23 ANNUAL REPORT

A focused CDMO for peptides and oligonucleotides

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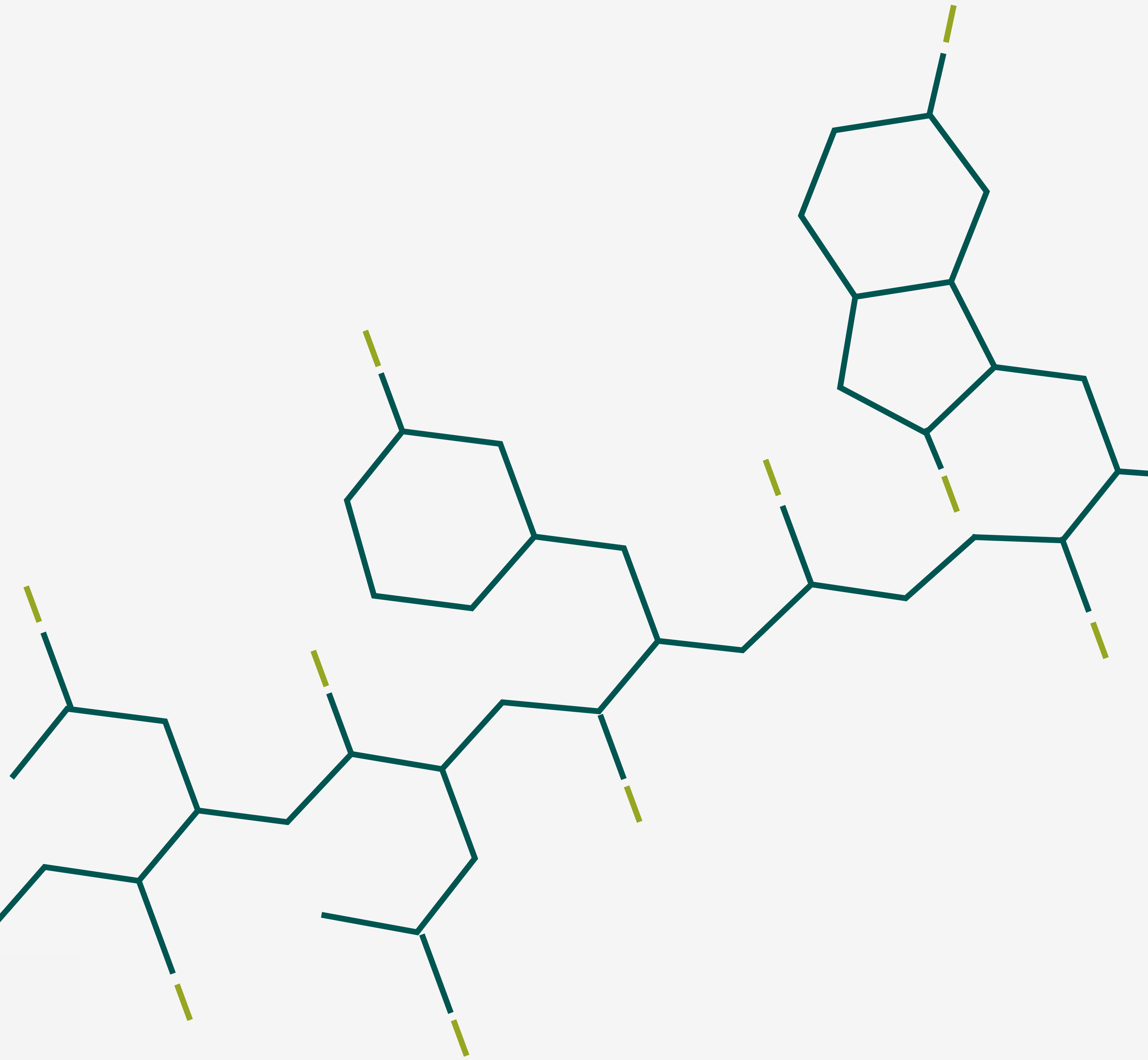

PolyPeptide

Financial Report

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Consolidated income statement

1 January - 31 December

kEUR	Note	2023	2022
Revenue	3	320,372	280,978
Other operating income	3	4,481	2,486
Total income		**324,853**	**283,464**
Cost of sales		-315,730	-228,987
Gross profit / (loss)		**9,123**	**54,477**
Marketing and sales expenses	3	-4,053	-4,905
Research expenses	3	-1,465	-1,243
General and administrative expenses	3	-40,073	-35,722
Total operating expenses		**-45,591**	**-41,870**
Operating result (EBIT)		**-36,468**	**12,607**
Financial income	3	103	9
Financial expenses	3	-21,878	-5,049
Total financial result		**-21,775**	**-5,040**
Result before income taxes		**-58,243**	**7,567**
Income tax	5	6,803	200
Result for the year		**-51,440**	**7,767**
Attributable to shareholders of PolyPeptide Group AG		-51,440	7,767
Earnings per share in EUR, basic	7	-1.56	0.24
Earnings per share in EUR, diluted	7	-1.56	0.24

Consolidated statement of comprehensive income

1 January - 31 December

kEUR	Note	2023	2022
Result for the year		-51,440	7,767
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations, net of tax		7,713	4,834
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**7,713**	**4,834**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain / (loss) on defined benefit plans	16	3,269	13,526
Income tax effect	5	-836	-3,174
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**2,433**	**10,352**
Other comprehensive result for the year, net of taxes		**10,146**	**15,186**
Total comprehensive result for the year, net of taxes		**-41,294**	**22,953**
Attributable to shareholders of PolyPeptide Group AG		-41,294	22,953

Consolidated statement of financial position

As at 31 December

Assets, kEUR	Note	2023	2022
Non-current assets			
Intangible assets	8	16,454	15,865
Property, plant and equipment	9	300,582	275,878
Right-of-use assets	10	23,523	21,416
Deferred income tax assets	5	16,690	8,286
Other financial assets	24	5,237	2,767
Total non-current assets		**362,486**	**324,212**
Current assets			
Inventories	12	128,507	145,073
Trade receivables	13	76,674	46,486
Contract assets	3	2,103	2,660
Corporate income tax receivables		7,424	7,373
Other current assets	14	16,188	12,450
Cash and cash equivalents	15	95,706	37,528
Total current assets		**326,602**	**251,570**
Total assets		**689,088**	**575,782**

Consolidated statement of financial position (continued)

As at 31 December

Equity and liabilities, kEUR	Note	2023	2022
Equity attributable to equity holders of the parent company			
Share capital	6	302	302
Share premium		203,129	203,129
Translation reserve		21,832	14,119
Treasury shares	6	-10,394	-13,609
Other capital reserves		1,217	3,590
Retained earnings		165,139	214,146
Total equity		**381,225**	**421,677**
Non-current liabilities			
Deferred income tax liabilities	5	3,644	1,878
Pensions	16	25,111	26,637
Provisions	17	1,649	2,476
Interest-bearing loans and borrowings	19	49,087	–
Lease liabilities	10	18,869	17,652
Other financial liabilities	18	9,893	9,410
Contract liabilities	3	23,160	–
Total non-current liabilities		**131,413**	**58,053**
Current liabilities			
Interest-bearing loans and borrowings	19	41,253	–
Lease liabilities	10	4,453	3,566
Other financial liabilities	18	1,227	1,096
Corporate income tax payable		227	67
Trade payables	20	60,906	45,933
Contract liabilities	3	42,969	27,538
Other current liabilities	20	25,415	17,852
Total current liabilities		**176,450**	**96,052**
Total liabilities		**307,863**	**154,105**
Total equity and liabilities		**689,088**	**575,782**

Consolidated statement of changes in equity

1 January - 31 December

Attributable to shareholders of PolyPeptide Group AG:

kEUR	Share capital	Share premium	Translation reserve	Treasury shares	Other capital reserves	Retained earnings	Total
Balance as at 1 January 2023	**302**	**203,129**	**14,119**	**-13,609**	**3,590**	**214,146**	**421,677**
Result for the year						-51,440	-51,440
Remeasurement gain / (loss) on defined benefit plans, net of tax						2,433	2,433
Currency exchange differences			7,713				7,713
Total comprehensive income	**–**	**–**	**7,713**	**–**	**–**	**-49,007**	**-41,294**
Purchase of own shares							–
Dividends paid							–
Share-based payment					842		842
Transfer of own shares				3,215	-3,215		–
Total transactions with owners	**–**	**–**	**–**	**3,215**	**-2,373**	**–**	**842**
Balance as at 31 December 2023	**302**	**203,129**	**21,832**	**-10,394**	**1,217**	**165,139**	**381,225**

Consolidated statement of changes in equity (continued)

1 January - 31 December

Attributable to shareholders of PolyPeptide Group AG:

kEUR	Share capital	Share premium	Translation reserve	Treasury shares	Other capital reserves	Retained earnings	Total
Balance as at 1 January 2022	**302**	**212,800**	**9,285**	**-1,187**	**3,946**	**196,027**	**421,173**
Result for the year						7,767	7,767
Remeasurement gain / (loss) on defined benefit plans, net of tax						10,352	10,352
Currency exchange differences			4,834				4,834
Total comprehensive income	**–**	**–**	**4,834**	**–**	**–**	**18,119**	**22,953**
Purchase of own shares				-13,933			-13,933
Dividends paid		-9,671					-9,671
Share-based payment					1,155		1,155
Transfer of own shares				1,511	-1,511		–
Total transactions with owners	**–**	**-9,671**	**–**	**-12,422**	**-356**	**–**	**-22,449**
Balance as at 31 December 2022	**302**	**203,129**	**14,119**	**-13,609**	**3,590**	**214,146**	**421,677**

Consolidated statement of cash flows

1 January - 31 December

kEUR	2023	2022
Cash flow from operating activities		
Result for the year	-51,440	7,767
Adjustments to reconcile cash generated by operating activities		
Depreciation, amortization and impairment	30,469	26,063
Movement in provisions	40	-713
Movement in pensions	867	1,545
Share-based payment expense	842	1,155
Financial income	-103	-9
Financial expenses	21,878	5,049
Income tax expense / (income)	-6,803	-200
Changes in net working capital		
(Increase) / decrease in inventories	15,511	-33,129
(Increase) / decrease in trade receivables	-29,894	18,898
(Increase) / decrease in contract assets	548	-115
(Increase) / decrease in other current assets	-3,738	-1,636
Increase / (decrease) in trade payables	17,368	13,231
Increase / (decrease) in contract liabilities	38,840	-18,628
Increase / (decrease) in other current liabilities	7,564	-3,353
Cash generated from operations	**41,949**	**15,925**
Interest income received	54	9
Interest expenses paid	-4,754	-2,494
Income taxes paid	-764	-7,980
Net cash flows from operating activities	**36,485**	**5,460**
Cash flow from investing activities		
Acquisition of intangible assets	-3,836	-3,665
Acquisition of property, plant and equipment	-52,897	-75,099
Disposal of property, plant and equipment	8	12
Investments in other financial assets	-2,787	317
Net cash flows from investing activities	**-59,512**	**-78,435**

Consolidated statement of cash flows (continued)

1 January - 31 December

kEUR	2023	2022
Cash flow from financing activities		
Purchase of own shares	–	-13,933
Dividends paid	–	-9,671
Proceeds from short-term borrowings from banks	55,172	–
Repayment of short-term borrowings from banks	-55,172	–
Net proceeds from short-term borrowings from Draupnir Holding B.V.	40,000	–
Net proceeds from long-term borrowings from banks	49,087	–
Repayment of lease liabilities	-3,921	-2,695
Repayment of other financial liabilities	-619	-570
Net cash flow from financing activities	**84,547**	**-26,869**
Net movement in cash and cash equivalents	**61,520**	**-99,844**
Cash and cash equivalents at the beginning of the year	37,528	136,303
Net foreign currency exchange differences	-3,342	1,069
Cash and cash equivalents at the end of the year	**95,706**	**37,528**

Notes to the consolidated financial statements

General

PolyPeptide Group AG (the "Company") is the holding company of a group of companies (the "Group") engaged in the development, manufacturing and marketing of peptide- and oligonucleotide-based compounds for use in the pharmaceutical and related research industries. The Group offers a full-service concept from early-stage custom development to contract manufacturing in both solid phase and solution phase technology. In addition, the Group also markets a wide range of generic peptides.

The registered office of the Company is Neuhofstrasse 24, 6340 Baar, Switzerland.

As at 31 December 2023, the Company was a 55.47% subsidiary of Draupnir Holding B.V., a company registered in the Netherlands. Draupnir Holding B.V.'s ultimate parent entity is Cryosphere Foundation, a foundation registered on Guernsey, of which Mr. Frederik Paulsen (Lausanne, Switzerland) is at present the principal beneficiary pursuant to the charter of the foundation governed by the laws of Guernsey, although he has no vested interest in any portion of the foundation assets.

1 Summary of material accounting policy information

Basis of preparation

The consolidated financial statements of PolyPeptide Group AG and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS).

The financial year for the Group is 1 January – 31 December 2023.

All amounts are stated in thousands of Euros, unless otherwise indicated.

Changes in accounting policies and presentation

The following amendments became mandatorily effective from 1 January 2023:

- *IFRS 17 - Insurance Contracts*
- *Disclosure of Accounting Policies* (Amendment to IAS 1 and IFRS Practice Statement 2)
- *Definition of Accounting Estimates* (Amendment to IAS 8)
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12)
- *International Tax Reform – Pillar Two Model Rules* (Amendments to IAS 12)

The adoption of the new standard and the amendments to the IFRS Accounting Standards has not had any significant impact on the financial statements of the Group.

As a result, the accounting policies are consistent with prior years.

Principles of consolidation

The consolidated financial statements include the Company and its subsidiaries as at 31 December of each year. Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date the Company obtains control until such time as control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Reference is made to Note 11 for information regarding the consolidated subsidiaries. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

Translation of foreign currencies

The Group's consolidated financial statements are presented in Euros. The functional currency of the parent company is Swiss Franc (CHF). Each entity within the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Translation of transactions and balances

Transactions in foreign currencies are initially recorded by the Group’s entities at their functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

Translation of subsidiaries

The functional currencies of the foreign operations are the Euro, US Dollar, Indian Rupee and the Swedish Krona. As at the reporting date, the assets and liabilities of the subsidiaries with a functional currency other than the Euro are translated into the presentation currency of the Group (the Euro) at the rate of exchange ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recorded in other comprehensive income. On disposal of a foreign entity, the component of other comprehensive income relating to that foreign operation is recognized in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other taxes and duties. Revenue is recognized when a performance obligation is satisfied.

Performance obligations and timing of revenue recognition

The Group earns the majority of its revenues from the sale of goods. As a result, most of the Group’s revenues are recognized at a point in time when control of the goods has transferred to the customer. All indicators of transfer of control according to IFRS 15 are normally in place when the Group delivers the goods to the customer. The level of judgement needed to determine the point in time at which a customer obtains control of the goods is thus limited.

When bill-and-hold arrangements are in place, the Group satisfies its performance obligation while still retaining physical possession of the goods until it is transferred to the customer at a point in time in the future. However, IFRS 15 clearly states four criteria that must be met for a customer to have obtained control of a product in a bill-and-hold arrangement. These criteria are reflected in the agreements with the customers, and the level of judgement needed for revenue recognition for bill-and-hold arrangements is thus also limited.

The Group has no sales contracts that include performance obligations relating to warranties or returns.

The Group also incurs a portion of its revenues in connection with pharmaceutical services like development and analytical services. In some cases, these contracts run longer than a year with revenue recognized typically on an over time basis. These service contracts are set up in a way to be distinct and the consideration related to the services is based upon standard hourly prices. For these services, the Group recognizes revenues based upon stage of completion which is estimated by comparing the number of hours actually spent on the project with the total number of hours expected to complete the project (i.e. an input-based method). This is considered a faithful depiction of the transfer of services as the contracts are initially priced on the basis of anticipated hours to complete the projects and therefore also represent the amount to which the Group would be entitled to based on its performance to date.

Determining the transaction price

With respect to the sale of goods, a transaction price is agreed in an order or order confirmation, between the Group and its customer. Prices may also be included in the master service agreements, which are usually updated every year. However, the price in the order confirmation is controlling. There are no other variable components included in the transaction price such as financing components, payables to the customer, non-cash considerations, etc. All other special considerations such as volume discounts, are calculated on a calendar-year basis and therefore do not result in any uncertainties about the amount of the transaction price at the end of the financial year. The transaction price for services is based upon a price list with standard prices (fair value) for different kind of services.

Allocating amounts to performance obligations

As each performance obligation in a customer contract is generally priced against its fair value, only limited judgment is involved in the allocation of the total contract price to the individual performance obligations. This allocation will usually be determined by dividing the total contract price by the number of units ordered or hours spent.

Other income, costs and expenses
Other income, costs and expenses are allocated to the year to which they relate. Losses are accounted for in the year in which they arise.

Interest
For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate. Interest income and expense is included in financial income and expense in the income statement.

Research expenses
Research expenses relating to Custom Projects are included in 'Cost of sales' in the income statement. Research expenses not relating to Custom Projects are presented on the separate financial line item 'Research expenses' in the income statement

Share-based payment
Share-based compensation is provided to members of the Board of Directors, the Executive Committee and certain other senior managers (as applicable).

The programs are classified as equity arrangements where the fair value of the shares granted under the programs are recognized as an expense with a corresponding increase in equity. The fair value of the shares is measured at the market share price of PolyPeptide Group AG's shares, adjusted to take into account terms and conditions upon which the shares were granted. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Company revises its estimates of the number of shares that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Taxes
Current income tax
Current income tax assets and liabilities for the current and prior 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 by the reporting date. Corporate income tax is calculated on taxable profit according to the applicable tax rates in the various countries.

Current income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Current income tax items are recognized in correlation to the underlying transaction either in profit or loss, through other comprehensive income or directly in equity.

Tax credits
Tax credits that can only be realized by a reduction of current or future corporate tax payments, rather than being directly settled in cash, are presented as part of the income tax charge for the year.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect to taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the assets are realized and the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

VAT
Income, expenses and assets are recognized net of the amount of VAT, except:

- When the VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Fair value measurements
The Group measures certain financial instruments at fair value. The fair values of financial instruments measured at amortized costs are disclosed in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must be able to access the principal market or the most advantageous market at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at costs less any accumulated amortization and any accumulated impairment losses. Internal development of software for internal use is recognized as intangible assets if the recognition criteria are met. Otherwise, the expenditure is reflected in the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible with a finite useful life are reviewed at least at each financial year end. 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

The Group’s intangible assets consist of software that is amortized on a straight-line basis over five to ten years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the costs of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement, if the recognition criteria are satisfied. All other repair and maintenance costs are recognized as dwelling costs in the income statement.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as stated hereunder.

• buildings (and leasehold improvements)	10 to 50 years
• machinery and equipment	3 to 20 years
• other	3 to 5 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

The assets’ residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and 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. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition and subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. Except for trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

For a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are "solely payments of principal and interest" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at amortized cost (debt instruments)

This category is most relevant to the Group. The Group's financial assets at amortized cost mainly include trade receivables.

The Group measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified, or impaired.

Factoring

In the reporting period beginning 1 January 2023, the Group decided to enter a non-recourse factoring agreement with a bank for a few selected customers. The arrangement is non-recourse between the Group and the bank where all risks and rewards of ownership of receivables are fully transferred to the bank, and where the Group does not provide any guarantee about the performance of the receivables. When the Group derecognizes the receivable from the customer and recognizes the consideration received from the bank, the difference between the carrying amount of the receivable and the consideration received from the bank is recognized as a financial expense in the income statement.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from credit enhancements that are integral to the contractual terms.

Financial assets at amortized cost (debt instruments)
For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime expected credit loss at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Inventories
Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:
Raw materials are stated at the purchase cost on a first in, first out basis.
Finished goods and work-in-progress include costs of direct materials and labor and a proportion of manufacturing overhead based on normal operating capacity but excluding borrowing cost as the production does not require a substantial period of time.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Other current assets
All other current assets are stated at the amounts at which they were acquired or incurred.

Cash and cash equivalents
Cash and cash equivalents in the statement of financial position and in the statement of cash flows comprise cash on hand and in banks and short-term deposits with an original maturity of three months or less.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings and payables as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement
After initial recognition, the financial liabilities are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the income statement.

Derecognition of financial assets and liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continued involvement in the asset. If there is an associated liability, the Group recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continued involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the net of the carrying amount and the maximum amount of the consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Provisions
Provisions are recognized 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. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as financial expenses in the income statement.

Pensions
The Group has insured contributory pension plans covering substantially all employees. Pension obligations are funded through annual premiums. The Group has defined benefit obligations to employees. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method.

Remeasurements, comprising actuarial gains and losses and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The net defined benefit liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies.

Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities it is the published bid price.

Leases
All leases are accounted for by recognizing a right-of-use asset and a lease liability, except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes that the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favor of the Group if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of a termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognized where the Group is contractually required to dismantle, remove or restore the leased assets.

Subsequent to initial measurement, lease liabilities are increased as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. If the lease transfers ownership of the underlying asset by the end of the lease term or if the cost of the right-of-use asset reflects that a purchase option will be exercised, the right-of-use asset is depreciated from the commencement date to the end of the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the revised net present value of future lease payments. The carrying amount of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or an index is revised. In both cases, an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the remaining (revised) lease term.

Other liabilities
All other liabilities are stated at the amounts at which they were acquired or incurred.

Cash flow statement
The cash flow statement is prepared according to the indirect method. Cash and cash equivalents comprise cash on hand and in banks and short-term deposits with an original maturity of three months or less. Interest and income tax cash flows are included in the cash flow from operating activities.

Future changes in accounting policies
The following standards, amendments to standards, and interpretations have been issued by the IASB and are mandatorily effective for reporting periods beginning 1 January 2024 or later. The Group has not early adopted any of these and does not expect them to have a significant impact on the consolidated financial statements:

- *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1)
- *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7)
- *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16)
- *Lack of Exchangeability* (Amendments to IAS 21)

Non-current Liabilities with Covenants (Amendments to IAS 1) becomes mandatorily effective for reporting periods beginning on or after 1 January 2024. However, the Group decided to early adopt it for the reporting period beginning 1 January 2023.

Significant accounting judgments and estimates
The preparation of the Group’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the

consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date and tests for impairment when there are indicators that the carrying amounts may not be recovered. When value in use calculations is undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate to calculate the present value of those cash flows. Even though 2022 and 2023 were characterized by a volatile macroeconomic environment, the Group has not identified any indicators of impairment. No impairment losses of non-current assets have thus been recognized in 2023 (2022: no impairment losses).

Pension and other employment benefits
The cost of defined benefit pension plans is determined using actuarial calculations. The actuarial calculations include assumptions about discount rates, future salary increases, and life expectancy. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions (see Note 16).

Deferred income tax assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management's judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies (see Note 5).

2 Segment information

PolyPeptide generates revenue that can be divided into the three business areas described in Note 3. The chief operating decision maker (i.e., the Executive Committee) reviews revenue generated within each business area but does not review results at this disaggregated level. The chief operating decision maker rather reviews the results of the Group as a whole to assess performance. As a result, the three business areas should not be considered three separate operating segments since only revenue information for each area is reviewed by the chief operating decision maker. Accordingly, there is only one operating segment according to IFRS 8 – *Operating segments*.

The segment disclosures are thus provided in accordance with the requirements applicable for entities that have a single reportable segment.

Revenue from major customers (10% or more of total revenue)
In 2023, revenues of approximately kEUR 42,100 and kEUR 34,900, respectively, were derived from two customers.
In 2022, revenues of approximately kEUR 48,300 and kEUR 41,300, respectively, were derived from two customers.

Geographical areas
Shown below are the carrying amounts of non-current assets other than deferred income tax assets and other financial assets, broken down by location of the assets. Related additions to intangible assets and property, plant and equipment (PP&E) during the year and revenues generated from the location of the assets are shown as well.

2023 **kEUR**	**USA**	**Europe** **& India**	**Total**
Revenue	92,760	227,612	320,372
Additions to intangible assets and PP&E	4,479	50,411	54,890
Non-current assets, carrying amount	97,918	242,641	340,559

2022 kEUR	USA	Europe & India	Total
Revenue	90,158	190,820	280,978
Additions to intangible assets and PP&E	20,850	62,135	82,985
Non-current assets, carrying amount	106,825	206,334	313,159

3 Revenue and expenses

PolyPeptide generates revenue that can be divided into the three business areas described below:

Revenue by business area

kEUR	2023	2022
Custom Projects	154,453	140,044
Contract Manufacturing	135,385	110,753
Generics and Cosmetics	30,534	30,181
Total revenue	**320,372**	**280,978**

Custom Projects business area specializes in the manufacturing of custom research-grade peptides and oligonucleotides, in milligram, gram or pilot scale quantities, at predefined purity levels for use in pre-clinical and clinical development as well as for regulatory and scientific studies. Custom Projects also provides cGMP manufacturing services during the later phases of development. Revenue is allocated to Custom Projects for sales of products in the pre-clinical through clinical stage development (i.e., prior to commercial launch) as generally set out in master service agreements and/or the accompanying work / purchase orders.

Contract Manufacturing business area manufactures peptides for commercial stage peptide therapeutics, at scale, in commercial batches and in accordance with cGMP requirements. The Group's Contract Manufacturing services also include consultation for continuous improvement and process stabilization / optimization to support scale-up, process changes to support cost of goods sold enhancement, lifecycle management and extension as well as regulatory support. Revenue is allocated to Contract Manufacturing where production is related to the commercial supply of products, including the production of commercial generic products where the Group manufactures for the patent originator, as generally set out in master supply agreements and/or the accompanying work / purchase orders.

Generics and Cosmetics business area manufactures peptide-based generics for the human and veterinary market, produced on an industrial scale following cGMP guidelines. Generally, PolyPeptide's generic products are off-patent and manufactured for numerous generic customers. The business area also includes revenue generated from the sale of peptides used in cosmetics, primarily for anti-aging applications. Revenue is allocated to Generics and Cosmetics for product sales to generics manufacturers and non-originators (i.e., not the original patent holder) as well as cosmetics sales, each as generally set out in nonproprietary master supply agreements and/or the accompanying work / purchase orders.

Revenue by geographical area

Revenue is attributed to the individual geographical area based on the invoice address of the respective customer.

kEUR	2023	2022
Americas	130,603	133,437
Europe	161,735	125,820
Asia Pacific	25,377	21,255
Others	2,657	466
Total revenue	**320,372**	**280,978**

Revenue from contracts with customers

2023 kEUR	API	Related services	Total
Timing of transfer of goods and services			
Point in time	282,189		282,189
Over time		38,183	38,183
Total revenue	**282,189**	**38,183**	**320,372**

2022 kEUR	API	Related services	Total
Timing of transfer of goods and services			
Point in time	246,006		246,006
Over time		34,972	34,972
Total revenue	**246,006**	**34,972**	**280,978**

Revenues from Active Pharmaceutical Ingredients (API) fully relate to the sale of goods and revenues from related services relate to the rendering of services. All revenues from contracts with customers classify as business-to-business.

Contract assets and contract liabilities

Contract assets

kEUR	2023	2022
As at 1 January	**2,660**	**2,556**
Transfer in the period from contract assets to trade receivables	-2,646	-2,537
Transfer of services to customers during the year where the right to payment as at 31 December is conditioned on something other than the passage of time	2,098	2,652
Currency exchange differences	-9	-11
As at 31 December	**2,103**	**2,660**

Contract liabilities

kEUR	2023	2022
As at 1 January	**27,538**	**46,072**
Amounts included in contract liabilities that were recognized as revenue during the period	-23,062	-45,677
Cash received in advance of performance and not recognized as revenue during the period	61,902	27,050
Currency exchange differences	-249	93
As at 31 December	**66,129**	**27,538**

Other operating income

kEUR	2023	2022
Research refund	1,204	1,683
Invoiced freight and insurance	2,707	413
Export incentives	–	90
Investment grants	82	80
Other	488	220
Total other operating income	**4,481**	**2,486**

The research refund relates to a deduction on tax paid due to qualified research in chemistry.
The investment grants relate to improving air emission handling, etc.

Marketing and sales expenses

kEUR	2023	2022
Salaries and employee benefits	-2,474	-3,122
Marketing and promotion costs	-1,049	-826
Other	-530	-957
Total marketing and sales expenses	**-4,053**	**-4,905**

Research expenses

kEUR	2023	2022
Salaries and employee benefits	-1,009	-790
Other	-456	-453
Total research expenses	**-1,465**	**-1,243**

General and administrative expenses

kEUR	2023	2022
Salaries and employee benefits	-16,107	-14,847
Other staff expenses	-2,630	-2,636
Depreciation, amortization and impairment loss	-4,155	-1,302
Professional services	-4,577	-4,884
Insurance cost	-2,563	-2,318
IT services	-2,530	-2,794
Other	-7,511	-6,941
Total general and administrative expenses	**-40,073**	**-35,722**

Financial income

kEUR	2023	2022
Interest income due from third parties	54	9
Other financial income	49	–
Total financial income	**103**	**9**

Financial expenses

kEUR	2023	2022
Interest expenses due to third parties	-5,623	-2,091
Foreign currency exchange losses	-14,495	-1,627
Other financial expenses	-1,760	-1,331
Total financial expenses	**-21,878**	**-5,049**

Staff costs

kEUR	2023		2022	
	Indirect	Direct	Indirect	Direct
Salaries and wages	-15,788	-73,256	-14,097	-68,722
Social charges	-3,011	-14,691	-2,695	-14,817
Pension costs	-831	-5,504	-1,967	-4,851
Total staff cost	**-19,630**	**-93,451**	**-18,759**	**-88,390**

An amount of kEUR 93,451 (2022: kEUR 88,390) relating to salaries and employee benefits has been included in cost of sales.

The average number of FTEs of the principal departments is as follows:

Average number of employees

	2023	2022
Production	665	618
Marketing and sales	19	19
Research and development	177	176
General and administration	99	89
Quality control	135	130
Quality assurance	107	107
Total	**1,202**	**1,139**

Depreciation and amortization included in the income statement

Included in Cost of sales:

kEUR	2023	2022
Depreciation	-23,963	-22,731
Amortization	-2,220	-2,030
Impairment	-131	–
Total	**-26,314**	**-24,761**

Included in General and administrative expenses:

kEUR	2023	2022
Depreciation	-1,479	-1,295
Amortization	-86	-7
Impairment	-2,590	–
Total	**-4,155**	**-1,302**

4 Share-based payment

The following equity-settled share-based payment arrangements are recognized in the consolidated financial statements:

Board of Directors
Members of the Board of Directors receive at least half of their fixed fees in shares, with the option to elect to be paid up to 100% of their fixed fee in shares. For Board members electing to receive more than 50% of their fixed fee in shares, the shares exceeding the 50% portion are granted at a discount of 20% to market price. The proportion between shares (in excess of 50%) and cash is selected by each Board member upon election at the annual general meeting and is fixed until the next annual general meeting. The Board of Directors is compensated on a pro-rata basis for the period of service, even in the case of early termination or removal.

In 2023, the fair value at grant date amounted to kEUR 886 (2022: kEUR 799), reflecting a measurement based on a total number of shares of 43,690 (2022: 9,835) and a price of EUR 20 (CHF 20) per share as at 12 April 2023 (2022: a price of EUR 81 (CHF 83) per share as at 26 April 2022).

All shares will be fully vested at the annual general meeting in April 2024. In 2023, a total amount of kEUR 892 (2022: kEUR 809) was recognized as “General and administrative expenses” in the income statement according to the principles of graded vesting in IFRS 2.

Chief Executive Officer
The Board of Directors has adopted a Long-Term Incentive Plan (“LTIP”) for Executive Committee members and other members of senior management of the Group. Under this share-based incentive program, eligible participants will be awarded the contingent right to receive a certain number of shares in the future (“PSU(s)”) in the Company, subject to, inter alia, continued employment and achievement of non-market performance targets. The actual number of PSUs that will eventually vest and be settled in shares depends on the RONOA and EPS performance of the Group over a three-year performance period.

For the year ended 31 December 2023, the only eligible participant in the LTIP was the CEO of the Group, Juan José González, who joined the Group in April 2023. The PSUs were granted to Juan José González on 6 September 2023. In accordance with IFRS 2, the maximum number of shares potentially vesting was used for the determination of the fair value of the grant. As a result, the fair value at grant date amounted to kEUR 1,135, reflecting a measurement based on 51,060 number of PSUs and the share price of PolyPeptide Group AG as of the grant date of EUR 23 (CHF 22). The vesting period ends 10 trading days after the shareholders approve the 2025 audited consolidated financial statements.

In January 2023, Raymond De Vré resigned as the CEO of the Group. He was subsequently succeeded by the current CEO of the Group, Juan José González. The resignation of Raymond De Vré has impacted the share-based payment-related expenses as follows:

- When Raymond De Vré joined the Group in 2021, he received a one-time grant of shares at a value of kCHF 750, which was calculated at a 20% discount to the initial public offering price of CHF 64, as compensation for the loss of unvested options from his previous employer. The fair value at grant date amounted to kEUR 854, reflecting a measurement based on 14,648 number of shares and the initial public offering price of EUR 58 (CHF 64) per share. The grant included a service condition of three years, one-third vesting each year as of 1 June (starting from 2022). The expenses have been recognized in the income statement as “General and administrative expenses” according to the principles of graded vesting in IFRS 2, resulting in an accumulated expense of kEUR 730 as at 31 December 2022.
  Due to the resignation of Raymond De Vré, the last tranche previously expected to vest in June 2024 did not vest. As a result, an adjustment has been recognized in 2023, resulting in an accumulated expense of kEUR 569 as at 31 December 2023. No further expenses relating to this grant will be recognized in future periods.

- Raymond De Vré participated in the LTIP and was granted PSUs at a fair value of kEUR 1,241 on 29 November 2021. The vesting would end 10 trading days after the shareholders approve the 2023 audited consolidated financial statements. The resignation of Raymond De Vré has changed these vesting terms. However, due to the expected RONOA and EPS performance of the Group over the three-year performance period, no shares from the 2021 grant are expected to vest (similar to the expectation as at 31 December 2022). As a result, no expenses have been recognized in the income statement in 2023 (2022: nil) and the change in the terms due to the resignation has thus not resulted in a financial impact.

The comparative figures for 2022 include an expense of kEUR 45 recognized as “General and administrative expenses” in the income statement, reflecting a grant to Raymond De Vré for his loss of variable payments from his previous employer. The shares vested in 2022 and thus have no impact on 2023.

5 Taxation

Taxation includes local and foreign taxation. Major components of the tax expense were:

kEUR	2023	2022
Consolidated income statement		
Current income tax charge	-827	-2,705
Deferred income tax charge	7,630	2,905
Total income tax charge	**6,803**	**200**
Consolidated statement of comprehensive income		
Income tax directly charged to comprehensive income	-836	-3,174
Total income tax charge (credit)	**-836**	**-3,174**

Amounts recorded in the consolidated statement of comprehensive income related to deferred income taxes on actuarial gains and losses on defined benefit plans as a result of IAS 19.

A reconciliation of the income tax charge applicable to profit from operating activities before income tax at the Swiss statutory income tax rate to income tax expense at the Company’s effective income tax rate for the years ended 31 December was as follows:

kEUR	2023	2022
Result before income taxes	-58,243	7,567
At Swiss statutory income tax rate of 11.8 %	6,849	-895
Different income tax rates of other countries	5,611	-1,148
Non-deductible expenses and non-taxable income	-703	-688
Non-capitalized tax losses	-10,353	-382
R&D tax credits	3,438	3,152
Effect of change in tax rates	60	209
Adjustments in respect of current income tax of previous year	1,901	-48
At an effective income tax rate of 11.7% (2022: -2.7%)	**6,803**	**200**

The effective tax rate for 2023 is 11.7 %. The Group has recorded a limited tax income, despite the significant loss before tax. The relatively low tax income is mainly due to non-capitalized tax losses and R&D tax credits incurred by the US group entities in 2023.

Non-capitalized tax losses are related to impairment of deferred tax assets on tax losses in Polypeptide Group AG. A deferred tax asset has not been recognized due to uncertainty on whether the tax loss will be utilized before expiry (tax losses in Switzerland expires after seven years).

Income from R&D tax credits is related to US R&D tax credits. This income is subsequently reversed through the impairment of the US deferred tax assets.

The deferred tax assets include an amount of kEUR 2,863 relating to US R&D tax credits that have been claimed, but for which uncertainty exists on whether these will be sustained by the US tax authorities.

kEUR	2023	2022
Differences in carrying amount and fiscal valuation of assets and liabilities	5,813	4,232
Capitalized tax losses carried forward	10,877	4,054
Total deferred income tax assets	**16,690**	**8,286**

The deferred tax assets for losses carried forward relate to tax losses of PolyPeptide Laboratories Holding (Sweden) AB, PolyPeptide Laboratories France S.A.S. (France) and PolyPeptide SA (Belgium). The tax losses are expected to be offset against future taxable profits which are expected to be realized within the foreseeable future.

The valuation of deferred tax assets for losses carried forward is based on management-approved medium-term budgets. Tax losses are expected to be utilized within five years.

The net deferred tax asset compose of temporary differences mainly related to inventory, pension liabilities, deferred tax deduction of book expenses as well as unutilized R&D tax credits in PolyPeptide Laboratories Inc. (USA), including accounting for uncertainty on whether this can be sustained by US tax authorities.

The Group has unrecognized tax loss carry forwards available for losses incurred in various countries approximating mEUR 1,545 (2022: mEUR 1,194), of which mEUR 19.3 has no expiration date and mEUR 1,526 will expire between 2028 and 2030. No deferred income tax asset has been recognized due to uncertainty with respect to available taxable profits in the future for these tax jurisdictions and the limitations imposed in tax legislation in order to utilize the tax losses.

The significant increase in unrecognized deferred tax losses is because of a tax deduction of equity in Polypeptide Group AG, which is permissible under Swiss Tax regulations. The tax deduction is calculated on the basis of the development of the share price of the Group.

The effect of this tax deduction and corresponding valuation allowance on the deferred tax asset has been reported through equity. As no net deferred tax asset is recognized for the tax loss generated by this tax deduction, there is no net tax effect reported in equity.

Deferred income tax liabilities as at 31 December relate to the following:

kEUR	2023	2022
Differences in carrying amount and fiscal valuation of assets and liabilities	3,644	1,878
Total deferred income tax liabilities	**3,644**	**1,878**

Differences in the carrying amount and tax values of assets and liabilities mainly relate to differences in valuation of Land & Buildings and Machinery & Equipment.

The deferred income tax charge relates to the following:

kEUR	2023	2022
Movement in deferred tax assets	8,404	616
Movement in deferred tax liability	-1,766	-772
Translation differences	156	-113
Total deferred income tax charge	**6,794**	**-269**

kEUR	2023	2022
Deferred tax charge in income statement	7,630	2,905
Deferred tax (credit) / charge in statement of comprehensive income	-836	-3,174
Total deferred income tax charge	**6,794**	**-269**

Translation differences mainly relate to the Swedish Krona, Indian Rupee and US Dollar.

6 Shareholders' equity

Share capital

There have been no changes to the share capital of the parent company of the Group, PolyPeptide Group AG, during 2023. As a result, the share capital of PolyPeptide Group AG comprised 33,125,001 registered shares with a nominal value of CHF 0.01 each as at 31 December 2023.

All shares are fully paid in.

Treasury shares

	Number of shares	Average purchase/ transfer price (EUR)	% of number of shares in share capital
Own shares as at 1 January 2023	199,196		0.6%
Purchase	–	–	–
Transfer	-43,702	74	-0.1%
Own shares as at 31 December 2023	**155,494**		**0.5%**
Own shares as at 1 January 2022	20,371		0.1%
Purchase	200,000	70	0.6%
Transfer	-21,175	71	-0.1%
Own shares as at 31 December 2023	**199,196**		**0.6%**

There have been no purchases of own shares during 2023.

From March to July 2022, PolyPeptide Group AG purchased 200,000 own shares at the average price of EUR 70 to be held as treasury shares. 43,702 shares were transferred to Board members as part of their share-based remuneration during 2023 (2022: 21,175 shares transferred to employees and Board members as part of their share-based remuneration).

Cash distribution

No cash distribution was made in 2023.

On 26 April 2022, the shareholders of PolyPeptide Group AG approved at the Annual General Meeting to pay a cash distribution of CHF 0.3 per entitled share out of the foreign capital contribution reserves. Treasury shares held by the Company at the time of the cash distribution were not entitled to the cash distribution.
The distribution to shareholders of entitled shares totaled kEUR 9,671 (kCHF 9,916), which was recognized against share premium within equity.

7 Earnings per share

kEUR	2023	2022
Result for the year attributable to shareholders of PolyPeptide Group AG	-51,440	7,767
Weighted average number of shares ('000)	33,125	33,125
Weighted average number of own shares ('000)	184	139
Weighted average number of outstanding shares ('000)	32,941	32,986
Dilution effect of share-based payment ('000)	27	18
Weighted average number of diluted shares ('000)	32,968	33,004
Earnings per share (EPS), basic	**-1.56**	**0.24**
Earnings per share (EPS), diluted	**-1.56**	**0.24**

Basic earnings per share has been calculated by dividing the result for the year attributable to the owners of PolyPeptide Group AG by the weighted average number of shares outstanding during the year. Treasury shares are not considered as outstanding shares.

Diluted earnings per share is calculated by dividing the result for the year attributable to the owners of PolyPeptide Group AG by the weighted average number of shares outstanding adjusted for all potentially dilutive shares. Dilutive shares arise from the share-based payment described in Note 4.

8 Intangible assets

kEUR	Software	Other	Total
Acquisition value			
Balance as at 1 January 2023	28,091	–	28,091
Additions	2,897	–	2,897
Disposals	-1,082	–	-1,082
Currency exchange differences	-22	–	-22
Balance as at 31 December 2023	**29,884**	**–**	**29,884**
Accumulated amortization and impairment losses			
Balance as at 1 January 2023	-12,226	–	-12,226
Amortization	-2,306	–	-2,306
Disposals	1,082	–	1,082
Currency exchange differences	20	–	20
Balance as at 31 December 2023	**-13,430**	**–**	**-13,430**
Carrying value as at 31 December 2023	**16,454**	**–**	**16,454**

kEUR	Software	Other	Total
Acquisition value			
Balance as at 1 January 2022	23,089	3,391	26,480
Additions	3,635	–	3,635
Disposals	–	-1,949	-1,949
Transfers	1,442	-1,442	–
Currency exchange differences	-75	–	-75
Balance as at 31 December 2022	**28,091**	**–**	**28,091**
Accumulated amortization and impairment losses			
Balance as at 1 January 2022	-8,821	-3,391	-12,212
Amortization	-2,037	–	-2,037
Disposals	–	1,949	1,949
Transfers	-1,442	1,442	–
Currency exchange differences	74	–	74
Balance as at 31 December 2022	**-12,226**	**–**	**-12,226**
Carrying value as at 31 December 2022	**15,865**	**–**	**15,865**

As at 31 December 2023, the carrying amount of software includes an amount of EUR 6.6 million (2022: EUR 7.1 million) that is still under construction. This software will be taken into use in subsequent periods and hence no amortization has been recognized for this software yet.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. If any indicators of impairment have been identified, the Group calculates the amount of impairment as the difference between the recoverable amount of the asset and its carrying value and recognizes the impairment loss in the income statement. The Group has not identified any indicators of impairment during the year.

9 Property, plant and equipment

kEUR	Land & Buildings	Machinery & Equipment	Assets under construction	Other operating assets	Total
Acquisition value					
Balance as at 1 January 2023	124,016	201,157	98,644	548	424,365
Additions	2,590	7,864	41,535	4	51,993
Disposals	–	-3,259	-2,721	–	-5,980
Transfers	5,895	39,813	-45,708	–	–
Currency exchange differences	-2,558	-2,143	-582	7	-5,276
Balance as at 31 December 2023	**129,943**	**243,432**	**91,168**	**559**	**465,102**
Accumulated depreciation and impairment losses					
Balance as at 1 January 2023	-45,333	-102,764	–	-390	-148,487
Depreciation	-6,428	-15,045	–	-47	-21,520
Impairment losses	–	–	-2,721	–	-2,721
Disposals	–	3,250	2,721	–	5,971
Currency exchange differences	884	1,355	–	-2	2,237
Balance as at 31 December 2023	**-50,877**	**-113,204**	**–**	**-439**	**-164,520**
Carrying value as at 31 December 2023	**79,066**	**130,228**	**91,168**	**120**	**300,582**

kEUR	Land & Buildings	Machinery & Equipment	Assets under construction	Other operating assets	Total
Acquisition value					
Balance as at 1 January 2022	87,666	170,545	87,397	434	346,042
Additions	659	253	78,324	114	79,350
Disposals	-3	-704	-3	–	-710
Transfers	34,878	33,085	-67,963	–	–
Currency exchange differences	816	-2,022	889	–	-317
Balance as at 31 December 2022	**124,016**	**201,157**	**98,644**	**548**	**424,365**
Accumulated depreciation and impairment losses					
Balance as at 1 January 2022	-38,627	-90,584	–	-345	-129,556
Depreciation	-6,393	-14,088	–	-45	-20,526
Disposals	2	696	–	–	698
Currency exchange differences	-315	1,212	–	–	897
Balance as at 31 December 2022	**-45,333**	**-102,764**	**–**	**-390**	**-148,487**
Carrying value as at 31 December 2022	**78,683**	**98,393**	**98,644**	**158**	**275,878**

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. If any indicators of impairment have been identified, the Group calculates the amount of impairment as the difference between the recoverable amount of the asset and its carrying value and recognizes the impairment loss in the income statement.

In 2023, the Group decided to discontinue the development of certain assets under construction. As a result, an impairment loss of kEUR 2,721 was recognized, reflecting a recoverable amount of nil after the impairment. No impairment losses were recognized in 2022.

The amount of borrowing costs capitalized during the year was nil (2022: nil).

As at 31 December 2023, the carrying amount of Land & Buildings includes an amount of approximately kEUR 7,100 (2022: kEUR 7,600) for which the legal ownership is no longer with the Group due to the transaction with Monedula AB, as further disclosed in Note 18.

10 Leases

Set out below are the carrying amounts of right-of-use assets recognized in the statement of financial position and the movements during the year:

kEUR	Buildings	Cars	Other equipment	Total
Cost of right-of-use assets				
Balance as at 1 January 2023	21,910	2,747	5,082	29,739
Additions	379	2,084	4,008	6,471
Remeasurements	27	7	38	72
Disposals	-106	-599	-759	-1,464
Currency exchange differences	-610	-4	-12	-626
Balance as at 31 December 2023	**21,600**	**4,235**	**8,357**	**34,192**
Accumulated depreciation				
Balance as at 1 January 2023	-4,935	-1,437	-1,951	-8,323
Depreciation	-1,840	-792	-1,290	-3,922
Disposals	106	553	759	1,418
Currency exchange differences	149	3	6	158
Balance as at 31 December 2023	**-6,520**	**-1,673**	**-2,476**	**-10,669**
Carrying value as at 31 December 2023	**15,080**	**2,562**	**5,881**	**23,523**

kEUR	Buildings	Cars	Other equipment	Total
Cost of right-of-use assets				
Balance as at 1 January 2022	17,999	2,272	3,863	24,134
Additions	1,054	730	1,434	3,218
Remeasurements	1,903	-11	–	1,892
Disposals	–	-215	-209	-424
Currency exchange differences	954	-29	-6	919
Balance as at 31 December 2022	**21,910**	**2,747**	**5,082**	**29,739**
Accumulated depreciation				
Balance as at 1 January 2022	-3,056	-1,019	-1,103	-5,178
Depreciation	-1,783	-654	-1,063	-3,500
Disposals	–	215	210	425
Currency exchange differences	-96	21	5	-70
Balance as at 31 December 2022	**-4,935**	**-1,437**	**-1,951**	**-8,323**
Carrying value as at 31 December 2022	**16,975**	**1,310**	**3,131**	**21,416**

Set out below are the carrying amounts of the lease liabilities recognized in the statement of financial position and the movements during the year:

kEUR	Buildings	Cars	Other equipment	Total
Lease liabilities				
Balance as at 1 January 2023	17,172	1,314	2,732	21,218
Additions	379	2,083	3,983	6,445
Interest expenses	441	47	139	627
Remeasurements	27	-7	38	58
Lease payments	-2,007	-842	-1,701	-4,550
Currency exchange differences	-470	-2	-4	-476
Balance as at 31 December 2023	**15,542**	**2,593**	**5,187**	**23,322**
Lease liabilities				
Balance as at 1 January 2022	14,232	1,270	2,503	18,005
Additions	1,054	730	1,419	3,203
Interest expenses	440	36	83	559
Remeasurements	1,918	-11	–	1,907
Lease payments	-1,293	-696	-1,265	-3,254
Currency exchange differences	821	-15	-8	798
Balance as at 31 December 2022	**17,172**	**1,314**	**2,732**	**21,218**

The maturity of the total undiscounted lease liability as at 31 December is disclosed in Note 23.

The following amounts are recognized in the income statement:

kEUR	2023	2022
Depreciation expense of right-of-use assets	3,922	3,500
Interest expense on lease liabilities	627	559
Variable lease payments not included in the lease liabilities	18	244
Short-term leases (included in G&A expenses)	991	508
Leases of low-value assets (included in G&A expenses)	494	671
Total amount recognized in the income statement	**6,052**	**5,482**

The Group had total cash outflows for leases of kEUR 6,053 in 2023 (2022: kEUR 4,677).
The total lease liability of the Group mainly relates to leases of buildings in Torrance, California, USA. The remaining lease liability largely consists of machinery and company cars in various Group companies, primarily having fixed monthly lease payments.

11 Investments in subsidiaries

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed below. Details of investments in subsidiaries as at 31 December are as follows:

Name	Location	Percentage of ownership	
		2023	2022
Polypeptide Laboratories Holding (PPL) AB	Limhamn, Sweden	100%	100%
Polypeptide Laboratories (Sweden) AB	Limhamn, Sweden	100%	100%
PolyPeptide SA	Braine-l'Alleud, Belgium	100%	100%
PolyPeptide Laboratories France S.A.S.	Strasbourg, France	100%	100%
PolyPeptide Laboratories Inc.	Torrance, CA, USA	100%	100%
PolyPeptide Laboratories San Diego, LLC[1]	San Diego, CA, USA	100%	100%
PolyPeptide Laboratories Pvt. Ltd.	Ambernath (East), India	100%	100%
PolyPeptide Laboratories A/S[2]	Hillerød, Denmark	100%	100%

1 PolyPeptide Laboratories San Diego, LLC is a wholly owned subsidiary of PolyPeptide Laboratories Inc.

2 PolyPeptide Laboratories A/S is a dormant company.

Percentage of voting shares is equal to percentage of ownership.

12 Inventories

kEUR	2023	2022
Raw materials and supplies	72,068	61,435
Work in progress	37,116	51,417
Finished goods	19,323	32,221
Balance as at 31 December	**128,507**	**145,073**

Raw materials that are expired or that are no longer used in production, and finished goods for which no future sales are expected, are fully written down at the balance sheet date. Finished goods that are expected to be sold after retesting are written down for the expected loss during this retesting. The estimated loss is approximately 10% of the original weight of the batch.

Costs of inventories recognized in cost of sales in the income statement during the financial year amounted to kEUR 158,857 (2022: kEUR 85,952).

Provisions for obsolete stock amounted to kEUR 52,724 as at 31 December 2023 (2022: kEUR 39,916). Inventory write-downs recognized in cost of sales in the income statement during the financial year 2023 amounts to kEUR 26,483, mainly due to inventory write-downs in Belgium and USA (2022: kEUR 7,154, mainly due to inventory write-downs in France and Sweden).

13 Trade receivables

kEUR	2023	2022
Trade receivables	76,674	46,486
Balance as at 31 December	**76,674**	**46,486**

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

In 2023, the Group decided to enter a non-recourse factoring agreement with a bank for a few selected customers. The arrangement is non-recourse between the Group and the bank where all risks and rewards of ownership of receivables are fully transferred to the bank, and where the Group does not provide any guarantee about the receivables' performance. As a result, PolyPeptide has no continuing involvement in the transferred receivables.

When the receivable is derecognized, the difference between the carrying amount of the receivable and the consideration received from the bank is recognized as a financial expense in the income statement.

In 2023, consideration received from the bank as part of the non-recourse factoring agreement amounted to kEUR 8,300 which resulted in a related financial expense of kEUR 84.

The aging analysis of trade receivables is as follows:

kEUR	Total	< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
31 December 2023	76,674	73,876	1,724	545	163	366
31 December 2022	46,486	42,069	1,349	1,667	832	569

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and aging. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

A significant part of the outstanding accounts receivable balance relates to large reputable pharmaceutical companies with no known history of write-offs. The expected credit loss for these large pharmaceutical companies is estimated at nil. For smaller outstanding debtors, the expected loss rates are based on the Group's historical credit losses experienced over a three-year period prior to the end of the reporting period. These historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

Movements in the bad debt allowance for trade receivables are as follows:

kEUR	2023	2022
Balance as at 1 January	187	131
Increase in bad debt allowance	187	55
Receivable written-off during the year as uncollectible	-80	-8
Unused amounts reversed	-10	0
Currency exchange difference	-5	9
Balance as at 31 December	**279**	**187**

14 Other current assets

kEUR	2023	2022
Prepaid expenses	5,089	5,003
VAT receivable	9,783	5,892
Other	1,316	1,555
Balance as at 31 December	**16,188**	**12,450**

Other current assets are non-interest-bearing and are normally settled on 60-day terms.

15 Cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following as at 31 December of each year:

kEUR	2023	2022
Cash and cash equivalents	95,706	37,528
Balance as at 31 December	**95,706**	**37,528**

As described in Note 19, PolyPeptide Group AG signed a revolving credit facility agreement with three banks during 2023. In addition, it secured a short-term credit facility from its main shareholder, Draupnir Holding B.V.

For the purpose of the Consolidated Statement of Cash Flows, changes in liabilities arising from financing activities for the years were as follows:

kEUR	Non-current interest-bearing loans and borrowings	Current interest-bearing loans and borrowings	Non-current other financial liabilities	Lease liabilities	Current other financial liabilities
Balance as at 1 January 2023	–	–	9,410	21,218	1,096
Cash flows	49,087	40,000	–	-4,550	-1,096
Non-cash flows					
New lease liabilities	–	–	–	6,445	–
Remeasurements	–	–	1,232	58	–
Accrued interest	–	1,253	597	627	–
Government loans waived	–	–	–	–	–
Transfer from non-current to current	–	–	-1,227	–	1,227
Currency exchange differences	–	–	-119	-476	–
Balance as 31 December 2023	**49,087**	**41,253**	**9,893**	**23,322**	**1,227**

kEUR	Non-current interest bearing loans and borrowings	Current interest-bearing loans and borrowings	Non-current other financial liabilities	Lease liabilities	Current other financial liabilities
Balance as at 1 January 2022	–	–	10,302	18,005	1,145
Cash flows			–	-3,254	-1,145
Non-cash flows					
New lease liabilities	–	–	–	3,203	–
Remeasurements	–	–	523	1,907	–
Accrued interest	–	–	611	559	–
Transfer from non-current to current	–	–	-1,096	–	1,096
Currency exchange differences	–	–	-929	798	–
Balance as 31 December 2022	**–**	**–**	**9,410**	**21,218**	**1,096**

16 Pensions

The Group participates in local pension plans in the countries in which it operates. The pension plans are either structured as defined contribution plans or defined benefit plans:

- Defined contribution plans, where the Group is only obliged to pay a pension premium to a fund or insurance company on behalf of the employee. Contributions to defined contribution pension schemes are recognized as incurred in the consolidated income statement.
- Defined benefit plans, where the Group is obliged to provide pension benefits related to services rendered based on final salary levels. The obligation arising from the defined benefit plans is recognized as a net defined benefit obligation in the statement of financial position. This plan is used in Sweden, France, Belgium, India and Switzerland.

The majority of the total net defined benefit obligation recognized in the consolidated financial statements relates to the entities in Sweden and Belgium. For each of the defined benefit plans, no trust is established, and the full liability is recorded in the statement of financial position with compulsory insurance coverage.

The Swedish net defined benefit obligation is calculated by a third-party institution, the Pension Registration Institute (PRI). PRI also administrates the pension payments to employees, which are subsequently charged to the company.

The Belgian fund is outsourced to an insurance company called AXA Insurance. All funds requested to cover the year are called by and paid to the insurance company. The net defined benefit obligation is calculated by a third-party institution, Willis Towers Watson.

The movement in the net defined benefit obligation is shown on the following pages.

kEUR	Present value of obligation	Fair value of plan assets	Net defined benefit obligation
Balance as at 1 January 2023	**44,062**	**-17,425**	**26,637**
Reclassification from provisions (see Note 17)	739	–	739
Amounts recognized in the income statement			
Current service cost	2,411	–	2,411
Past service cost	9	–	9
Interest expense (+) / income (-)	1,645	-682	963
Total amount recognized in the income statement	**4,065**	**-682**	**3,383**
Remeasurements recognized in other comprehensive income			
Return on plan assets, excluding amounts included in interest (income)	–	685	685
Actuarial gain (-) or loss (+) from changes in demographic assumptions	-750	–	-750
Actuarial gain (-) or loss (+) from changes in financial assumptions	-2,393	–	-2,393
Actuarial gain (-) or loss (+) from changes in experience	-811	–	-811
Change in asset ceiling, excluding amounts included in interest expense	0	–	–
Total amount recognized in other comprehensive income	**-3,954**	**685**	**-3,269**
Exchange differences	139	-76	63
Contributions:			
By employer	-269	-2,173	-2,442
By plan participants	167	-167	–
Payments from plan:			
Benefit payments	-826	826	–
Settlements	–	–	–
Balance as at 31 December 2023	**44,123**	**-19,012**	**25,111**

The reclassification from provisions relates to wage taxes of 24.26% on Swedish pension premiums. In prior years, this was classified as a provision in the consolidated statement of financial position. However, the classification of the liability was reassessed in 2023, and it was considered more appropriate to classify it as part of the defined benefit obligation. As a result, an adjustment to the opening balance is reflected in the table above.

There was no impact of minimum funding requirements or asset ceiling on the net defined benefit obligation in 2023.

kEUR	Present value of obligation	Fair value of plan assets	Net defined benefit obligation
Balance as at 1 January 2022	**54,845**	**-15,864**	**38,981**
Amounts recognized in the income statement			
Current service cost	3,279	–	3,279
Past service cost	–	–	–
Interest expense (+) / income (-)	730	-183	547
Total amount recognized in the income statement	**4,009**	**-183**	**3,826**
Remeasurements recognized in other comprehensive income			
Return on plan assets, excluding amounts included in interest (income)	–	862	862
Actuarial gain (-) or loss (+) from changes in demographic assumptions	-110	–	-110
Actuarial gain (-) or loss (+) from changes in financial assumptions	-19,524	–	-19,524
Actuarial gain (-) or loss (+) from changes in experience	6,485	–	6,485
Change in asset ceiling, excluding amounts included in interest expense	–	–	–
Total amount recognized in other comprehensive income	**-13,149**	**862**	**-12,287**
Exchange differences	-1,578	-24	-1,602
Contributions:			
By employer	-260	-2,021	-2,281
By plan participants	151	-151	–
Payments from plan:			
Benefit payments	44	-44	–
Settlements	–	–	–
Balance as at 31 December 2022	**44,062**	**-17,425**	**26,637**

There was no impact of minimum funding requirements or asset ceiling on the net defined benefit obligation in 2022.

Pension expenses reflected in the income statement

kEUR	2023	2022
Current service costs	2,411	3,279
Past service costs	9	–
Net interest costs	963	547
Defined benefit costs	**3,383**	**3,826**
Defined contribution costs	2,952	2,992
Total pension expenses	**6,335**	**6,818**

Weighted average principal assumptions used in determining the present value of the defined benefit obligation

kEUR	2023	2022
Discount rate (%)	3.97%	3.74%
Future salary increases (%)	3.43%	3.57%
Remaining life expectancy at the time of retirement (years):		
Male	22.0	22.0
Female	25.2	25.3

Sensitivity to changes in assumptions

Changes in the assumptions will impact the defined benefit pension obligation as at 31 December as follows:

kEUR	Increase	Decrease
Discount rate (+/- 0.5%)	-2,517	3,084
Future salary increases (+/- 0.5%)	1,743	-1,542
Life expectancy (+/- 1 year)	1,167	-1,068

Expected contributions to the plan for next annual reporting period

The Group expects to pay kEUR 1,423 in contributions to defined benefit plans in 2024.

Weighted average duration

The weighted average duration of the defined benefit obligation is 14.8 years (2022: 15.3 years).

17 Provisions

kEUR	2023	2022
Provision for pension taxes	–	739
Provision for restoration costs	1,545	1,600
Provision for litigation	28	75
Other provisions	76	62
Balance as at 31 December	**1,649**	**2,476**

The provision for pension taxes relates to wage taxes of 24.26% on Swedish pension premiums. In 2023, the classification of this liability was reassessed, and it was considered more appropriate to classify it as part of the defined benefit obligation in note 16. As a result, a reclassification took place, and no amount is included for 2023 in the table above.

The provision for restoration costs relates to the requirement to return leased properties of the Torrance facility into the conditions required by the terms and conditions of the lease agreements.

The provision for litigation relates to labor law claims from former employees.

Movement of the provision for the years was as follows:

kEUR	2023	2022
Balance as at 1 January	2,476	4,568
Reclassification to pensions (see Note 16)	-739	–
Utilization	-47	-46
Additions through profit or loss	13	36
Reversals through profit or loss	–	-704
(Release)/additions through other comprehensive income	–	-1,239
Currency exchange differences	-54	-139
Balance as at 31 December	**1,649**	**2,476**

18 Other financial liabilities

kEUR	2023	2022
Financial liability to Monedula AB	11,120	10,506
Total other financial liabilities as at 31 December	**11,120**	**10,506**
Non-current other financial liabilities	9,893	9,410
Current other financial liabilities	1,227	1,096
Total other financial liabilities as at 31 December	**11,120**	**10,506**

Financial liability to Monedula AB
In December 2019, PolyPeptide Laboratories (Sweden) AB sold all its shares in PolyPeptide Fastighets AB to related party Draupnir Holding B.V.
PolyPeptide Fastighets AB was subsequently renamed into Monedula AB.

Monedula AB is the owner of the premises that are leased by PolyPeptide Laboratories (Sweden) AB. At transaction date, PolyPeptide Laboratories (Sweden) AB and Monedula AB extended the existing lease agreement to 31 December 2035.

Although the legal ownership of the premises was transferred to the buyer, management concluded that the transfer of the premises did not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset. Therefore, the carrying value of the premises as at the transaction date remained in the consolidated statement of financial position of the Group.

The consideration received for the premises in the amount of SEK 124.8 million (kEUR 11,947) was recognized as a financial liability and accounted for in accordance with IFRS 9 as prescribed in IFRS 16.103(a).

The financial liability is currently measured at amortized cost using an effective interest rate of 5.57% (2022: 5.57%). The financial liability matures on 31 December 2035 and will be settled with future lease terms payable to Monedula AB. The total carrying value of the liability as at 31 December 2023 amounts to SEK 123.4 million (kEUR 11,120), of which SEK 13.6 million (kEUR 1,227) is presented as a current financial liability. The total carrying value of the liability as at 31 December 2022 amounted to SEK 116.8 million (kEUR 10,506), of which SEK 12.2 million (kEUR 1,096) was presented as a current financial liability.

The lease payments change each year based on changes in a consumer price index. When the adjustment to the lease payments takes effect, the financial liability is remeasured to reflect the new net present value of the future lease payments. This remeasurement is the reason for the increase in 2023.

19 Interest-bearing loans and borrowings

As presented in the PolyPeptide Group Half-year report 2023, the Company secured beginning of July 2023 a short-term credit facility from the main shareholder, Draupnir Holding B.V., in the amount of EUR 40 million.

On 2 October 2023, the Company further announced the signing of a revolving credit facility agreement with Credit Suisse, Danske Bank and Zürcher Kantonalbank as mandated lead arrangers. With Credit Suisse as the coordinator and agent, the banks committed to a three-year revolving credit facility (RCF) in the amount of EUR 111 million with an uncommitted increase option of EUR 40 million. The RCF allowed the Group to refinance its existing borrowings from banks as well as finance its working capital and capital expenditure requirements to support its planned business growth. In parallel, Draupnir Holding B.V. agreed to extend its EUR 40 million subordinated credit facility, which may be refinanced under the RCF subject to certain conditions.

The RCF agreement includes a financial covenant. For each period of twelve months ending on 30 June or 31 December in any year, the Group must thus comply with a predetermined financial ratio that is based on debt and earnings.

The interest rate on the RCF amounts to EURIBOR plus a margin on the amounts drawn. The margin is determined on a semi-annual basis based on the leverage ratio as defined in the RCF. Until the adjustment of the margin on 30 June 2024, the margin is 3.40 per cent per annum. The interest rate on the Draupnir Holding B.V facility amounts to three months EURIBOR plus a margin of between 2.9% and 4.2% per annum on the amounts drawn.

One of the mandated lead arrangers participating in the RCF has issued a bank guarantee in the amount of EUR 10 million in favor of one of the Group's customers in relation to amounts received pursuant to (i) manufacturing capacity reservations and (ii) raw material prepayments. The amount of the bank guarantee has reduced the available drawings available under the RCF.

As at 31 December 2023, an amount of kEUR 50,000 was drawn from the revolving credit facility, and kEUR 40,000 was drawn from the credit facility provided by Draupnir Holding B.V.

As at 31 December 2023, an amount of kEUR 1,200 was granted by ING Bank (2022: kEUR 1,200), of which nil was drawn as at 31 December 2023 (2022: nil). In 2023, the interest rate on the ING Bank credit facility amounted to 1-month EURIBOR plus a margin of 1.2% on the amounts drawn and a facility fee of 0.30% on the total facility amount (2022: 1-month EURIBOR plus a margin of 1.5% and no facility fee).

As at 31 December 2022, the Group had been granted an overdraft facility by Danske Bank for a total amount of kEUR 25,000, of which nil was drawn as at 31 December 2022. The interest rate on the Danske Bank facility amounted to DANSKE BOR plus a margin of 0.80% on the amounts drawn.

20 Trade payables and other current liabilities

kEUR	2023	2022
Trade payables	60,906	45,933
Total trade payables	**60,906**	**45,933**
Taxes and social securities	9,077	4,786
Accrued expenses	14,947	12,407
Other	1,391	659
Total other current liabilities	**25,415**	**17,852**

Trade payables and other current liabilities are non-interest-bearing.

21 Contingent liabilities and guarantees

Limited partnership investment
In November 2021, the Group entered into a limited partnership agreement with a commitment to invest a maximum amount of kUSD 30,000.
A capital call was made during 2023, where the Group invested kUSD 3,300 in addition to investments made in prior years. The investments are recognized as “Other financial assets” in the consolidated statement of financial position and measured at fair value through profit or loss.

As at 31 December 2023, the Group thus has remaining a contingent liability of kUSD 23,700 (kEUR 21,449).

If the general partner of the limited partnership makes an additional capital call, the Group would be obliged to pay the amount within ten business days.

Guarantee pension fund
All members of the PRI Pensionsgaranti, the issuer of the defined benefit plan in Sweden, are subject to a mutual liability. This liability would only be invoked in the event that PRI Pensionsgaranti has consumed all its assets. The mutual liability of the Group is limited to a maximum of 2% of the Group’s individual pension liability with PRI Pensionsgaranti. As such, the Group has a contingent liability of kEUR 264 as at 31 December 2023 (2022: kEUR 225), for which it has issued a guarantee to PRI Pensionsgaranti.

Belgian labor authorities
The Belgian labor authorities (Service Public Federal – Emploi, Travail et Concertation Sociale) conducted a partial audit of the PolyPeptide Braine-l’Alleud site in July 2023. The audit report alleges a number of potential findings. The Group expects that a settlement could be reached in 2024 (provided, however, that any such settlement may be postponed or delayed due to ongoing discussions and/or procedural aspects) and that such settlement may result in an outflow of resources embodying economic benefits ranging from kEUR 53 to kEUR 9,600. The Group has consulted its lawyer and tried to prepare a reliable estimate of the potential outflow within this range in accordance with the guidance of IAS 37, but it has not been possible because of the various potential outcomes of the matter. As a result, no provision is recognized in the consolidated statement of financial position.

22 Related parties

The following transactions have been entered into with related parties:

2023 kEUR	Income from related parties	Purchases from related parties	Amounts due from related parties	Amounts due to related parties
Draupnir Holding B.V.	–	–	–	–
Thalamus AB	–	-167	–	-197
Ferring Group	34,900	-93	1,279	-56
Monedula AB	8	-1,270	–	-11,120
Amzell B.V.	21	–	–	–
Amring Pharmaceuticals Inc	3	–	–	–
SVAR Life Science AB	104	–	14	–
Nordic Pharma Ltd.	–	-6	–	–
Limhamn Kajan 37 AB	–	-41	–	-182

In addition to the information shown in the table above, PolyPeptide Group AG secured a short-term credit facility from its main shareholder, Draupnir Holding B.V., during 2023. As a result, interest expenses at the amount of kEUR 1,224 have been incurred during the year. As at 31 December 2023, an amount of kEUR 40,000 was drawn from the credit facility and is accordingly recognized in the consolidated statement of financial position as a current liability (see Note 19).

2022 kEUR	Income from related parties	Purchases from related parties	Amounts due from related parties	Amounts due to related parties
Draupnir Holding B.V.[1]	–	–	–	–
Thalamus AB	–	-167	–	-304
Ferring Group	41,300	-38	5,918	-4
Monedula AB	191	-1,556	–	-10,506
Amzell B.V.	172	–	–	–
Amring Pharmaceuticals Inc	–	–	–	–
SVAR Life Science AB	166	–	–	–
Nordic Pharma Ltd.	–	-7	–	–

[1] A cash distribution of CHF 0.3 per entitled share was approved by the Annual General Meeting in April 2022. This resulted in a cash distribution of kEUR 5,363 to Draupnir Holding B.V. in May 2022.

All disclosed related parties are either related through the Esperante Investments S.à r.l. ownership structure or through managerial control. Esperante Investments S.à r.l. is a higher parent company of the majority shareholder Draupnir Holding B.V.

Purchases from and amounts due to Thalamus AB relate to rental of premises.

Income from the Ferring Group and amounts due from the Ferring Group relate to sale of goods.

Purchases from Monedula AB relate to the lease of premises. Income and amounts due from Monedula relate to property management fees and recharged improvements to the premises. Amounts due to Monedula AB relate to the financial liability recognized for the lease of premises as disclosed in Note 18.

Income from and amounts due from Amzell B.V. relate to sale of goods.

Income from SVAR Life Science AB relates to sale of goods.

Purchases from and amounts due to Limhamn Kajan 37 AB relate to rental of premises.

During 2023, no provisions for doubtful debt and no write-offs on receivables from related parties were recognized (2022: nil). No guarantees were given or received in 2023 for any outstanding related party balances (2022: nil).

Transactions with key management personnel

Compensation of key management personnel of the Group:

kEUR	2023	2022
Salaries and short-term benefits	4,341	3,112
Post-employment benefits	313	292
Share-based payment expense	842	1,155
Total transactions with key management	**5,497**	**4,559**

Reference is made to Note 4 for further details on the share-based payment expense.
Key management personnel are considered all members of the Executive Committee and the Board of Directors.

23 Financial risk management objectives and policies

The Group's principal financial instruments comprise trade receivables, cash and cash equivalents, trade payables, lease liabilities, other financial liabilities and interest-bearing loans and borrowings. The market risk, credit risk and liquidity risk relating to the Group's financial instruments are described below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and other price risk. Currency risk and interest rate risk are considered most relevant for the Group and are thus described below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is primarily exposed to interest rate risk due to the interest-bearing loans and borrowings described in Note 19 which is used as the basis for the sensitivity analysis below.

The Group does not enter into derivatives to hedge interest rate risks.

The table below shows the effect on the Group's profit before tax if a reasonably possible change in the market interest rate had been applied to the risk exposure in existence at the end of the reporting period. No impact on equity is disclosed because the interest rates on the credit facilities are variable.

Effect on result before tax

kEUR	2023	2022
Change in interest rates		
Increase in basis points:		
15	-135	56
20	-180	75
Decrease in basis points:		
(10)	90	-38
(15)	135	-56

The table shows that an increase in the market interest rate of 15 and 20 basis points would have impacted the result before income taxes negatively in 2023 by kEUR 135 and kEUR 180, respectively. In 2022, changes in the market interest rate of 15 and 20 basis points would have impacted the result before income taxes positively by kEUR 56 and kEUR 75, respectively, because the interest rates on the Group's bank deposits were positive and the Group did not have any interest-bearing loans and borrowings. As a result, the amounts in the table for 2023 are shown with an opposite sign compared to 2022.

Since the amounts drawn from the revolving credit facility and the credit facility from Draupnir Holding B.V. (see further details in Note 19) have fluctuated significantly during 2023, the Group does not believe the year-end exposure reflects the exposure during 2023. As a result, the sensitivity analysis above for 2023 is considered unrepresentative.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured.

The Group's exposure to currency risk is primarily related to an inter-company receivable between the parent company, PolyPeptide Group AG, and PolyPeptide Laboratories Holding (PPL) AB because the functional currency of PolyPeptide Group AG is Swiss franc (CHF) while the loan to PolyPeptide Laboratories Holding (PPL) AB is denominated in Euro (EUR). The Group is also exposed to currency risk from sales and purchases in currencies other than the functional currency of the operating sites. However, as the volumes of these transactions are relatively low compared to the total volume, the currency risk exposure from such transactions is considered low.

The Group does not enter into derivatives to hedge currency risks.

The table below shows the effect on the Group's result before tax if a reasonably possible change in the exchange rate between CHF and EUR had been applied to the risk exposures in existence at the end of the reporting period.

kEUR	Effect on result before tax	
	2023	2022
Change in currency percentage		
5 percentage points	-7,494	-6,994
(5%) percentage points	7,494	6,994

Based on the currency exposure at the end of the reporting period, the result before tax would thus have been negatively affected by kEUR 7,494 (2022: 6,994) if CHF appreciated against EUR by 5 percentage points, while it would have been impacted the result before tax positively by the same amounts if the CHF depreciated against EUR by 5 percentage points.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter-parties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

The Group has no significant credit risks, other than those that have already been allowed for, nor any concentrations of credit with a single customer or in an industry or geographical region that carries an unusually high credit risk.

Credit risks relating to the trade receivables and cash balances are monitored regularly. Clients are assessed according to Group criteria prior to entering into agreements. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets recognized in the consolidated statement of financial position.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group monitors its liquidity risk by using a cash flow forecast model. This model considers the timing of expected cash inflows from payments from customers as well as expected cash outflows for inventories, investments, salaries, financial expenses, VAT, taxes, and other operating expenses. The Group uses the cash flow forecast model for reducing the amounts drawn from the credit facilities while still monitoring its liquidity risk.

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted payments.

kEUR	Less than 1 year	1-5 years	More than 5 years	Total
Year ended 2023				
Interest-bearing loans and borrowings	-41,253	-50,000	–	-91,253
Other financial liabilities	-1,258	-5,032	-8,805	-15,095
Lease liabilities	-4,539	-11,856	-9,770	-26,165
Trade payables	-60,906	–	–	-60,906
Other current liabilities	-3,445	–	–	-3,445
Balance as at 31 December 2023	**-111,401**	**-66,888**	**-18,575**	**-196,864**

kEUR	Less than 1 year	1-5 years	More than 5 years	Total
Year ended 2022				
Other financial liabilities	-1,096	-4,385	-5,025	-10,506
Lease liabilities	-3,588	-9,522	-10,825	-23,935
Trade payables	-45,933	–	–	-45,933
Other current liabilities	-2,522	–	–	-2,522
Balance as at 31 December 2022	**-53,139**	**-13,907**	**-15,850**	**-82,896**

Capital management

The primary objective of the Group’s capital management is to maintain sound capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and adjusts it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the years ended 31 December 2023 and 31 December 2022.

The Group monitors capital using shareholder equity ratio, which is the total shareholder equity divided by total equity and liabilities, based on the consolidated financial statements. The Group has no formally approved ratio range but considers a ratio above 25% as being sound.

The table stated below shows the development of the shareholder equity ratio for the years 2023 and 2022.

kEUR	2023	2022
Total shareholder equity	381,225	421,677
Total equity and liabilities	689,088	575,782
Equity ratio as at 31 December	**55.3%**	**73.2%**

24 Financial instruments

Fair values

In view of their short-term nature, the fair values of financial instruments of cash, trade receivables and payables, and short-term liabilities approximate their carrying amounts. All financial assets and liabilities are measured at amortized cost except for the investment in a limited partnership (see Note 21), which is measured at fair value through profit or loss.

Set out below is a comparison by category of carrying amounts and fair values of all the Group's non-current financial instruments that are recognized in the consolidated statement of financial position.

kEUR	Carrying value		Fair value	
	2023	2022	2023	2022
Non-current financial assets				
Other financial assets	5,237	2,767	5,237	2,575
Non-current financial liabilities				
Interest-bearing loans and borrowings	-49,087	–	-50,000	–
Other financial liabilities	-9,893	-9,410	-9,893	-9,410

Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy (see Note 1) are as follows:

kEUR	Level 1	Level 2	Level 3
As at 31 December 2023			
Other financial assets	–	–	5,237
Interest-bearing loans and borrowings	–	-50,000	–
Other financial liabilities	–	-9,893	–
As at 31 December 2022			
Other financial assets	126	–	2,449
Interest-bearing loans and borrowings	–	–	–
Other financial liabilities	–	-9,410	–

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Level 1 inputs include the publicly listed share price of PolyPeptide Group AG. Level 2 inputs include the discounted cash flow method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. Level 3 inputs include unobservable inputs that reflect the assumptions that market participants would use when pricing the asset, including assumptions about risk.

25 Subsequent events

There have been no significant events subsequent to the balance sheet date that would require additional disclosure in the consolidated financial statements.

The consolidated financial statements for 2023 were approved for issue by the Board of Directors on 8 March 2024 and are subject to approval by the Annual General meeting on 10 April 2024.

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STATUTORY AUDITOR'S REPORT

To the general meeting of PolyPeptide Group AG, Baar

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of PolyPeptide Group AG and its subsidiaries (the Group) – which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion the consolidated financial statements (pages 145 to 192) give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Standards on Auditing (SA-CH). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the provisions of Swiss law, the requirements of the Swiss audit profession as well as the International Code of Ethics for Professional Accountants *(including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Key Audit Matter	How the Key Audit Matter was addressed in the audit
Revenue recognition The Group has recognised revenue of kEUR 320,372 (2022: kEUR 280,978). The Group earns the majority of its revenues from the sale of goods (Active Pharmaceutical Ingredients), which are recognised at a point in time and a portion of its revenues in connection with pharmaceutical services with revenue recognised typically on an over time basis. Due to the significant expected growth of revenues from Active Pharmaceutical Ingredients (API), the fact that sales contracts include many different terms, there is a risk of incorrect timing of revenue recognition due to fraud or error, the significant level of judgement and estimate involved by management in assessing revenue recognition over time related to pharmaceutical services, where contracts run longer than a year and the linkage of certain management incentive compensation to revenue targets, we consider revenue to be a key audit matter. We refer to Note 1 Summary of material accounting policy information and Note 3 Revenue and expenses.	We obtained an understanding of the control environment and performed a walkthrough of the revenue and receipts cycle as part of the risk assessment process. We performed tests of transactions for revenues, specific procedures on sales orders opened during the financial year 2023 but not closed as of 31 December 2023, credit memo testing, cut-off procedures by reviewing the shipping logs shortly before and after year-end and testing samples before and after the year-end. We have obtained the invoice journal and verified it to the general ledger. We have reconciled the sales prices and quantities to contracts and delivery notes on a sample basis. We have verified credit entries posted within trade receivables and related to bank receipts only. We have verified that all goods that have been shipped from the site are also invoiced at the balance sheet date or recorded as accrued income. We tested appropriate timing of revenue recognition by comparing individual sales transactions to delivery documents. We analysed revenue transactions using computer aided audit and data analysis techniques. We reviewed the calculation of percentage of completion and the related revenue and margin recognised for a selection of projects. We requested confirmation of revenues from significant customers through a confirmation directly from the third party. Furthermore, we have assessed the adequacy of the disclosures relating to revenue recognition in the notes.

Other Information

The board of directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the financial statements, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information,we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the Consolidated Financial Statements

The board of directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards and the provisions of Swiss law, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the consolidated financial statements is located at EXPERTsuisse's website at: https://www.expertsuisse.ch/en/audit-report-for-ordinary-audits. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

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

Zurich, 8 March 2024

BDO Ltd

René Füglister
Licensed Audit Expert
Auditor in Charge

Jan Trautwein
Licensed Audit Expert

Financial Report

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Income statement of PolyPeptide Group AG

1 January - 31 December

kCHF	Note	2023	2022
Financial income	7	9,238	2,212
Service income		8,947	7,748
Total income		**18,185**	**9,960**
Personnel expenses		-6,201	-4,512
Other operating expenses		-2,086	-2,372
Interest expenses third parties		-1,083	-162
Interest expenses related parties		-1,179	–
Other financial expenses	8	-12,770	-6,074
Depreciation on tangible assets		-173	-71
Impairment losses on investments	9	-234,000	-1,160,400
Operating result before taxes (EBT)		**-239,307**	**-1,163,631**
Loss before taxes		**-239,307**	**-1,163,631**
Taxes		–	–
Net loss for the year		**-239,307**	**-1,163,631**

Statement of financial position of PolyPeptide Group AG

As at 31 December

Assets, kCHF	Note	2023	2022
Current assets			
Cash and cash equivalents	1	280	10,061
Other receivables from related parties		–	313
Other receivables from group companies		17,799	14,359
Accrued income and prepaid expenses		683	799
Total current assets		**18,762**	**25,532**
Non-current assets			
Receivables from group companies		222,137	137,744
Financial assets	3	5,434	2,463
Investments	2	525,300	759,300
Tangible assets		683	779
Total non-current assets		**753,554**	**900,286**
Total assets		**772,316**	**925,818**

Statement of financial position of PolyPeptide Group AG (continued)

As at 31 December

Liabilities, kCHF	Note	2023	2022
Current liabilities			
Other liabilities due to third parties		1,471	644
Other liabilities due to related parties		–	14
Interest-bearing liabilities due to shareholder		37,812	–
Accrued expenses and deferred income		134	80
Total short-term liabilities		**39,417**	**738**
Non-current liabilities			
Interest-bearing liabilities due to third parties		46,301	–
Liabilities due to group companies		–	2,284
Total long-term liabilities		**46,301**	**2,284**
Shareholders' equity			
Share capital	4	331	331
Statutory capital reserves			
Reserves from capital contribution	5	2,104,803	2,104,803
Other capital reserves		4,949	4,949
Treasury shares	6	-10,943	-14,052
Net loss brought forward		-1,173,235	-9,604
Net loss for the year		-239,307	-1,163,631
Total shareholders' equity		**686,598**	**922,796**
Total liabilities and shareholders' equity		**772,316**	**925,818**

Notes to the financial statements of PolyPeptide Group AG

General information

Accounting policies
These financial statements were prepared in accordance with the provisions of the Swiss Law on Accounting and Finance Reporting (32nd title of the Swiss Code of Obligations). Significant valuation principles that have been applied in the preparation of these financial statements that are not prescribed by law are described below.

Presentation of cash flow statement and additional disclosures in the notes dispensed with
As PolyPeptide Group AG (the "Company") has prepared consolidated financial statements under a recognized accounting standard (IFRS), it has decided, in accordance with the law, to dispense with the presentation of information on interest-bearing liabilities and audit fees in the notes, a cash flow statement, and an annual review.

Financial year
The financial year runs from 1 January to 31 December.

Valuation principles
Assets are valued at no more than cost. Liabilities are carried at nominal value.

All assets and liabilities in foreign currencies are translated by applying the exchange rate prevailing on the balance sheet date. Exchange differences are recognized in the income statement.

Earnings and expenses originated in foreign currencies are translated with the monthly exchange rate.

Investments
Investments are shown at individual historical acquisition costs less impairment, if any.

Own shares
Own shares are recognized in equity as a negative item at cost as per the date of acquisition. In the event of a subsequent sale, a gain or loss is recognized in the income statement.

Share-based payments
Part of the variable compensation paid to members of the Executive Committee and part of the compensation paid to members of the Board of Directors is in the form of Company shares. The acquisition cost of the shares is recorded under personnel expenses.

Declaration of the number of full-time equivalents (FTEs)
The average number of full-time positions during the reporting was below 50.

1 Cash and cash equivalents

kCHF	2023	2022
Cash	280	10,061
Balance as at 31 December	**280**	**10,061**

2 Investments

There were no changes to the investments held by the Company during 2023. As a result, the table below shows the direct and significant indirect investments held by the Company as at 31 December 2023 and as at 31 December 2022:

Group companies	Location	Capital and voting shares	
		Direct	Indirect
Polypeptide Laboratories Holding (PPL) AB	Limhamn, Sweden	100%	
Polypeptide Laboratories (Sweden) AB	Limhamn, Sweden		100%
PolyPeptide SA	Braine-l'Alleud, Belgium		100%
PolyPeptide Laboratories France S.A.S.	Strasbourg, France		100%
PolyPeptide Laboratories Inc.	Torrance, CA, USA		100%
PolyPeptide Laboratories San Diego, LLC[1]	San Diego, CA, USA		100%
PolyPeptide Laboratories Pvt. Ltd.	Ambernath (East), India		100%
PolyPeptide Laboratories A/S[2]	Hillerød, Denmark		100%

1 PolyPeptide Laboratories San Diego, LLC is a wholly owned subsidiary of PolyPeptide Laboratories Inc.

2 PolyPeptide Laboratories A/S is a dormant company.

Percentage of voting shares is equal to percentage of ownership.

3 Contingent liabilites and guarantees

Limited Partnership Investments

	2023		2022	
	kUSD	kCHF	kUSD	kCHF
Uncalled capital commitment as at 31 December	23,700	19,861	27,000	24,932

Limited partnership investments
In November 2021, the Company entered into a limited partnership agreement. The Company committed to invest a maximum amount of kUSD 30,000.
A capital call was made during 2023, where the Company invested kUSD 3,300 in addition to investments made in prior years. As a result, an uncalled capital commitment of kUSD 23,700 as at 31 December 2023 is disclosed in the table above.

If the general partner of the limited partnership makes an additional capital call, the Group would be obliged to pay the amount within ten business days.

Guarantee pension fund
All members of the PRI Pensionsgaranti, the issuer of the defined benefit plan in Sweden, are subject to a mutual liability. This liability would only be invoked in the event that PRI Pensionsgaranti has consumed all its assets. The mutual liability of the Group is limited to a maximum of 2% of the Group's individual pension liability with PRI Pensionsgaranti. As such, the Group has a contingent liability of kEUR 264 as at 31 December 2023 (2022: kEUR 225), for which it has issued a guarantee to PRI Pensionsgaranti.

4 Share capital

There have been no changes to the share capital of PolyPeptide Group AG during 2023. As a result, the share capital of PolyPeptide Group AG comprised 33,125,001 registered shares with a nominal value of CHF 0.01 each as at 31 December 2023.

5 Reserves from capital contributions

CHF	2023	2022
Reserves from capital contributions (foreign)	1,909,783,753	1,909,783,753
Reserves from capital contributions (domestic)	195,019,440	195,019,440
Total reserves from capital contribution as at 31 December	**2,104,803,193**	**2,104,803,193**

The reported reserves from capital contributions as capital contributions within the meaning of Art. 5 para. 1bis (for the part of the "domestic KER") or Art. 5 para. 1quater lit. a of the Withholding Tax Act (for the part of the "foreign KER") have been confirmed by the Swiss Federal Tax Administration as at 30 January 2024.

6 Treasury shares

2023	No. of shares	Average prices in CHF
Own shares as at 1 January 2023	199,196	70.54
Purchase	–	–
Transfer to Board members / executive committee (incl. group companies)	-43,702	71.13
Own shares as at 31 December 2023	**155,494**	**70.38**

2022	No. of shares	Average prices in CHF
Own shares as at 1 January 2022	20,371	64.00
Purchase	200,000	71.86
Transfer to Board members / executive committee (incl. group companies)	-21,175	70.68
Own shares as at 31 December 2022	**199,196**	**70.54**

From March to July 2022, PolyPeptide Group AG purchased 200,000 own shares at the average price of CHF 71.86 to be held as treasury shares. 43,702 shares were transferred to Board members as part of their share-based remuneration during 2023 (2022: 21,175 shares transferred to employees and Board members as part of their share-based remuneration).

7 Financial income

kCHF	2023	2022
Interest income from Group companies	9,238	2,212
Total financial income	**9,238**	**2,212**

8 Other financial expenses

kCHF	2023	2022
Foreign exchange result	-9,855	-4,716
Other financial expenses	-150	-742
Realized capital loss treasury shares	-2,765	-616
Total other financial expenses	**-12,770**	**-6,074**

9 Impairment loss on investments

Due to the large weight of the main asset (i.e., the investment in Polypeptide Laboratories Holding (PPL) AB) in the overall assets of PolyPeptide Group AG, the decreased share price of the PolyPeptide Group AG represents an impairment indicator for the underlying investment.

For reasons of valuation consistency, the impairment test was carried out using the same method as the original pricing of the shares at the IPO:
30,000,000 (number of shares) x CHF 17.52 (share price as at 31 Dec 2023) - CHF 300,000 = Net market value of PolyPeptide Laboratories Holding (PPL) AB.

The impairment test resulted in an impairment loss of kCHF 234,000 in 2023 (2022: kCHF 1,160,400), which has been recognized in the income statement.

10 Share ownership of the Board of Directors and the Executive Committee

As at 31 December 2023:

	Function	Number of shares	which are blocked	allocated in the reporting period
Klaus Peter Wilden	Chairman	22,436	22,436	14,034
Patrick Aebischer	Vice-Chairman	14,503	14,503	9,185
Beat In-Albon	Member	13,054	13,054	8,267
Jane Anne Salik	Member	23,511	6,250	3,958
Erik Schropp	Member	3,193	–	–
Philippe Weber	Member	15,976	15,976	10,141
Dorothee Deuring[1)]	Member	3,000	3,000	3,000
Total Board of Directors		**95,673**	**75,219**	**48,585**

	Function	Number of shares	which are blocked	allocated in the reporting period
Juan José Gonzáles[2)]	CEO	227,842	–	–
Raymond De Vré[3)]	CEO	11,603	–	-4,883
Jan Fuhr Miller[4)]	CFO	7,767	–	–
Lalit Ahluwalia[5)]	CFO ad interim	–	–	–
Christina Del Vecchio	General Counsel	–	–	–
Neil James Thompson	Director Global Sales and Marketing	1,122	–	–
Jens Fricke	Director Global Operations	1,380	–	–
Total Executive Committee		**249,714**	**–**	**-4,883**
Total		**345,387**	**75,219**	**43,702**

1 Member of the Board of Directors as of 12 April 2023.

2 Member of the Executive Committee as of 12 April 2023.

3 Member of the Executive Committee until 30 January 2023.

4 Member of the Executive Committee until 1 May 2023.

5 Member of the Executive Committee as of 1 May until 31 December 2023.

As at 31 December 2022:

	Function	Number of shares	which are blocked	allocated in the reporting period
Klaus Peter Wilden	Chairman	8,402	8,402	6,744
Patrick Aebischer	Vice-Chairman	5,318	5,318	4,213
Beat In-Albon	Member	4,787	4,787	3,792
Jane Anne Salik	Member	19,553	2,292	1,816
Erik Schropp	Member	3,193	–	–
Philippe Weber	Member	5,835	5,835	4,610
Total Board of Directors		**47,088**	**26,634**	**21,175**

	Function	Number of shares	which are blocked	allocated in the reporting period
Raymond De Vré	CEO	16,486	9,766	6,720
Jan Fuhr Miller	CFO	7,767	–	–
Daniel Lasanow[1)]	Director Global Operations	7,767	–	–
Christina Del Vecchio	General Counsel	–	–	–
Neil James Thompson	Director Global Sales and Marketing	1,122	–	–
Jens Fricke[2)]	Director Global Operations	1,380	–	–
Total Executive Committee		**34,522**	**9,766**	**6,720**
Total		**81,610**	**36,400**	**27,895**

1 Member of the Executive Committee until 30 November 2022.

2 Member of the Executive Committee as of 1 December 2022.

11 Major shareholders

Based on the available information, the following shareholders are considered significant shareholders in accordance with Art. 120 of the Swiss Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (the "FMIA") (> 3% of the registered share capital).
The number of shares shown in tables and the holding percentages are based on the last disclosure of shareholding communicated by the respective shareholder to the Company and the Disclosure Office of SIX Exchange Regulation (SER). The number of shares held by the relevant shareholder may have changed since the date of such shareholder's notification.

Major shareholders 2023:

Shareholder (beneficial owner / direct shareholder)	Number of shares	Percentage of voting rights
Cryosphere Foundation (St. Peter Port, Guernsey) / Draupnir Holding B.V. (Hoofddorp, The Netherlands) 1)	18,582,406	56.10%
Premier Fund Managers Limited (Guildford, Surrey, UK) 2)	1,712,407	5.17%
Premier Portfolio Managers Limited (Guildford, Surrey, UK) /		
Premier Miton European Opportunities Fund 3)	1,633,000	4.93%
T. Rowe Price Associates, Inc. (Baltimore, MD, USA) 4)	–	–
Rudolf Maag (Binningen BL, Switzerland) 5)	1,100,000	3.32%
PRIMECAP Management Company (Pasadena, CA, USA) / PRIMECAP Odyssey Aggressive Growth Fund (Pasadena, CA, USA) 6)	1,061,016	3.20%
Total important shareholders	**24,088,829**	**72.72%**

1 Disclosure notice of 9 December 2022. The disclosure notice included shares held by the Company (PolyPeptide Group AG, Baar, Zug, Switzerland) as well as sale positions by the Company pursuant to the long-term incentive plan representing 0.03% of voting rights corresponding to the maximum award of 9,909 performance share units. As at 31 December 2023, the Company was a 55.47% subsidiary of Draupnir Holding B.V., a company registered in The Netherlands. Draupnir Holding B.V.'s ultimate parent entity is Cryosphere Foundation (St. Peter Port, Guernsey; formerly known as Foundation Mamont), a foundation registered on Guernsey of which Mr. Frederik Paulsen (1006 Lausanne, Vaud, Switzerland) is at present the principal beneficiary pursuant to the charter of the foundation governed by the laws of Guernsey.

2 Disclosure notice of 18 March 2023.

3 Disclosure notice of 18 March 2023.

4 Disclosure notice of 13 December 2022. The company received an updated disclosure notice of 10 January 2023 indicating that the reported shareholding had fallen below 3%.

5 Disclosure notice of 4 May 2021.

6 Disclosure notice of 30 March 2023.

Major shareholders 2022:

Shareholder (beneficial owner / direct shareholder)	Number of shares	Percentage of voting rights
Cryosphere Foundation (St. Peter Port, Guernsey) / Draupnir Holding B.V. (Hoofddorp, The Netherlands) 1)	18,582,406	56.10%
T. Rowe Price Associates, Inc. (Baltimore, USA) 2)	1,430,263	4.31%
Rudolf Maag (Binningen BL, Switzerland) 3)	1,100,000	3.32%
Premier Fund Managers Limited (Guildford, Surrey, UK) 4)	1,073,211	3.24%
Premier Portfolio Managers Limited (Guildford, Surrey, UK) / Premier Miton European Opportunities Fund 5)	1,002,111	3.03%
Total important shareholders	**23,187,991**	**70.00%**

1 Disclosure notice of 9 December 2022. The disclosure notice included shares held by the Company (PolyPeptide Group AG, Baar, Zug, Switzerland) as well as sale positions by the Company pursuant to the long-term incentive plan representing 0.03% of voting rights corresponding to the maximum award of 9,909 performance share units. As at 31 December 2022, the Company was a 55.47% subsidiary of Draupnir Holding B.V., a company registered in The Netherlands. Draupnir Holding B.V.'s ultimate parent entity is Cryosphere Foundation (St. Peter Port, Guernsey; formerly known as Foundation Mamont), a foundation registered on Guernsey of which Mr. Frederik Paulsen (1006 Lausanne, Vaud, Switzerland) is at present the principal beneficiary pursuant to the charter of the foundation governed by the laws of Guernsey.

[2] Disclosure notice of 13 December 2022. The Company received an updated disclosure notice of 10 January 2023 indicating that the reported shareholding had fallen below 3%.

[3] Disclosure notice of 4 May 2021.

[4] Disclosure notice of 9 December 2022.

[5] Disclosure notice of 9 December 2022.

12 Residual amount of leasing obligations

The maturity of leasing obligations which have a residual term of more than twelve months or which cannot be canceled within the next twelve months is as follows:

kCHF	31 December 2023	31 December 2022
0-1 years	113	113
1-5 years	452	452
More than 5 years	368	481
Total	**933**	**1,046**

13 Subsequent events

There have been no significant events subsequent to the balance sheet date that would require additional disclosure in the financial statements.

The financial statements for 2023 were approved for issue by the Board of Directors on 8 March 2024 and are subject to approval by the Annual General Meeting on 10 April 2024.

Proposal for the appropriation of accumulated deficit

The Board of Directors proposes that the General Meeting approves that the accumulated deficit of CHF 1,412,542,049 be carried forward to the new account.

Appropriation of accumulated deficit

CHF	2023
Net loss brought forward	-1,173,234,646
Net loss for the period	-239,307,403
Accumulated deficit to be carried forward	**-1,412,542,049**

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STATUTORY AUDITOR'S REPORT

To the general meeting of PolyPeptide Group AG, Baar

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PolyPeptide Group AG (the Company) – which comprise the balance sheet as at 31 December 2023, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 197 to 208) comply with Swiss law and the articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the provisions of Swiss law, the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Key Audit Matter	How the Key Audit Matter was addressed in the audit
Impairment of Investments As of 31 December 2023, the book value of investments amounted to kCHF 525,300 (31 December 2022: kCHF 759,300) in PolyPeptide Laboratories Holding (PPL) AB, Sweden. Investments are carried at historical acquisition costs less impairment charges. We consider the valuation of investments in PolyPeptide Laboratories Holding (PPL) AB, Sweden to be a key audit matter owing to the magnitude of the balance in relation to the financial statements and the significant decrease in share price in the course of 2023. There is a risk that carrying investments are not recoverable. We refer to Note General Information - Investments, Note 2 Investments and Note 9 Impairment loss on investments.	We performed the following audit procedures: We obtained and reviewed management's memorandum addressing the impairment loss in PolyPeptide Laboratories Holding (PPL) AB, Sweden. We reviewed presentation and disclosure of the impairment loss in PolyPeptide Laboratories Holding (PPL) AB, Sweden and recalculated the impairment loss charged. We assessed whether the share price is an observable market price in an active market. Moreover, we have assessed the adequacy of the disclosures relating to impairment loss in the notes.

Other Information

The board of directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the consolidated financial statements, the compensation report and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information,we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the Financial Statements

The board of directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law, and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board of directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's

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report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at EXPERTsuisse's website at: https://www.expertsuisse.ch/en/audit-report-for-ordinary-audits. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of accumulated deficit be carried forward to the new account complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, 8 March 2024

BDO Ltd

René Füglister
Licensed Audit Expert
Auditor in Charge

Jan Trautwein
Licensed Audit Expert

Three-year financial history[1]

kEUR	2023	2022	2021
Income and expenses			
Revenue	320,372	280,978	282,126
Custom Projects	154,453	140,044	167,006
Contract Manufacturing	135,385	110,753	89,600
Generics & Cosmetics	30,534	30,181	25,520
Total income	324,853	283,464	286,217
Cost of sales	-315,730	-228,987	-182,426
Total operating expenses	-45,591	-41,870	-39,626
o/w Depreciation, amortization and impairment	-30,469	-26,063	-20,683
Financial income	103	9	653
Financial expenses	-21,878	-5,049	-4,970
Income tax	6,803	200	-12,590
Result for the year	-51,440	7,767	47,258
Performance			
Gross profit	9,123	54,477	103,791
Gross margin in % of revenue	2.8%	19.4%	36.8%
EBITDA	-5,999	38,670	84,848
EBITDA in % of revenue	-1.9%	13.8%	30.1%
Operating result (EBIT)	-36,468	12,607	64,165
Operating result (EBIT) in % of revenue	-11.4%	4.5%	22.7%
Earnings per share (EUR), basic	-1.56	0.24	1.47
Proposed cash distribution per share (CHF)	–	–	0.30
Return on net operating assets (RONOA)	-8.5%	3.2%	21.0%
Financial position			
Total assets	689,088	575,782	595,038
Non-current assets	362,486	324,212	263,432
Current assets	326,602	251,570	331,606
Total equity and liabilities	689,088	575,782	595,038
Equity	381,225	421,677	421,173
Non-current liabilities	131,413	58,053	69,904
Curent liabiliities	176,450	96,052	103,961
Cash flows			
Net cash flows from operating activities	36,485	5,460	57,352
Net cash flows from investing activities	-59,512	-78,435	-80,845
Net cash flows from financing activities	84,547	-26,869	130,928
Cash and cash equivalents at the end of the year	95,706	37,528	136,303
Employees			
Employees (# of FTEs, average)	1,202	1,139	1,041

[1] This table includes references to alternative financial performance measures (APM) that are not defined or specified by IFRS. These APM should be regarded as complementary information to and not as substitutes of the Group's consolidated financial results based on IFRS. For the definitions of the main operational indicators and APM used, including related abbreviations, as well as for selected reconciliations to IFRS, please refer to the section "Definitions and reconciliations" of this report.

Definitions and Reconciliations

Selected information provided in this report includes operational indicators or Alternative Financial Performance Measures (APM) that are not accounting measures defined by IFRS. The Group believes that investor understanding of PolyPeptide's performance is enhanced by disclosing such indicators and measures, since they provide additional insights into the underlying business, strategic progress and/or financial performance. Operational indicators and APMs should not be considered as substitutes to the Group's consolidated financial results based on IFRS. They may not be comparable to similarly titled measures by other companies. This section includes the definitions of the main operational indicators and APMs provided as well as a reconciliation of selected APMs to the most directly reconcilable IFRS line item.

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215 Operational indicators
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Abbreviations

API – Active Pharmaceutical Ingredient

APM – Alternative Financial Performance Measure

CAGR – Compound Annual Growth Rate

CDMO – Contract Development and Manufacturing Organization

CDP – Carbon Disclosure Project

cGMP – current Good Manufacturing Practice

CO – Code of Obligation

CMC – Chemistry, Manufacturing & Controls

DDTrO – Ordinance on Due Diligence and Transparency in relation to Minerals and Metals from Conflict-Affected Areas and Child Labor

DMF – Dimethylformamide

EHS – Employee Health & Safety

ESG – Environmental, Social and Governance

FTE – Full-time equivalent

GHG – Greenhouse Gas Protocol

GRI – Global Reporting Initiative

Gx – Generics

ICH – International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use

ILO – International Labor Organization

ISO – International Organization for Standardization

IPO – Initial Public Offering

LCM – Life Cycle Management

LTI – Lost Time Injuries

NDA – New Drug Application

NPS – Net Promoter Score

OECD – Organization for Economic Cooperation and Development

OTIF – On-Time-In-Full

PPQ – Process Performance Qualification

QMS – Quality Management System

R&D – Research & Development

SDG – Sustainable Development Goals

SIX – SIX Swiss Exchange

SPPS – Solid Phase Peptide Synthesis

TCFD – Task Force on Climate-related Financial Disclosure

UN – United Nations

UNICEF – United Nations Children’s Fund

Operational indicators

As part of our financial disclosure, we report revenue from our custom projects business area, and we occasionally make implicit or explicit reference to the underlying project pipeline as an indicator to measure operational performance. This includes the number of projects in total or in categories. Our project count for a given period includes only projects that are invoiced to our customers. Projects with parallel activities at more than one site, or which are transferred from one site to another, or which included multiple peptides or oligonucleotides are counted as one project. The synthesis or one-time manufacturing of small quantities of peptides or oligonucleotides, mostly for research or academic use, is not considered as a project.

Our reference to

- **pre-clinical projects** includes non-GMP manufacturing for the lead candidate selection, and subsequent non-GMP manufacture of the selected API for pre-clinical and toxicological studies;
- **phase I and phase II projects** includes GMP manufacturing of the API for phase I and II clinical trials, including stability studies, process and analytical development as well as regulatory documentation;
- **phase III projects** includes GMP manufacturing of an API for the use in phase III clinical trials, including process validation (manufacturing of PPQ batches) and analytical method validation as well as regulatory documentation (NDA filing support).

Active custom projects include (i) projects with ongoing manufacturing activities; (ii) projects with ongoing non-manufacturing activities (development, analytical services, regulatory, stability studies); (iii) projects with open orders in the Group’s accounting system pending to be delivered; and (iv) projects that are active on the customer’s end, but not necessarily active at PolyPeptide (i.e., when the customer is conducting pre-clinical or clinical studies, formulation studies, etc.).

Reference to “peptides” is to a chemical entity (CE) with a unique amino acid sequence regardless of production site, manufacturing process or salt form. A “pipeline peptide” is a new chemical entity (NCE) in development and a “commercial peptide” is a NCE for an approved therapeutic, including generics and for commercial cosmetics.

References to “commercial therapeutic peptides” are to regulatory approved therapeutic peptides.

A “commercial project” relates to the manufacturing of commercial peptide, oligonucleotide and other material. This includes therapeutic API or intermediates with regulatory approval, both for the innovator or for a generic drug manufacturer. A commercial project may also include material for diagnostic, cosmetic or veterinary purposes.

As part of an annual customer survey commissioned to a third party, PolyPeptide systematically monitors customer-related performance indicators, including the Net Promoter Score (NPS). This is considered to be a key metric that allows the tracking of promoters and detractors within the customer base and the measurement of the organization’s performance through its customers’ eyes.

A lost time injury (LTI) is a work-related injury due to external causes that requires medical treatment and results in the loss of productive work time.

On time in full (OTIF) reflects whether a shipment / delivery is done on or before the promised shipping date (On Time) and the ordered or more than the ordered quantity is delivered (or within agreed tolerance) (In Full).

Alternative Financial Performance Measures (APM)

Revenue at constant currency rate: Revenue translated into the presentation currency, EUR, using the weighted average EUR currency exchange rate from the prior period. This measure provides additional transparency on revenue trends by excluding the impact of fluctuations in exchange rates.

Gross Margin: Gross profit as a percentage of revenue.

EBITDA: Operating result (EBIT) plus depreciation, amortization and impairment charges (if any).

EBITDA Margin: EBITDA as a percentage of revenue.

Operating result (EBIT): Earnings before total financial result and income tax charge.

Capital expenditures (Capex): Investments in property, plant and equipment assets and intangible assets capitalized during a reporting period.

Net operating assets: The sum of Non-current assets plus Current assets less Cash and cash equivalents less Current liabilities.

Return on net operating assets (RONOA): Last twelve months Operating result in percentage of average Net operating assets.

Equity ratio: Equity at the end of the period divided by Total assets at the end of the period.

Free Cash Flow (FCF): Net cash flows from operating activities less cash paid for acquisition of intangible assets less cash paid for acquisition of property, plant and equipment assets.

Net Cash: Cash and cash equivalents less lease liabilities less other financial liabilities.

Proposed cash distribution per share: Proposed cash distribution divided by total number of outstanding shares as at 31 December.

Headcount: Number of people employed by PolyPeptide at the time indicated (i.e., excluding contractors).

Reconciliations

Revenue at constant currencies[1]

kEUR	2023	2022
Revenue at constant currencies[1]	332,192	273,868
Impact from changes in exchange rates compared to prior period	-11,820	7,110
Revenue reported (IFRS)	**320,372**	**280,978**

[1] Revenue translated into the presentation currency, EUR, using the weighted average EUR currency exchange rate from the prior period.

Change in revenue

	2023 vs 2022	2022 vs 2021
Change in revenue reported (IFRS) (%)	14.0%	-0.4%
Change in revenue at constant currencies (%)[1]	18.2%	-3.0%

[1] The change is calculated as: (Current period's revenue at constant currencies) / (Prior period's revenue reported (IFRS)) - 1.

Coronavirus pandemic

kEUR	H1 2023	H2 2023	FY 2023	H1 2022	H2 2022	FY 2022
Revenue associated with the coronavirus pandemic	1,507	4,317	5,824	32,823	17,887	50,710
Revenue not associated with the coronavirus pandemic	130,327	184,221	314,548	100,833	129,435	230,268
Revenue reported (IFRS)	**131,834**	**188,538**	**320,372**	**133,656**	**147,322**	**280,978**

Operating result to EBITDA

kEUR	2023	2022
Operating result (EBIT)	-36,468	12,607
Depreciation, amortization and impairment charges (if any)	30,469	26,063
EBITDA	**-5,999**	**38,670**

Return on net operating assets (RONOA)[1]

kEUR	2023	2022
Operating result (EBIT)	-36,468	12,607
Average[1] Net operating assets:		
Total non-current assets (average)	343,349	293,822
Total current assets (average)	289,086	291,588
Cash and cash equivalents (average)	-66,617	-86,916
Total current liabilities (average)	-136,251	-100,007
Average[1] Net operating assets	429,567	398,487
Return on net operating assets (RONOA)	**-8.5%**	**3.2%**

[1] The average amounts are calculated as: (Current period's figures + prior period's figures) / 2.

Free Cash Flow

kEUR	H1 2023	H2 2023	FY 2023	H1 2022	H2 2022	FY 2022
Net cash from operating activities	-48,322	84,807	36,485	-7,659	13,119	5,460
Acquisition of intangible assets	-2,277	-1,559	-3,836	-2,146	-1,519	-3,665
Acquisition of property, plant and equipment	-29,089	-23,808	-52,897	-39,080	-36,019	-75,099
Free Cash Flow	**-79,688**	**59,440**	**-20,248**	**-48,885**	**-24,419**	**-73,304**

Net Cash

kEUR	2023	2022
Cash and cash equivalents	95,706	37,528
Interest-bearing liabilities (Total financial debt):		
Interest-bearing loans and borrowings (Non-current)	-49,087	–
Lease liabilities (Non-current)	-18,869	-17,652
Other financial liabilities (Non-current)	-9,893	-9,410
Interest-bearing loans and borrowings (Current)	-41,253	–
Lease liabilities (Current)	-4,453	-3,566
Other financial liabilities (Current)	-1,227	-1,096
Interest-bearing liabilities (Total financial debt)	-124,782	-31,724
Net Cash / (debt)	**-29,076**	**5,804**

Capital expenditures (Capex)

kEUR	2023	2022
Property, plant and equipment assets capitalized	51,993	79,350
Intangible assets capitalized	2,897	3,635
Capital expenditures (Capex)	**54,890**	**82,985**

Legal Note

Cautionary statement on forward-looking information: This report has been prepared by PolyPeptide Group AG and includes forward-looking information and statements concerning the outlook for the Group's business. These statements are based on current expectations, estimates and projections about the factors that may affect the Group's future performance. These expectations, estimates and projections are generally identifiable by statements containing words such as “expects”, “believes”, “estimates”, “targets”, “plans”, “projects”, “outlook” or similar expressions.

There are numerous risks, uncertainties and other factors, many of which are beyond PolyPeptide Group AG's control, that could cause the Group's actual results to differ materially from the forward-looking information and statements made in this Annual Report and that could affect the Group's ability to achieve its stated targets. The important factors that could cause such differences include, among others: relationships with employees, customers and other business partners; strategies of competitors; manufacturing capacity and utilization; quality issues; supply chain matters; legal, tax or regulatory disputes; and changes in the political, social and regulatory framework in which the Group operates, or in economic or technological trends or conditions. Although PolyPeptide Group AG believes that its expectations reflected in any such forward-looking statement are based upon reasonable assumptions, it can give no assurance that those expectations will be achieved.

Alternative Financial Performance Measures (APM): This report contains references to operational indicators, such as customer projects, and APM that are not defined or specified by IFRS, including revenue at constant currency rates, revenue (not) associated with the coronavirus pandemic, EBITDA, EBITDA margin, net operating assets, return on net operating assets (RONOA), capital expenditures (Capex), equity ratio, net working capital, free cash flow, net cash, total financial debt and headcount. These APM should be regarded as complementary information to and not as substitutes for the Group's consolidated financial results based on IFRS. These APM may not be comparable to similarly titled measures disclosed by other companies. For the definitions of the main operational indicators and APM used, including related abbreviations, as well as for selected reconciliations to IFRS, refer to the section “Definitions and reconciliations” in this report.

For the purposes of this report, unless the context otherwise requires, the term “the Company” means PolyPeptide Group AG, and the terms “PolyPeptide”, “the Group”, “we”, “us” and “our” mean PolyPeptide Group AG and its consolidated subsidiaries. In various tables, the use of “-” indicates not meaningful or not applicable. Some non-financial figures in the Corporate Responsibility Report have been rounded. Percentages may have been calculated using rounded numbers.

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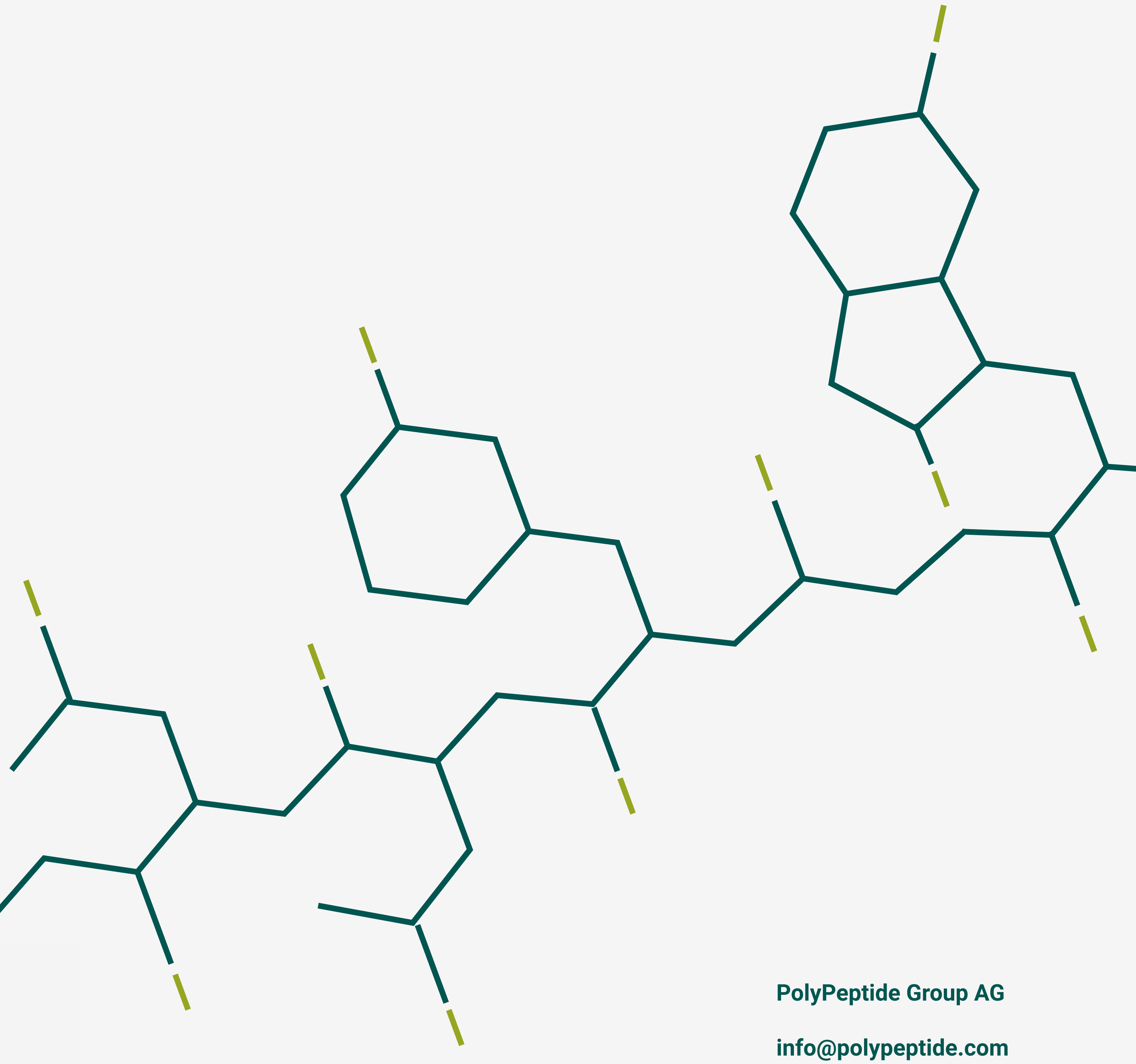

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