agreement on the payment of a share pledge fee between Genetrix S.L., Madrid, Spain, and SYGNIS.

Regarding the number of shares and stock options held by the members of the Supervisory Board, we refer to note 24

## 22. Segment reporting and entity-wide disclosures

In accordance with IFRS 8 the financial result of the segments is reported using the management approach. The internal organisation and management reporting system did not lead to a different segmentation. The allocation of resources and the internal assessment of SYGNIS' performance by management is performed for the SYGNIS Group as a whole. Therefore, the Group is managed in one single segment for segment reporting purposes, such that no separate reporting is required.

In accordance with IFRS 8.32 et seq., the following information can be provided for the Group as a whole in the consolidated financial statements.

### Information about products and services

Total revenues amounted €1,789 thousand in 2016 (previous year: €555 thousand). An amount of €185 thousand (previous year: €252 thousand) results from the marketing of the Caco-2 license rights in the USA which are attributable to LION Bioscience Inc.

### Information about geographical areas

In € thousands	2016	2015
<b>Revenue</b>		
Spain	54	158
Germany	237	145
USA	778	252
UK	665	0
Singapore	55	0
<b>Total</b>	<b>1,789</b>	<b>555</b>
<b>Non-current assets</b>		
Germany	62	356
Spain	1,984	2,156
USA	419	140
UK	5,417	0
Singapore	0	0
<b>Total</b>	<b>7,882</b>	<b>2,652</b>



Revenue is allocated to the geographical areas based on the registered office of the reporting business unit. Non-current assets are allocated with reference to the amounts reported in the separate financial statements, while intangible assets identified in the course of purchase price allocations were allocated to the acquirees in question. The goodwill resulting from the Reverse Acquisition in 2012 and the Expedon group acquisition amounting to €23,829 thousand was not allocated to geographical areas, as the goodwill is allocated to the group as a whole.

### Information about major customers

In € thousands	2016	2015
<b>Revenue</b>		
Revenue with major customers*	0	155
Other revenue	1,789	400
<b>Total</b>	<b>1,789</b>	<b>555</b>

\* Customers accounting for a share in total revenue of 10% or more

Revenue with major customers was generated with one customer in the fiscal year 2015.

### 23. Earnings per ordinary share

The following table shows the calculation of basic and diluted earnings per ordinary share:

In € thousands, apart from number of shares and earnings per share	2016	2015
<b>Numerator</b>		
Net profit or loss for the period	(4,388)	(4,011)
<b>Denominator</b>		
Weighted average number of outstanding ordinary shares	21,915,064	13,426,081
<b>Earnings (basic and diluted) per ordinary share</b>	<b>(0.20)</b>	<b>(0.30)</b>

(basic = diluted)

The weighted average number of outstanding ordinary shares during the financial year 2016 was as follows:

		Weighted average number of ordinary shares
Outstanding ordinary shares 1 January 2016 to 31 January 2016	16,457,486	
Time-weighting factor (31 days, 366 days in total)	8.47%	1,393,940
Outstanding ordinary shares 1 February 2016 to 7 March 2016	16,488,102	
Time-weighting factor (45 days, 366 days in total)	12.30%	2,027,226
Outstanding ordinary shares 1 March 2016 to 7 August 2016	16,803,891	
Time-weighting factor (138 days, 366 days in total)	37.70%	6,335,893
Outstanding ordinary shares 1 August 2016 to 7 October 2016	21,622,091	
Time-weighting factor (78 days, 366 days in total)	21.31%	4,607,987
Outstanding ordinary shares 1 October 2016 to 7 December 2016	37,341,980	
Time-weighting factor (74 days, 366 days in total)	20.22%	7,550,018
		<b>21,915,064</b>

The weighted average number of outstanding ordinary shares in the fiscal year 2015 is as follows:

		Weighted average number of ordinary shares
Outstanding ordinary shares 1 January 2015 to 7 April 2015	10,822,662	
Time-weighting factor (7 days, 365 days in total)	1.92%	207,558
Outstanding ordinary shares 8 January 2015 to 1 April 2015	13,298,340	
Time-weighting factor (84 days, 365 days in total)	23.01%	3,060,440
Outstanding ordinary shares 2 April 2015 to 16 November 2015	13,344,934	
Time-weighting factor (229 days, 365 days in total)	62.74%	8,372,575
Outstanding ordinary shares 1 November 2015 to 7 December 2015	13,494,934	
Time-weighting factor (30 days, 365 days in total)	8.22%	1,109,173
Outstanding ordinary shares 1 December 2015 to 7 December 2015	16,457,486	
Time-weighting factor (15 days, 365 days in total)	9.86%	676,335
		<b>13,426,081</b>

In the fiscal years 2016 and 2015 the Company has completed a capital increases against cash and non-cash consideration. Further details are given in note 10.

### 24. Composition of company boards

#### Management Board

*Pilar de la Huerta, Co-CEO/CBDO*

*Dr. Heikki Lanckriet, Co-CEO/CSO (from 1 August 2016)*

*David Roth, CFO (from 1 March 2017)*

The tables below show which company paid the remuneration to each member of the Management Board in the 2016 financial year:

In € thousands	Non-performance related	Performance related	Other benefits*	Total cash remuneration 2015
Pilar de la Huerta	194	89	14	297
From SYGNIS AG	143	89	12	244
From SYGNIS Biotech S.L.U.	51	0	2	53

In € thousands	Non-performance related	Performance related	Other benefits*	Total cash remuneration 2015
Dr. Heikki Lanckriet	54	100	10	164
From SYGNIS AG	32	100	6	138
From Expedon Ltd.	22	0	4	26

The table below shows which company paid the remuneration to each member of the Management Board in the 2015 financial year:

In € thousands	Non-performance related	Performance related	Other benefits*	Total cash remuneration 2015
Pilar de la Huerta	190	49	14	253
From SYGNIS AG	139	49	0	194
From SYGNIS Biotech S.L.U.	51	0	8	59

\* These mainly include insurance benefits and a company car.

The CEO of the Company, Pilar de La Huerta has not agreed an employment contract with SYGNIS AG. Mrs. de La Huerta has received a non-performance-related component as a consulting fee on the basis of a consulting agreement between SYGNIS AG and herself for services she rendered to SYGNIS AG. Based on this consulting agreement Mrs. de la Huerta also received a variable bonus. Mrs. de la Huerta is also CEO of SYGNIS Biotech S.L.U., Madrid, Spain, and, she entered into an employment contract with SYGNIS Biotech S.L.U., Madrid, Spain.

Dr. Heikki Lankriet has an employment contract with SYGNIS AG since August 1st, 2017. Dr Lanckriet is entitled to a bonus based of up to 30% of non-performance salary on targets set by Supervisory Board.

### Shareholdings and number of stock options held by the Management Board as of 31 December 2016

As of 31 December 2016, Mrs. de La Huerta does not hold shares or stock options of the Company. Dr. Lanckriet holds 1,478,162 shares.

### Supervisory Board

**Dr. Cristina Garmendia Mendizábal**, Chairwoman of the Supervisory Board  
Independent entrepreneur, Madrid, Spain

**Joseph M. Fernández**, Deputy Chairman of the Supervisory Board  
CEO, Chairman of Active Motif Inc., Carlsbad, California, USA

**Dr. Franz Wilhelm Hopp**, Chairman of the Audit Committee  
Partner of LAPLACE Investment GmbH, Munich, Germany

**Maria Jesús Sabatés Mas**  
Head of the Family Office of the Sabatés family, Barcelona, Spain

**Dr. Trevor Jarman (since 20 June 2016)**  
Selbständiger Unternehmer, Cambridge, Vereinigtes Königreich

**Tim McCarthy (since 20 June 2016)**  
Executive Director of Unnamed Ltd., Cambridge, UK

**Dr. Friedrich von Bohlen und Halbach, (until 20 June 2016)**

**Pedro Agustín del Castillo Machado (until 20 June 2016)**  
Independent entrepreneur, Madrid, Spain

The remuneration of the Supervisory Board members (without out-of-pocket expenses) were €160 thousand in fiscal year 2016:

in € thousands	Fixed	Variable
Dr. Cristina Garmendia Mendizábal	40	-
Dr. Friedrich von Bohlen und Halbach	15	-
Pedro-Agustin del Castillo Machado	10	-
Dr. Joseph M. Fernandez	25	-
Dr. Franz-Wilhelm Hopp	30	-
Maria Jesús Sabatés Mas	20	-
Dr. Trevor Jarman	10	-
Mr. Tim McCarthy	10	-
<b>Total</b>	<b>160</b>	<b>-</b>

### Shareholdings and number of stock options held by the Supervisory Board as of 31 December 2016

	Number of shares	Number of stock options
Dr. Cristina Garmendia Mendizábal	3,715	-
Joseph M. Fernández	2,649,921 <sup>(1)</sup>	-
Dr. Franz Wilhelm Hopp	-	-
Maria Jesús Sabatés Mas	-	-
Dr. Trevor Jarman (seit 20. Juni 2016)	608,288 <sup>(2)</sup>	-
Tim McCarthy (seit 20. Juni 2016)	154.817	-
<b>Total</b>	<b>3,416,741</b>	<b>-</b>

1) Indirect via Family Trust, Carlsbad, California, USA.

2) In addition Beryl Jarman, a related person of Trevor Jarman, weitere holds a fuller 10,899 shares.

By the members of the Supervisory Board following memberships consist of supervisory boards and other supervisory bodies:

#### Dr. Cristina Garmendia Mendizábal

- Member of the Board of Directors, Member of the Board of Trustees, Pelayo Mutua de Seguros, Madrid, Spain
- Member of the Board of Directors, Everis Spain, S.L., Madrid, Spain:
- Member of the Board of Directors, Gas Natural SDG, S.A. Madrid, Spain:
- Chairwoman of the Board of Directors, Genetrix, S.L., Madrid, Spain:
- Member of the Board of Directors, Corporación Financiera ALBA, Madrid, Spain:.
- Sole Administrator, Jaizkibel, S.L., Madrid, Spain:
- Member of the Board of Directors, Science & Innovation Link Office, S.L., Madrid, Spain
- Member of the Board of Directors, Compañía De Distribución Integral Logista Holdings, S.A., Madrid, Spain
- Chairwoman of the Board of Directors, Satlantis Microsats, S.L., Madrid, Spain

#### Joseph M. Fernández

- Chairman of the Board of Directors of Active Motif Chromeon GmbH, Tegernheim, Germany
- Member of the Board of Directors of Expedeon Inc., San Diego, CA, USA
- Member of the Board of Directors of Hiram College, Hiram, Ohio, USA

#### Maria Jesús Sabatés Mas

- Sole Administrator of Arceus Holding, S.L., Barcelona, Spain
- Chairwoman of the Board of Directors of Eurofragance, S.L., Barcelona, Spain
- Chief Executive Officer of Ever Smarter WW, S.L., Barcelona, Spain
- Chief Executive Officer of Naki Investments, S.L., Barcelona, Spain
- Chairwoman of the Board of Directors of OMB Self Storage, S.L., Barcelona, Spain
- Chief Executive Officer of Veriphi, S.L., Barcelona, Spain
- Member of the Board of Directors of Linked S&B Sociedad de Inversión de Capital Variable, S.A., Boadilla del Monte-Madrid, Spain

#### Dr. Trevor Jarman

- Member of the Board of Directors of Expedeon Ltd, Cambridge, UK
- Chairman of The Board of Directors of Persavita Ltd, Cambridge, UK
- Chief Executive Director of Natures Remedies Ltd, Cambridge UK
- Member of the Board of Directors of Cambridge Cell Networks Ltd, Cambridge UK
- Member of the Board of Directors of Swangap Flat Management Ltd, Cambridge, UK
- Member of the Board of Directors of Protus Ltd, Cambridge, UK.

**Tim McCarthy**

- Chairman of the Board of Directors of ImmuPharma PLC, London, U.K.
- Chairman of the Board of Directors of ARK Analytics Solutions Ltd., Cambridge, U.K.
- Member of the Board of Directors of Spear Therapeutics Ltd., Manchester, U.K.
- Chairman of the Board of Directors of Dropped Ltd., Cambridge, U.K.
- Chairman of the Board of Directors of Incanthera Ltd., Manchester, U.K.
- Chairman of the Board of Directors of Harvard Healthcare Ltd., Liverpool, U.K.
- Member of the Board of Directors of Wise old owl Ltd., Cambridge, U.K.
- Member of the Board of Directors of Frangipani Dreams Ltd., Cambridge, U.K.
- Member of the Board of Directors of Expedeon Holdings Limited, Cambridge, U.K.

**Dr. Franz Wilhelm Hopp**

- Member of the Board of Directors of Schneider Golling Bosserhoff VermögensInvest AG, Vaduz, Liechtenstein
- Member of the NonExecutive Board of Directors of Germany Fund Inc., New Germany Fund Inc., and Central Europe, Russia and Turkey Fund Inc., New York, USA
- Member Representative (Mitgliedervertreter) of the KarstadtQuelle Pension Trust, Düsseldorf, Germany

**25. Declaration on the German Corporate Governance Code**

The Management Board and Supervisory Board of SYGNIS AG have made the declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporations Act].

The declaration was made accessible to the shareholders on the Company's website at <http://www.sygnis.com>.

**26. Services rendered by the auditor**

At the annual general meeting held on 20 June 2016, the shareholders of SYGNIS AG elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Mannheim (Ernst & Young GmbH) as auditor of the financial statements and consolidated financial statements of SYGNIS AG for the fiscal year 2015. Expenditure totalling €230 thousand (previous year: €117 thousand) was recognised for the services of Ernst & Young GmbH. The total amount of €73 thousand is attributable to audit services (previous year: €71 thousand), with €61 thousand to tax advisory services (previous year: €21 thousand) and with €25 thousand to other assurance services (previous year: €0 thousand).

For audit services rendered for SYGNIS Spain by KPMG Auditores S.L. Madrid, Spain, expenses in an amount of €18 thousand (previous year: €18 thousand) were included.

**27. Events after the reporting period**

With effect from 6 January 2017, Sygnis AG acquired C.B.S. Scientific Company Inc., San Diego, USA. The company complements the group product portfolio and synergies are expected. The purchase price was USD\$ 900,000, which was settled 60% in cash and 40% through the issue of new shares.

On 1 March 2017, David Roth was appointed to the management board of Sygnis AG. He is responsible for financial affairs.

Heidelberg, 24 April 2017

Pilar de la Huerta  
Co-CEO

Dr. Heikki Lackriet  
Co-CEO

David Roth  
CFO

**Annex to the notes to the consolidated financial statements as of 31 December 2016****Statement of changes in no-current assets as of 31 December 2016**

in € thousands	Acquisition and production costs					Accumulated depreciation					Book values			
	1 Jan 2016	Additions	Expedeon acquisition	Foreign Exchange	Disposals	31 Dec 2016	1 Jan 2016	Additions	Expedeon acquisition	Foreign Exchange	Disposals	31 Dec 2016	31 Dec 2015	
<b>I. Tangible Assets</b>														
Other equipment, factory and office equipment	537	182	1,596	23	(182)	2,156	267	96	832	8	(4)	1,199	957	270
	537	182	1,596	23	(182)	2,156	267	96	832	8	(4)	1,199	957	270
<b>II. Intangible assets</b>														
1. Goodwill	5,942	17,546	0	341	0	23,829	0	0	0	0	0	0	23,829	5,942
2. Other intangible assets	4,474	491	5,143	1	0	10,109	2,648	534	0	1	0	3,183	6,926	1,826
	10,416	18,037	5,143	342	0	33,938	2,648	534	0	1	0	3,183	30,755	7,768
<b>III. Other non-current assets</b>														
	136	0	0	0	(136)	0	0	0	0	0	0	0	0	136
	11,089	18,219	6,739	365	(318)	36,094	2,915	630	832	9	(4)	4,382	31,712	8,174

**Annex to the notes to the consolidated financial statements as of 31 December 2015****Statement of changes in no-current assets as of 31 December 2015**

in Tausend €	Acquisition and production costs			Accumulated depreciation			Book values			
	1 Jan 2015	Additions	Disposals	31 Dec 2015	1 Jan 2015	Additions	Disposals	31 Dec 2015	31 Dec 2014	
<b>I. Tangible Assets</b>										
Other equipment, factory and office equipment	385	152	0	537	217	50	0	267	270	169
	385	152	0	537	217	50	0	267	270	169
<b>II. Intangible assets</b>										
1. Goodwill	5,942	0	0	5,942	0	0	0	0	5,942	5,942
2. Other intangible assets	4,028	446	0	4,474	2,350	298	0	2,648	1,826	1,678
	9,970	446	0	10,416	2,350	298	0	2,648	7,768	7,620
<b>III. Other non-current assets</b>										
	15	121	0	136	0	0	0	0	136	15
	10,370	719	0	11,089	2,566	348	0	2,914	8,175	7,804





# Confirmations

# 2016 Annual Report

SYGNIS<sup>®</sup>



# Confirmations



## Responsibility statement by the Executive Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Heidelberg, 24 April 2017

Pilar de la Huerta  
Co-CEO

Dr. Heikki Lackriet  
Co-CEO

David Roth  
CFO

## Audit opinion

We have issued the following opinion on the consolidated financial statements and the group management report:

“We have audited the consolidated financial statements prepared by SYGNIS AG, Heidelberg, comprising the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch”: German Commercial Code] is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group manage-

ment report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report.

We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we refer to the discussion in the group management report in section V. 1. This states that SYGNIS Group has a liquidity of €3.8 million. The future liquidity needs are determined on the financial plan which is based on the business plan, as well as a liquidity forecast. Considering the business plan assumptions and based on the financial resources that are currently available, the Company’s Management Board sees the operating expenses of SYGNIS as being covered until break-even situation which is estimated to be in 2017. The business plan assumptions include revenue estimations from products which are already in the market and license revenues. In addition, the Company expects funds from new product launches, new public loans and by the use of the SEDA agreement (standby equity distribution agreement). In the event the SYGNIS Group does not achieve its revenue targets in the fiscal year 2017, break-even may not be achieved and therefore the assumption to continue as a going concern may depend on additional funds from shareholders to maintain its solvency from the middle of 2018 onwards.”

Mannheim, 24 April 2016

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Grathwol  
Wirtschaftsprüfer  
German Public Auditor

Jakob  
Wirtschaftsprüfer  
German Public Auditor

# Corporate Governance Report



The Management Board and Supervisory Board of SYGNIS AG are committed to responsible corporate management and control of the Company that is geared towards a sustained increase in shareholder value. The key factors that will enable us to achieve this goal are the long-term corporate strategy, a sound financial policy, compliance with legal and ethical principles as well as transparency in corporate communications.

Corporate Governance covers the entire system of management and monitoring of a company, including its organisation, its commercial principles and guidelines as well as the system of internal and external control and supervisory mechanisms. The German Corporate Governance Code ("Code" or "GCGC") was introduced to increase confidence in the corporate management of German listed companies. The aim of the Code is to make the rules applying to corporate management and governance in Germany more transparent for both national and international investors.

## Implementation of the recommendations of the german corporate governance code and declaration of compliance

The sustained increase in shareholder value and the vast majority of the provisions, recommendations and suggestions for responsible corporate governance included in the Code have been an active element of our day-to-day business for years.

On 24 April 2017, the Management Board and Supervisory Board of SYGNIS AG issued the following declaration of compliance with the German Corporate Governance Code in accordance with Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] and published it on the Company's website:

"The Executive Board and the Supervisory Board of SYGNIS AG hereby declare that, SYGNIS AG has complied with the recommendations of the German Government Commission on the German Corporate Governance Code (hereinafter also „GCGC“) in the version of 5 May 2015 since the last declaration of compliance in March 2016, complies and intends to comply with the recommendations of the GCGC in the version of 5 May 2015 (published by the Ministry of Justice in the official part of the Federal Gazette on 12 June 2015), in each case with the exceptions set forth below:

- Item 4.2.1 Sentence 1 GCGC: Until 31 July 2016 the Management Board consisted of one person. The Management Board and the Supervisory Board of the Company were convinced that until the merger with the Expedeon Group a one person management board was sufficient with respect to the size and the financial situation of the Company.
- Item 5.4.1 (2) Sentence 1 GCGC: The Supervisory Board has specified concrete objectives regarding its composition, however, neither an age limit nor a regular limit of length of membership. The Supervisory Board is convinced that such limits are not adequate in times of prolonged working lives and shortage of skilled and experienced candidates for such positions and would thus unduly limit the selection of eligible Supervisory Board members. The Supervisory Board will discuss the introduction of an age limit and a regular limit of length of membership in due course.
- Item 7.1.2 Sentence 4 GCGC: The Consolidated Financial Statements for the fiscal year 2015 have been published on 28 April 2016. The Consolidated Financial Statements for the fiscal year 2016 are planned to be published on 27 April 2017. Thus, for the fiscal

years 2015 and 2016, the Company has not complied and will not comply, respectively, with the recommendation of Item 7.1.2 Sentence 4 to publish the Consolidated Financial Statements within 90 days of the end of the financial year. In both cases, the exceeding of the period is owed to staff changes in the accounting and finance department. The Company aims to meet such deadline from 2018 onwards.

Heidelberg, 24 April 2017

For the Management Board  
**Pilar de la Huerta**  
CEO

For the Supervisory Board  
**Dr. Cristina Garmendia**  
Chairwoman of the  
Supervisory Board

SYGNIS provides detailed information on Corporate Governance on the Company's website at [www.sygnis.de](http://www.sygnis.de) under Investor Relations/Corporate Governance. This is also where the current declaration of compliance and earlier versions of the declaration of compliance in accordance with Item 3.10 of the Code, the Declaration on Corporate Governance in accordance with Sec. 289a HGB ["Handelsgesetzbuch": German Commercial Code] and the SYGNIS Code of Ethics can be viewed and are available for download

## Compliance

An integral element of the SYGNIS corporate culture is its adherence to national and international legal and ethical principles in business transactions. These include principles of professional conduct, honesty and integrity in its dealings with our customers, suppliers, partners, competent authorities, employees, shareholders and the general public. With the Code of Ethics, which was introduced throughout the Company in 2003, we ensure

that our employees are aware of and observe the relevant national and international rules of conduct within the Company and in their relationships with external partners and the general public. The Code of Ethics implemented by the Management Board is also the reason for having a group-wide reporting system in place for the centralised collection of possible violations of the provisions contained in the Code of Ethics. Each employee is called upon to ensure, by observing the laws and also the principles and rules of the Code of Ethics, that SYGNIS is perceived as a reliable partner of integrity. The Code of Ethics is also published on the Company's website under Investor Relations/Corporate Governance.

As a matter of principle, compliance at SYGNIS is regarded as the task of the management at all decision-making levels. In addition to monitoring the observance of the applicable legal regulations and requirements of the SYGNIS compliance rules, the Company's Compliance Officer examines facts for their ad-hoc relevance in order to ensure that any potential inside information is handled in accordance with the law. All relevant persons who are employed or engaged by the Company and have authorised access to inside information are also included in an insider register and informed of the duties arising from the laws governing inside information. In addition, the Company's Compliance Officer supports the development and implementation of procedures designed to ensure that our ethical standards are met and any applicable international and national legal regulations are observed.

## Annual general meeting

The shareholders exercise their rights in the Annual General Meeting, where they also exercise their voting rights. Each ordinary SYGNIS AG bearer share carries one vote.



Our Annual General Meeting was held on 20 June 2016, where around 43,9% of the Company's voting share capital was represented. The shareholders have approved all agenda items proposed by the Management. All shareholders who were unable to attend our Annual General Meeting had the opportunity to download the presentation of the CEO and all documents and information relating to the Annual General Meeting from our website at [www.sygnis.de](http://www.sygnis.de) under Investor Relations/Annual General Meeting. SYGNIS also provided assistance to its shareholders in issuing powers of representation and supported them, in accordance with the recommendation in the German Corporate Governance Code, in appointing a proxy to exercise their voting rights in accordance with the shareholder's instructions. This opportunity was also available during the Annual General Meeting itself. It was possible to issue instructions to these proxies on the exercise of voting rights before and during the Annual General Meeting until the end of the voting.

### Workings of the management board and supervisory board - dual management and control system

The strict segregation of the Company's management and control structure prescribed and defined by the AktG, the Company's memorandum and articles of association and its rules of procedure is reflected in the clearly defined separation of Management Board and Supervisory Board responsibilities. The two boards work closely for the benefit of the Company; their common aim is to secure long-term and sustainable growth prospects for the shareholders. As well as coordinating with each other to define the Company's strategic alignment, this also involves making joint decisions on material transactions. In addition, there is the Annual General Meeting as the decision-making body of the shareholders.

### Management Board

At the end of the financial year 2016, the Management Board of SYGNIS AG consists of

two persons. Mrs Pilar de la Huerta was the sole member of the Management Board until 1 August 2016. She held both positions, CFO and CEO until that date. On 1 August 2016, Dr. Heikki Lankriet was appointed as member of the Management Board. He assumed the function of a Co-CEO and also CSO, and Mrs. Pilar de la Huerta was maintained as Co-CEO and CFO. The Management Board is responsible for managing the Company and conducting its business. The Management Board develops the strategic alignment, which it subsequently coordinates with the Supervisory Board and ensures its implementation. Its actions and decisions are taken in the Company's best interests.

In addition to the applicable legal provisions, the Management Board rules of procedure approved by the Company's Supervisory Board and the plan for the allocation of duties (for the case that at least two members of the Management Board exist) determine the areas of responsibility of the Management Board members, the detailed work carried out by the Management Board and matters reserved for the Management Board as a whole. For important business transactions, the memorandum and articles of association and the Management Board bylaws assign rights of veto to the Supervisory Board. The Management Board members also act as general managers for other group companies. They are not engaged in activities for any other supervisory boards or comparable control bodies of other companies.

### Supervisory Board

The Supervisory Board of SYGNIS AG, which is composed of six qualified members, appoints, monitors and advises the Management Board on the management of the Company and is immediately involved in any decisions of fundamental significance for the Company. Four members of the Supervisory Board were elected by the Annual General Meeting on 17 October 2012. The successors of two members who left the Supervisory Board in 2016 were elected by the Annual General Meeting on 20 June 2016. In the interest of the Company, proposals for the election of

Supervisory Board members are prepared with a focus on the knowledge, abilities and technical experience required to perform the duties. In addition, efforts are also made to consider diversity in the composition of the Company's Supervisory Board. Four members of the Supervisory Board represent the Company's main shareholders.

The term of office of the members of the Supervisory Board ends at the close of the Company's Annual General Meeting that votes on the exoneration of its members for the fiscal year ending 31 December 2016. The Supervisory Board believes that it has a sufficient number of independent members. Details of the election, constitution and term of office of the Supervisory Board, of its meetings and resolutions, in addition to its rights and obligations are laid down in the memorandum and articles of association of SYGNIS AG, which are available for download on our website at [www.sygnis.de](http://www.sygnis.de) under *Investor Relations/Corporate Governance*.

In accordance with Item 5.1.3. of the German Corporate Governance Code, the Supervisory Board established separate rules of procedure for itself and the Audit Committee. The Chairwoman of the Supervisory Board is responsible for coordinating its activities, convening and chairing its meetings, and representing its interests externally. In the event of the absence of the chairperson, the duties will be exercised by the deputy, and, in the absence of the deputy, by the oldest member of the Supervisory Board elected by the Annual General Meeting. The Supervisory Board is required to meet once every calendar quarter and must hold two meetings every calendar half-year. The Supervisory Board passes resolutions with a majority of the votes cast, unless otherwise provided for by the law or in the Company's memorandum and articles of association. In the event of a tied vote, each member of the Supervisory Board has the right to demand that a fresh vote be taken on the same matter. In the event of a tied vote again, the chairperson has the casting vote.

Regular dialogue with the Management

Board ensures that the Supervisory Board is informed about the development of business, financial situation, corporate planning and strategy at all times. It also deals in particular with the annual financial statements of the Company and the Group, taking into consideration the reports of the external auditors. The report of the Supervisory Board, which is included in this annual report, provides information on the key activities of the Supervisory Board and its committees in fiscal 2016.

### Supervisory Board committees

Another integral part of the Supervisory Board's activities is the work performed in the committees, which are set up in accordance with the provisions of the AktG, the recommendations of the Code and the Company's needs. The Supervisory Board of SYGNIS AG has set up three permanent committees from among its members: the Audit Committee, the Capital Increase Committee and the Nomination and Remuneration Committee, each composed of three members. Nomination and Remuneration Committee is not formed according to AktG because it is not exclusively composed of shareholder representatives. The members of the committees are elected with a majority of the votes cast by the Supervisory Board members. The committees hold meetings as required. The meetings are convened by the relevant committee chair, who forwards the minutes of the meetings to the members of the Supervisory Board and reports on the work of the committee in the next plenary meeting.

The tasks of the Audit Committee include preparing decisions to be taken by the Supervisory Board on the approval of the annual financial statements and consolidated financial statements and the Supervisory Board's proposal to the Annual General Meeting for the election of the external auditors. It is also required to discuss and examine the quarterly and half-year reports with the Management Board prior to their publication and to specify the individual areas of audit focus with the external auditors after awarding the audit engage-

### Composition of Supervisory Board committees:

	Term of office ends	Audit Committee	Capital Increase Committee	Nomination and remuneration
Dr. Cristina Garmendia Mendizábal, Chairwoman	AGM 2017		X	
Dr. Friedrich von Bohlen und Halbach Member u. stellvertr. Chairman until 20 June 2016	AGM 2016		X (Chair) until 20 Juni 2016	
Dr. Joseph M. Fernández stellvertr. Chairman since 20 June 2016	AGM 2017			X (Chair)
Pedro-Agustín del Castillo	AGM 2016	X until 20 June 2016		X until 20 June 2016
Maria Jesús Sabatés Mas	AGM 2017	X		
Dr. Franz Wilhelm Hopp	AGM 2017	X (Chair)	X	X
Trevor Jarman, Mitglied since 20 June 2016	AGM 2017			X since 20 June 2016
Tim McCarthy Member since 20 June 2016	AGM 2017	X since 20 June 2016	X (Chair) since 20 June 2016	

ment (including the fee agreement) and agreeing on the auditors' reporting duties to the Supervisory Board. Furthermore, it deals in particular with the examination of the risk management and control systems, compliance issues and the required independence of the external auditor. The Audit Committee's Chairman Dr. Franz Wilhelm Hopp possesses the qualifications required under the AktG and complies with the provisions of Item 5.3.2 of the German Corporate Governance Code.

During 2016 the Capital Increase Committee did not receive a specific remuneration and no physical meetings (all communications were done electronically).

During 2016 the Nomination and Remuneration Committee had no meetings.

#### Efficiency review of the Supervisory Board

In accordance with Item 5.6 GCGC, the Supervisory Board of SYGNIS AG regularly reviews the efficiency of its activities

in the form of an open discussion in the plenary sessions. Individual aspects of these reviews include the sequence and structure of the meetings and resolutions, the scope of proposals and the supply of information by the Management Board, in addition to the work performed by the committees in preparation for any decisions to be taken by the Supervisory Board. The reviews revealed that the Supervisory Board is efficiently organised, including in its new composition, and that cooperation between the Supervisory Board and the Management Board is effective.

#### Avoidance of conflicts of interests

The Management Board and Supervisory Board of SYGNIS AG are committed to the interests of the Company. In performing their duties, they pursue neither personal interests nor do they grant other persons unjustified advantages. Secondary activities or business relations of members of the two boards with the Company are to be disclosed to the Supervisory Board immediately and require the Supervisory Board's

approval. The Supervisory Board reports to the Annual General Meeting on any conflict of interests and how they have been treated.

No conflict of interests involving members of the Management Board or the Supervisory Board arose in the reporting period that required immediate disclosure to the Supervisory Board. Possible conflicts of interests involving the Management Board and Supervisory Board members were discussed in depth by the Supervisory Board and appropriate action was taken to prevent them from arising.

In the 2016 fiscal year the Company maintained business relationships with [Coretherapix, S.L.U., Madrid, Spain, which is a subsidiary of Genetrix S.L., Madrid, Spain, (former: Genetrix Life Sciences A.B., Uppsala, Sweden) (main shareholder of SYGNIS AG). In this regard, SYGNIS has received services in the areas of competitive projects and IT. SYGNIS has expensed amounts of €25 thousand in fiscal 2015. Since 28 February 2015, SYGNIS Biotech S.L.U., Madrid, Spain, provided IT services to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain. On the other hand, since 4 August 2015 Science & Innovation Link Office, S.L. (SILO), Madrid, Spain, provided consulting services for competitive projects to SYGNIS Biotech S.L.U., Madrid, Spain. The members of the Supervisory Board of SYGNIS Mrs. Dr. Cristina Garmendia and Mr. Pedro Agustín del Castillo are main shareholders of Science & Innovation Link Office, S.L. (SILO), Madrid, Spain. For IT services rendered to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain, SYGNIS Biotech S.L.U. charged €0.5 thousand per month to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain. For consulting services received from Science & Innovation Link Office, S.L. (SILO), Madrid, Spain, for competitive pro-

jects, SYGNIS Biotech S.L.U., Madrid, Spain, paid €1.8 thousand per month to Science & Innovation Link Office, S.L. (SILO), Madrid, Spain

Due to a public soft loan SYGNIS received from Spanish institutions for its R&D activities in Spain, the main shareholder Genetrix S.L., Madrid, Spain, pledged 350,000 shares of its interest in SYGNIS AG to secure this loan. According to the agreement on the payment of a share pledge fee between SYGNIS and Genetrix S.L., Madrid, Spain, it was agreed that SYGNIS has to compensate Genetrix S.L., Madrid, Spain, for creating this pledge as a security for SYGNIS' fulfillment of its obligation arising from the public loan received from the Spanish institution by paying a so called share pledge fee. This fee accrues yearly at a rate of 3% calculated over the loan amount. The pledged shares shall be released of the pledge once a corporate transaction takes place (e.g. share or asset deal of SYGNIS AG to a third party) or if SYGNIS Group is deemed to be cash positive under the conditions according to the agreement on the payment of a share pledge fee between Genetrix S.L., Madrid, Spain, and SYGNIS.

The mandates of the Supervisory Board members on supervisory boards or comparable supervisory bodies of other companies are indicated in the notes to the consolidated financial statements included in this annual report.

#### Management board and supervisory board shareholdings

The table below provides an overview of all shares held by members of the Management Board and Supervisory Board as of 31 December 2016:

Supervisory Board	Shares
Dr. Cristina Garmendia (Chairwoman)	3,715
Dr. Friedrich von Bohlen und Halbach (Deputy Chairman), until 20 June 2016	87,797
Maria Jesús Sabatés Mas	none
Dr. Franz Wilhelm Hopp (chairman audit committee)	none
Pedro-Agustín del Castillo, (until 20 June 2016)	none
Joseph M. Fernández	2,649,921
Dr. Trevor Jarman (since 20 June 2016)	608,288
Tim McCarthy (since 20 June 2016)	154,817

Management Board	Shares
Pilar de la Huerta (CEO/CFO)	none
Heikki Lankriet	1,478,162

### REPORTABLE SECURITIES TRANSACTIONS – DIRECTORS' DEALINGS

Members of the Management Board and Supervisory Board of SYGNIS AG, other persons with management duties and persons closely related to them are required to disclose any purchase or sale of shares in SYGNIS AG (directors' dealings) in accordance with Article 19 of the Market Abuse Regulation. Supplementary to this stipulation SYGNIS has published its own guidelines for insiders, which govern trading in company securities for members of the corporate boards and employees and ensure the requisite transparency.

In fiscal year 2016 no transactions by directors in accordance with Article 19 of the Market Abuse Regulation have been reported to the Company.

### OPEN AND TRANSPARENT CORPORATE COMMUNICATION

SYGNIS meets all recommendations applicable to the Company that are included in

Item 6 of the German Corporate Governance Code. In the interest of ensuring the greatest possible degree of transparency, our corporate communications strategy is designed to keep the general public informed and up to date on the Company's activities and thus confirm and strengthen confidence in us. The Company rigorously applies the principle that no shareholder may receive privileged information. To ensure that all market participants are provided with the same information at the same time, we make all press releases, ad-hoc messages and key documents available on our website [www.sygnis.de](http://www.sygnis.de) under Investor Relations and News and Media.

In addition, all shareholders and interested parties can subscribe to our electronic mailing list to receive notification of the Company's press releases. In addition, when important corporate news has been released, the Company's investor relations department is immediately available to provide further information and answer any questions. Furthermore, our financial calendar contains the publication dates of regular financial reports and the date of the next Annual General Meeting.

### ACCOUNTING AND AUDITING OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the SYGNIS Group for the fiscal year 2016 were prepared in accordance with the International Financial Reporting Standards (IFRSs), applying Sec. 315a HGB. The annual financial statements of SYGNIS AG were prepared in accordance with the provisions of the HGB.

The Audit Committee awarded the audit engagement to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, in accordance with the resolution of the Annual General Meeting on 8 July 2015. The external auditors issued a declaration of independence to the Audit Committee before the engagement was awarded.

### REMUNERATION REPORT

According to Item 4.2.5 of the German Corporate Governance Code, the remuneration report should be included in the corporate governance report. However, Sec. 315 (2) No. 4 HGB requires a section on remuneration in the management report. In order to meet both requirements, a separate section entitled „Remuneration report“ is included in the management report, providing details of Management Board members' remuneration broken down by fixed and variable components as well as other benefits. Some details of Supervisory Board remuneration are also given. This dedicated section on remuneration in the management report is also a component of this corporate governance report.





# SYGNIS

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## Financial Calendar

**11 May 2017:** Financial Report Q1 (1 January - 31 March 2017)

**7 July 2017:** Annual General Meeting

**3 August 2017:** Financial Report Q2 (1 April - 30 June 2017)

**8 November 2017:** Financial Report Q3 (1 July - 30 September 2017)