POLYPHOR

Annual Report 2020

Annual Report 2020

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Polyphor at a glance

We are a research-driven clinical-stage biopharmaceutical company based in Allschwil, Switzerland, committed to discovering and developing first-in-class molecules in oncology and antimicrobial resistance, leveraging our leading macrocyclic peptide technology platform. With our pipeline of potentially transformative molecules we aim to bring substantial benefits to patients and value to society and all other stakeholders.

Highlights and Key Figures in 2020

- Strong progress in Phase III balixafortide trial; enrollment closed in November 2020
- Exclusive licensing agreement for balixafortide in China with Fosun Pharma entered in August 2020
- The Clinical Trial Authorization (CTA) for inhaled murepavadin has been granted in December 2020 by MHRA to initiate the planned Phase I study
- Two CARBX funding agreements to continue preclinical antibiotics pipeline progress
- Cash on hand of CHF 34.3 million as of December 31, 2020 is expected to finance our operations into Q3 2021

Key figures [1)]
CHF million

Income Statement	2020	2019	Variance in %
Total revenue	14.3	0.0	N/A
Research and development expenses	-52.3	-60.7	-14
Other operating expenses	-4.3	-4.2	3
Net loss for the period	-44.9	-64.7	-30
Balance Sheet			
Cash on hand	34.3	77.4	-56
Total assets	46.8	92.8	-50
Total equity	13.5	55.0	-76
Average net cash burn [2)]	3.5	4.6	-22
Number of FTE	52	63	-18
Equity ratio in %	29	59	

1) Based on the consolidated IFRS financial statements
2) Represents the average monthly cash used in operating and investing activities

Chairman and Chief Executive Officer's Letter

Kuno Sommer

Gökhan Batur

Dear shareholders,

In spite of the unprecedented challenges, we have all faced with the COVID-19 pandemic, Polyphor had a strong year. We started 2020 with a renewed strategy and organizational restructuring led by our largely renewed management team. Our pipeline is progressing according to plan in both oncology and antibiotics.

We completed enrollment of the Phase III FORTRESS trial of balixafortide in advanced breast cancer, on schedule thanks to the tireless work and proactive measures of our team and investigators. We also made good progress in expanding the opportunity for balixafortide by entering into an exclusive licensing agreement with Fosun Pharma in China, which is expected to be the second largest breast cancer market in the world.

We have delivered on our commitment to progress our antibiotics pipeline with external financing securing considerable funds for all our antibiotic programs while continuing progress in research and development. Most notably, we have initiated our second clinical program with inhaled murepavadin and received an award of up to USD 3.3 million from the Cystic Fibrosis (CF) Foundation to help fund a planned Phase Ib/IIa study in treating infections in CF, following the first clinical study in healthy volunteers.

Chairman and Chief Executive Officer's Letter

Balixafortide data readouts in 2021

Polyphor's FORTRESS study, a pivotal Phase III study evaluating balixafortide (POL6326) in combination with eribulin for the treatment of patients with HER2 negative, locally recurrent or metastatic breast cancer, had randomized 432 patients in November 2020, when enrollment was closed. The independent Data Safety Monitoring Board (DSMB) has completed the first, second and third pre-specified interim analyses of safety outcomes for the 193, 284 and 401 randomized patients, and recommended that the study should continue without any modifications.

Data on the key primary endpoint, progression free survival (PFS), are expected in Q4 2021 to serve as basis for a regular New Drug Application (NDA) and Marketing Authorization submission in the U.S., where fast track review has been granted, and in the European Union (EU), respectively. Data on the first coprimary endpoint, objective response rate (ORR), is expected in Q2 2021, and could potentially lead to accelerated approval in the U.S. Completion of the dossier for the NDA filing is on track to support potential breakthrough designation.

In August 2020, Polyphor entered into an exclusive licensing agreement for balixafortide in China with Fosun Pharma, one of the leading Chinese healthcare companies with a global footprint. This represents an important milestone for development and commercialization of balixafortide in one of the largest markets in oncology. Under the agreement, Polyphor received a USD 15 million upfront payment, and is eligible for additional development milestone payments of up to USD 19 million, sales milestones of up to USD 148 million and royalties on net sales in the territory.

Oncology pipeline expansion

Polyphor is spearheading a novel immuno-oncology approach with balixafortide in metastatic breast cancer. Based on numerous clinical studies showing that CXCR4 tumor expression correlates with poor outcomes in earlier lines of metastatic breast cancer and many other solid cancer types, we intend to investigate balixafortide as a novel treatment option in earlier lines of metastatic breast cancer and tumors with other combinations beyond breast cancer.

While a number of additional projects and initiatives are planned after the ORR readout, we are steadily conducting preclinical experiments for balixafortide in different combinations and tumors and plan to initiate a Phase Ib/II trial in earlier lines of metastatic breast cancer in combination with nab-paclitaxel. The start of the study is planned in Q3 2021, dependent on the COVID-19 situation. Beyond balixafortide, we have identified another CXCR4 lead candidate to be explored in liquid cancers. This lead candidate is a potent and highly selective antagonist of the chemokine receptor CXCR4. Based on promising data in preclinical models, Polyphor plans to accelerate its development in hematologic malignancies following balixafortide's ORR results.

Chairman and Chief Executive Officer's Letter

Inhaled murepavadin program progressing to Phase I

In December 2020, the UK Medicines and Healthcare Products Regulatory Agency (MHRA) granted a Clinical Trial Authorization (CTA) to start the first-in-human Phase I study of our novel class antibiotic murepavadin delivered via the oral inhalation route.

The Phase I study, planned to be initiated in Q3 2021, is part of the clinical development plan exploring the inhaled formulation of murepavadin to treat Pseudomonas aeruginosa infections in people with cystic fibrosis (CF), including resistant bacterial strains. The safety, tolerability, and pharmacokinetic study is using eFlow® Technology nebulizer (PARI Pharma GmbH) to administer murepavadin Inhalation Solution (MIS) in healthy volunteers. A Phase Ib/IIa trial in adults with CF, assessing safety and tolerability of ascending doses of inhaled murepavadin, is planned following completion of the Phase I study.

Our inhaled murepavadin program is largely funded by the Innovative Medicines Initiative (IMI), a partnership between the EU and the European pharmaceutical industry. The award from the Cystic Fibrosis Foundation will allow further development until the end of the Phase Ib/IIa study.

Infections remain a significant problem for people with CF who require novel treatment options, despite the availability of CFTR modulators. If approved for commercial use, inhaled murepavadin would be potentially the first agent to target specifically Pseudomonas aeruginosa bacteria versus the current standard of care, broad spectrum inhaled antibiotics.

CARB-X awards fuel early antibiotics pipeline

Polyphor is pioneering a new class of antibiotics, OMPTAs (Outer Membrane Protein Targeting Antibiotic), that has the potential to offer new treatment options for patients with difficult-to-treat infections caused by Gram-negative pathogens, including resistant strains. Our two early-stage antibiotics programs, OMPTA BamA and Thanatin Derivatives, exclusively focus on WHO Priority 1 pathogens and are planned to enter the clinic over the next few years.

Our new program, Thanatin Derivative antibiotics are part of the new OMPTA class with specific antimicrobial activity against Enterobacteriaceae, the most common Gram-negative pathogens, including extremely drug resistant strains. In October 2020, we received an award from CARB-X (Combating Antibiotic-Resistant Bacteria Biopharmaceutical Accelerator), a global partnership led by Boston University, of initial funding of up to USD 2.6 million to complete the hit-to-lead stage and up to USD 15.8 million if certain project milestones are met.

OMPTA BamA targets gram-negative bacteria such as Enterobacteriaceae, P. aeruginosa and A. baumannii and so far has shown a very low propensity for resistance in in-vitro experiments. In December 2020, we extended our agreement with CARB-X, which committed to additional funding of up to USD 2.3 million, bringing potential funding for this contractual stage to USD 5.1 million. Polyphor may also receive up to USD 13 million in future option stages that could take the program through a first-in-human study if certain project milestones are met.

Chairman and Chief Executive Officer's Letter

Financial results

We started 2020 with a renewed strategy, a solid financial position and organizational restructuring. This has allowed us to spend the majority of our expenses on our balixafortide program, while cystic fibrosis and antibiotics drug candidates have been largely externally funded.

In the full year of 2020, the total loss was CHF 44.9 million. R&D costs were primarily driven by the balixafortide trial and amounted to CHF 52.3 million, resulting in a 14% decrease compared to the CHF 60.7 million spent in 2019. The R&D expenditures are expected to decrease in 2021 following the closure of patient enrollment in late 2020. The company has received a USD 15 million upfront payment as part of the partnering agreement with Fosun Pharma. This brings our total cash position to CHF 34.3 million (cash and cash equivalents) as of December 31, 2020, which we expect to finance our operations into Q3 2021

On June 4, 2020, Polyphor's shareholders approved all proposals of the Board of Directors at the 23rd Annual General Meeting with a significant majority. This includes approval of the renewal of authorized share capital and the creation of conditional share capital for bonds and similar debt instruments. Based on these resolutions, Polyphor has entered into an equity-linked financing arrangement with the French company IRIS to raise a gross amount of up to CHF 19.3 million until June 2022. IRIS will receive Polyphor shares to be created from the Company's conditional capital based on this interest-free mandatory convertible bonds program. The equity-linked financing arrangement with IRIS allows for additional flexibility to further extend our cash outlook if needed.

Delivering on 2021 priorities

In 2020 we have demonstrated the capacity to deliver on our strategic plan despite challenging circumstances in the pandemic, rapidly transforming our company and successfully advancing the balixafortide Phase III study. Our priorities for 2021 are to reach the critical data for this study and to initiate the inhaled murepavadin Phase I program for cystic fibrosis. We will also continue with our efforts to establish a pipeline of potentially transformative new oncology and antibiotic candidates and new indications for balixafortide.

While we are convinced that our products have the potential to bring significant benefits to patients and create value for our company and our shareholders, we would like to take this opportunity to thank our Polyphor employees for their almost untiring commitment. And to you, our shareholders, we extend our sincere thanks for the trust and support you have placed in us and for your loyalty to Polyphor.

Sincerely,

Kuno Sommer

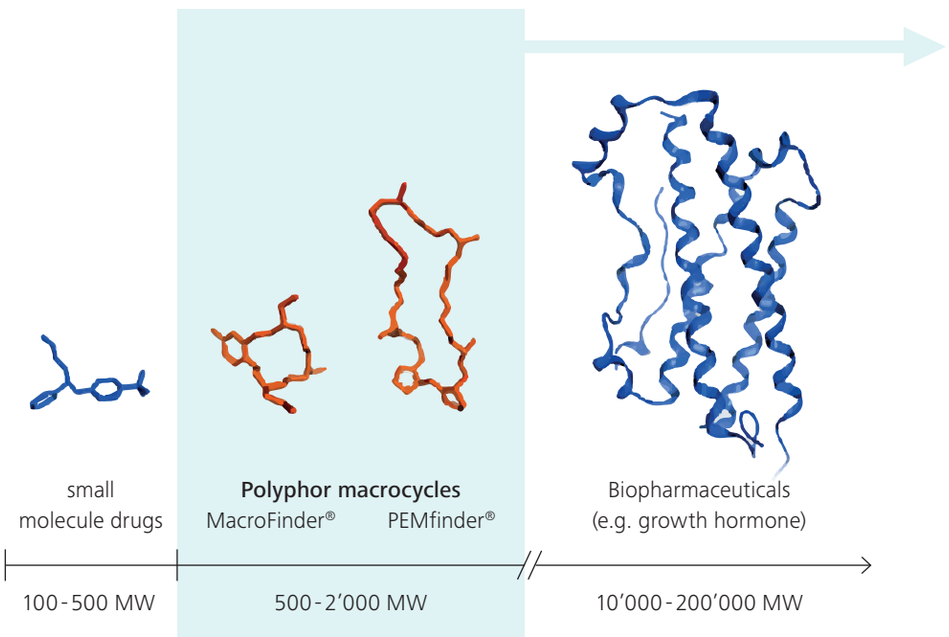
Gökhan Batur

Portfolio and Pipeline

Portfolio and Pipeline – Overview

We are a research-driven clinical-stage biopharmaceutical company based in Allschwil, Switzerland, with a Phase III immune-oncology compound with fast path to market and a strong novel pipeline. We are committed to discover and develop best-in-class molecules in oncology and antimicrobial resistance, leveraging our leading macrocyclic peptide technology platform. Macrocycles are medium-sized cyclic molecules that complement the chemical space between small molecules and large biologics, and are designed to address complex and challenging extra- and intracellular biological targets, while retaining the advantages of small molecules. Compared to traditional peptides used in the pharmaceutical industry, macrocyclic engineered peptides have the advantage of being more stable towards degrading enzymes and more selective and potent towards protein targets with therapeutic value.

In collaboration with the University of Zurich, Polyphor has established a proprietary macrocycle-based discovery platform, based on two complementary technologies: PEMfinder® and MacroFinder®. Protein Epitope Mimetics (PEM) are conformationally constrained cyclopeptides mimicking the biologically most relevant protein surface epitopes such as the β-hairpin and α-helix motifs. PEMfinder® is a highly diverse library derived from sequences of many bioactive peptides including peptide hormones, ligands of G-protein coupled receptors and ion channels, and host defense peptides. The MacroFinder® concept is based on non-peptidic, cell-permeable and orally bioavailable macrocycles which can address complex and challenging intracellular targets.



Portfolio and Pipeline

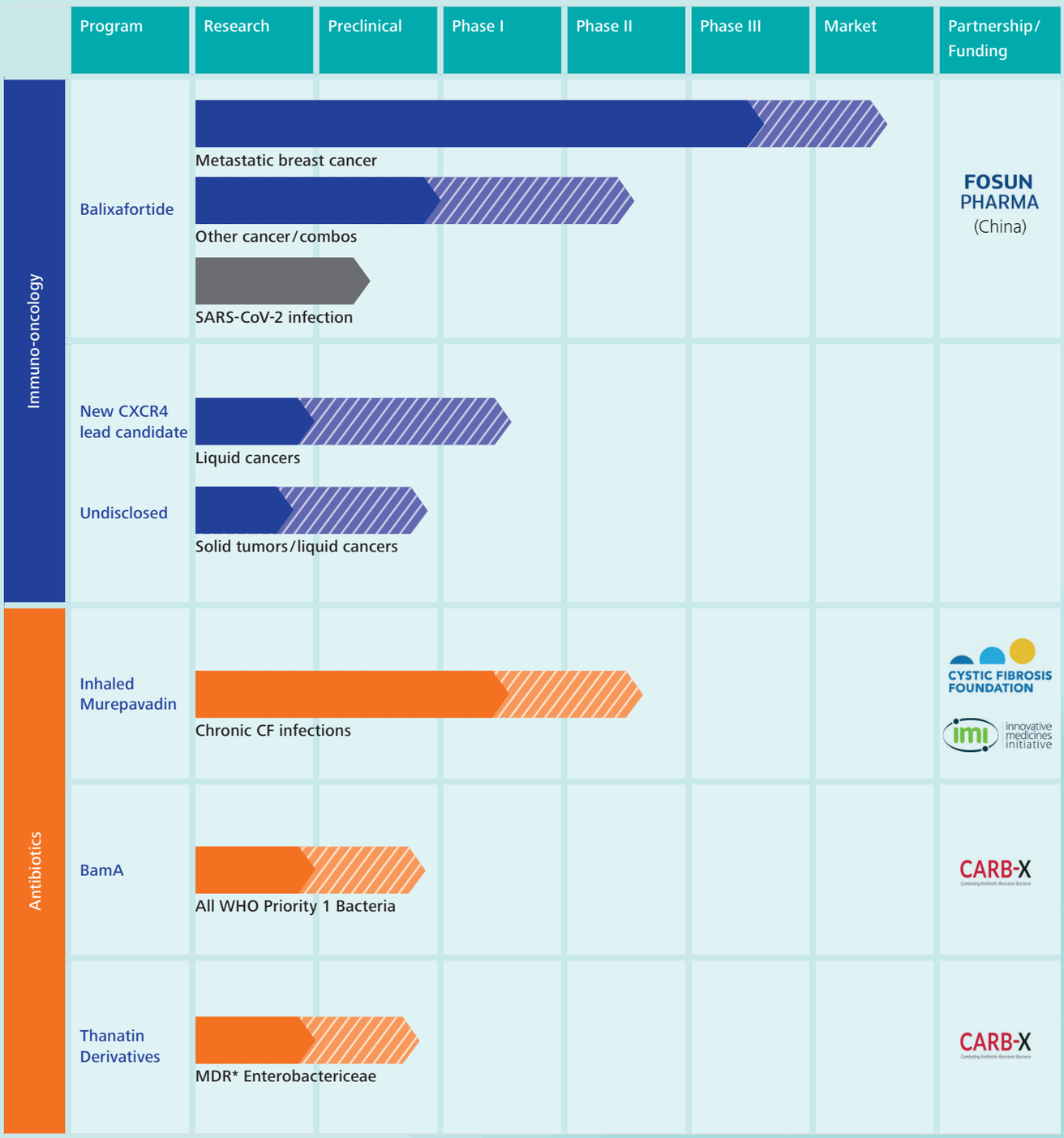
Our macrocycle platform is applicable to many therapeutic areas and different target product profiles, however today's focus is oncology and antimicrobial resistance – two of the most critical health problems.

Our lead product candidate, balixafortide (POL6326), is a potentially best-in-class and most advanced CXCR4 antagonist in clinical development for solid tumor indication. It is suggested to act by increasing immune cell infiltration into the tumor and rendering cancer cells more susceptible to chemo- and immunotherapies. Balixafortide is currently in a Phase III clinical program in combination with eribulin in patients with advanced breast cancer. In addition, we are exploring further potential combinations with other compounds to expand the potential in earlier lines of advanced breast cancer and/or other indications beyond breast cancer and also non-cancer indications.

In parallel we are developing a new class of antibiotics, the Outer Membrane Protein Targeting Antibiotics (OMPTA), which we discovered using our PEM platform and which constitutes a novel class of antibiotics. OMPTAs are characterized by a low rate of resistance development and offer new treatment options for patients with difficult-to-treat infections caused by Gram-negative pathogens, including multidrug-resistant (MDR) and extensively drug-resistant (XDR) strains. The lead product candidate of the OMPTA class is the inhaled formulation of murepavadin, a pathogen specific antibiotic in Phase I to treat chronic Pseudomonas aeruginosa infections in people with cystic fibrosis (CF). The Clinical Trial Application (CTA) was granted in December 2020. In addition we are developing BamA antibiotics within the OMPTA class, a medium spectrum antibiotic targeting the most resistant MDR strains of all Gram-negative ESKAPE pathogens, and thanatin derivatives, a narrow spectrum Gram-negative antibiotic program within the OMPTA class targeting specifically Enterobacteriaceae, one of the most common and resistant pathogens.

The following table summarizes our product candidates and programs:

Portfolio and Pipeline



*Multidrug Resistant

Pipeline Today

Pipeline 2022 Plan

Portfolio and Pipeline

Balixafortide (POL6326)

Balixafortide (POL6326) is a potent, highly selective and specific antagonist of the chemokine receptor CXCR4, a G-protein coupled receptor (GPCR) that regulates the trafficking and homing of both cancer cells and cells of the patient's immune system. It is being developed to improve therapy outcomes in cancer when used in combination with other agents. As an immuno-oncology compound, it activates immune cells in the tumor, renders cancer cells more susceptible to chemo and immunotherapies and inhibits metastatic spread of cancer cells. Many cancer drugs are usually more effective when given in combination. The goal for combining different anticancer agents is to gain higher response rates, superior safety and efficacy and less resistance development compared to monotherapy. While improving patient outcome, new combination partners for established therapies ideally do not further limit the tolerability and have low or no cytotoxic effects on their own. The anti-cancer effects of balixafortide are thought to include direct suppression of metastatic spread, sensitization of tumor cells to chemotherapy, and activation of the immune system. Balixafortide is the most advanced CXCR4 antagonist in development for solid tumors – the first product candidate to reach proof of concept in advanced breast cancer. Clinical proof of concept was achieved in a Phase Ib study in combination with eribulin in patients with advanced metastatic breast cancer [https://www.thelancet.com/journals/lanonc/article/PIIS1470-2045(18)30147-5/fulltext], and the FDA granted Fast Track designation. The pivotal FORTRESS Phase III study was started in mid-2019 and the first patient was dosed in June 2019.

FORTRESS (POL6326-009) is an international, multicenter, randomized active-controlled, open-label Phase III trial which will investigate the efficacy, safety and tolerability of intravenous balixafortide given with eribulin versus eribulin alone in the treatment of HER2 negative, locally recurrent or metastatic breast cancer (MBC). The study is designed for a total of 384 patients with HER2 negative MBC, with at least 320 patients receiving third or subsequent line and 64 patients receiving second line chemotherapy. Subject to the data Polyphor may be able to submit a filing for accelerated approval approximately six months after the recruitment is completed on the basis of the analysis of the overall response rate (ORR), confirmed by an independent blinded review, and of the associated durability of response. The full approval would be based on the magnitude of Progression Free Survival (PFS) on blinded independent review, supported by an overall survival trend favoring the balixafortide arm and a favorable risk-benefit profile. In December 2020 the clinical trial independent Data Safety Monitoring Board (DSMB) completed the third, pre-specified interim analysis, of safety outcomes for the first 401 randomized patients in the study and indicated that the study should continue without modifications. Polyphor announced completion of recruitment for the study on October 29 2020, however allowing further patients that have already registered to be enrolled, thus bringing the final number of enrolled patients to 432. We are currently also conducting preclinical experiments to establish the potential for balixafortide in combination with other oncology drugs in MBC and in other oncology indications.

Portfolio and Pipeline

Oncology Pipeline

Beyond balixafortide, we have identified another CXCR4 lead candidate to be explored in liquid cancers. This lead candidate is a potent, highly selective antagonist of the chemokine receptor CXCR4. Based on promising data in preclinical models, Polyphor plans to accelerate its development in hematologic malignancies following balixafortide's ORR results.

In the field of infectious disease our product candidates and programs comprise:
Polyphor has discovered a novel class of antibiotics, the Outer Membrane Protein Targeting Antibiotics (OMPTA). This new class has the potential to provide breakthrough treatment options for difficult to treat infections caused by Gram-negative bacteria (including MDR strains). In our research and development, we exclusively focus on WHO priority 1 pathogens which are the most critical group of multidrug resistant bacteria that pose a particular threat to public health. In addition to our antibiotics pipeline, Polyphor is exploring Balixafortide's potential against coronavirus disease (COVID-19) based on strong efficacy in in-vitro models.

Inhaled Murepavadin

Inhaled murepavadin is our most advanced product candidate of the OMPTA class. In contrast to commonly used broad-spectrum antibiotics, murepavadin is pathogen specific. This makes it a precision medicine, highly potent against Pseudomonas aeruginosa (PA), including most resistant strains, with a reduced risk of increasing resistance in other pathogens.

We are developing an inhaled formulation of murepavadin for the treatment of chronic PA infections in patients with cystic fibrosis and potentially also for non-cystic fibrosis bronchiectasis. Infections will remain a major problem in Cystic Fibrosis post CFTRR modulator era as patients live longer. Pseudomonas aeruginosa is estimated to account for more than half of the chronic infections in Cystic Fibrosis. It is the leading cause of exacerbations, lung function decline and mortality in Cystic Fibrosis.

Tobramycin and aztreonam are most commonly used inhaled antibiotics for Cystic Fibrosis which were developed nearly 10-20 years ago, Inhaled colistin and levofloxacin are also available in the EU with a similar broad spectrum. Despite proven efficacy, the exacerbation, lung function decline and mortality are persisting over time in Cystic Fibrosis due to Pseudomonas aeruginosa. The decreased microbial diversity is associated with more severe lung disease and the relation to using broad spectrum antibiotics is not well established. Hence, an inhaled antibiotic targeting Pseudomonas aeruginosa is urgently needed given patients suffer from lung function decline and frequent lung exacerbation over time.

The development of an inhaled formulation of murepavadin for the treatment of chronic PA infections in patients with cystic fibrosis leverages the iABC (inhaled Antibiotics in Bronchiectasis and Cystic Fibrosis) project dedicated to the development of inhaled antibiotics – a consortium including leading lung specialists in 18 hospitals and research institutions in eight European countries. These institutions will receive up to EUR 5 million from the Innovative Medicines Initiative (IMI) for their sup-

Portfolio and Pipeline

port of the development of the inhaled formulation of murepavadin up to proof of concept in man, representing up to 50% of the anticipated costs to this stage. Following the successful completion of the preclinical program suggesting efficacy and a broad safety margin compared to the I.V. formulation, the Clinical Trial Authorization (CTA) for inhaled murepavadin has been granted in December 2020 by MHRA leading to the initiation of the Phase I program. The start of patient enrollment in the Phase I study, evaluating safety and tolerability of single and multiple ascending doses of the novel antibiotic in healthy volunteers, is expected in Q3 2021 updating its prior guidance, to further optimize primary packaging for later stages of development.

In November 2020, Polyphor has entered into a funding agreement with the Cystic Fibrosis Foundation to advance clinical development of inhaled murepavadin in Cystic Fibrosis. Under the terms of the agreement, Polyphor will be awarded up to USD 3.3 million to fund the planned Phase Ib/IIa clinical trial of inhaled murepavadin, as a follow-up study to the planned Phase I study in healthy volunteers.

OMPTA BamA Program

The current compounds in the OMPTA BamA program demonstrate potent antibacterial activity against a broad range of pathogens that are in the WHO priority 1 list, such as *Escherichia coli*, *Klebsiella pneumoniae*, Enterobacter spp, *Acinetobacter baumannii* and *Pseudomonas aeruginosa* – including the pandrug-resistant isolates where there are currently no treatment options available. This new class is characterized by a low rate of resistance development and offer potential new treatment options for patients with difficult-to-treat infections caused by such Gram-negative bacteria.

Antibiotics candidates of the OMPTA class combine high-affinity binding to both Lipopolysaccharide (LPS) and outer membrane proteins, resulting in high specificity towards Gram-negative bacteria and effective bactericidal activity.

The project has been supported by the Wellcome Trust foundation and Novo Holdings A/S and is now being supported by CARB-X (Combating Antibiotic-Resistant Bacteria Biopharmaceutical Accelerator), a global partnership led by Boston University dedicated to supporting the development of antibacterial products. In December 2020, Polyphor announced the extension of its existing grant agreement with CARB-X for this program. Under the extension of the 2019 agreement, CARB-X is committing to Polyphor additional funding of up to USD 2.3 million, bringing potential funding for this contractual stage to USD 5.1 million. Polyphor may also receive up to USD 13 million in future option stages that could take the program through a first-in-human program if certain project milestones are met.

Portfolio and Pipeline

Thanatin Derivatives

In May 2019 Polyphor received an award from Innosuisse to accelerate the development of a new class of antibiotics, derived from the antimicrobial natural peptide thanatin. The new antibiotic, which is being developed in collaboration with the University of Zurich, is used for the treatment of serious infections caused by carbapenem-resistant Enterobacteriaceae by inhibiting the lipopolysaccharide (LPS) transport pathway. Thanatin derivatives may lead to another family of compounds inhibiting the outer membrane assembly of Gram-negative pathogens through a different mechanism than other OMPTAs developed so far. We initiated a program targeting specifically Enterobacteriaceae including multidrug resistant strains, one of the most common and resistant strains. It has the potential to be the gold standard in treating suspected and/or confirmed XDR Enterobacteriaceae in patients with limited treatment options. The thanatin project is currently in the hit-to-lead stage.

In October 2020, Polyphor announced that it has received a new and second non-dilutive funding award from CARB-X to support the development of this program. CARB-X will provide Polyphor with initial funding of up to USD 2.62 million to complete the hit-to-lead stage and up to USD 15.82 million if certain project milestones are met.

Balixafortide novel non-oncology indication

In a research collaboration with the University of Basel, Department of Biomedicine, balixafortide has demonstrated strong in-vitro activity against SARS-CoV-2 (COVID-19). Based on this anti-viral activity and potential additional beneficial effects on disease progression of CXCR4 inhibitors, Polyphor plans to further investigate the potential use of balixafortide in patients with COVID-19 infections.

Our Strategy

Our main objective is to become a sustainable biopharmaceutical company focused on innovative immuno-oncology compounds and antibiotics. Our strategy to achieve this goal is:

Develop balixafortide towards regulatory approval in advanced breast cancer

Balixafortide is the first CXCR4 antagonist in a pivotal clinical trial in a solid cancer indication, spearheading a novel class of treatment in immuno-oncology. With 85% of metastatic breast cancer (MBC) patients being of the HER2-negative subtype, balixafortide is being tested in the largest patient population within the MBC segment. Balixafortide has already shown promising results in the proof of concept study in combination with the cancer drug eribulin in advanced MBC. The FORTRESS Phase III clinical study evaluating balixafortide in combination with eribulin for the treatment of MBC started in mid-2019. Subject to the data, Polyphor will have the possibility to submit a filing for accelerated approval on the basis of the analysis of the objective response rate (ORR), which is expected in Q2 2021. The full approval would be based on the magnitude of Progression Free Survival (PFS) on blinded independent review, supported by an overall survival trend favoring the balixafortide arm and a favorable risk-benefit profile. PFS data is expected in Q4 2021. Given strong Phase III trial progress, we plan to complete the package for balixafortide potential marketing authorization filing and expanding its future opportunity. If approved, balixafortide will be the first CXCR4 antagonist in a solid tumor indication.

On August 31, 2020, Polyphor AG and Shanghai Fosun Pharmaceutical (Group) Co. Ltd, through its Swiss affiliate Fosun Pharmaceutical AG entered into an exclusive licensing agreement for balixafortide in China. With this agreement, Fosun Pharma will develop and commercialize balixafortide for the Chinese market with an initial focus on metastatic breast cancer. China is the second largest market globally for breast cancer treatments. Additional cancer indications and combination therapies will be evaluated jointly by the companies. Polyphor retains all rights to balixafortide outside of China.

Expand balixafortide in new indications and combination therapies in oncology

The CXCR4 receptor is a promising target in oncology where CXCR4 tumor expression correlates with poor outcomes in breast cancer and in many other solid and hematologic cancers. Polyphor conducts additional preclinical studies to enhance its characterization in the CXCR4 driven immune pathway, to better understand the potential for further combinations in breast cancer as well as other combinations in other tumors. As the compound is not cytotoxic, it makes it an excellent potential partner for other potential combination therapies in oncology. In 2020, balixafortide was studied in a comprehensive breast cancer PDX (patient-derived xenograft model in humanized mice) animal study in combination with paclitaxel chemotherapy. The combination of balixafortide and paclitaxel showed a clear synergistic and statistically significant effect in tumor volume reduction versus paclitaxel alone. Therefore a Phase Ib/II trial in earlier lines of metastatic breast cancer with taxane chemotherapy is

Our Strategy

planned to be initiated in Q3 2021 dependent on the COVID-19 situation. Polyphor is also looking into the development of other formulations and a CXCR4 diagnostic test. We believe these activities to be key enablers for expanding beyond the initial indication to earlier lines and/or other tumors and combinations, thereby building value for potential future partnerships. While a number of these projects and initiatives are planned to start after the ORR readout to ensure proper risk management, we have in the meantime started a series of collaborations to further strengthen the preclinical data package and proof of concept together with world renowned academic institutions. In the mid-term, we aim to continue our academic and industry collaborations.

Develop novel oncology compounds

Beyond balixafortide, we have identified another CXCR4 lead candidate to be explored. This lead candidate is a potent, highly selective antagonist of the chemokine receptor CXCR4. The preclinical experiments on this program are currently being conducted through our academic collaborations we have initiated in 2019. Based on promising data in preclinical models, Polyphor plans to accelerate its development in hematologic malignancies following balixafortide's ORR results.

Advance the research and development of our new class of antibiotics largely with external financing

Polyphor has discovered a novel class of antibiotics, the Outer Membrane Protein Targeting Antibiotics (OMPTA). This new class has the potential to provide breakthrough treatment options for difficult to treat infections caused by Gram-negative bacteria, including multi-drug resistant strains. Antibiotics of the OMPTA class combine high-affinity binding to both lipopolysaccharide and outer membrane proteins, resulting in high specificity towards Gram-negative bacteria and efficient bactericidal activity. The OMPTA pipeline includes inhaled murepavadin, BamA program and the thanatin derivatives.

Advance the development of inhaled murepavadin

Polyphor aims to further develop an inhaled formulation of murepavadin. About two thirds of adult patients with cystic fibrosis (CF) and around one third of patients with non-cystic fibrosis bronchiectasis develop a colonization of *Pseudomonas aeruginosa* (PA) requiring chronic management – currently treated with broad spectrum inhaled antibiotics. PA is the leading cause of morbidity and mortality in people with CF. An inhaled formulation of murepavadin may provide an important, targeted and potentially superior treatment option for these patients. Following the successful completion of the preclinical program suggesting efficacy and a broad safety margin compared to the I.V. formulation, the Clinical Trial Authorization (CTA) for inhaled murepavadin has been granted in December 2020 by MHRA leading to the initiation of the Phase I program. The start of patient enrollment in the the Phase I study, evaluating safety and tolerability of single and multiple ascending doses of the novel antibiotic in healthy volunteers, is expected in Q3 2021.

Our Strategy

If approved, inhaled murepavadin would represent the first new class of antibiotics against Gram-negative pathogens in the last 50 years.

Continue early antibiotics pipeline in collaboration with CARBX

Polyphor is pioneering a new class of antibiotics, OMPTAs (Outer Membrane Protein Targeting Antibiotic), that has the potential to offer new treatment options for patients with difficult-to-treat infections caused by Gram-negative pathogens, including multidrug-resistant (MDR) and extensively drug-resistant (XDR) strains. Our two early-stage antibiotics programs, OMPTA BamA and Thanatin Derivatives, exclusively focus on WHO Priority 1 pathogens and are planned to enter the clinic over the next few years. These programs progress in collaboration with CARB-X (Combating Antibiotic-Resistant Bacteria Biopharmaceutical Accelerator), a global partnership led by Boston University including substantial funding.

Explore balixafortide opportunity in coronavirus disease (COVID-19)

In a research collaboration with the University of Basel, Department of Biomedicine, balixafortide has demonstrated strong in-vitro activity against SARS-CoV-2 (COVID-19) at clinically relevant concentrations. Based on this anti-viral activity and potential additional beneficial effects on disease progression of CXCR4 inhibitors, Polyphor plans to further investigate the potential use of balixafortide in patients with COVID-19 infections.

In the field of cystic fibrosis, we have one program which is out-licensed to Santhera:

POL6014, a selective inhibitor of an enzyme called human neutrophil elastase (hNE), is believed to have potential to treat cystic fibrosis (CF) and other lung diseases associated with increased neutrophil elastase activity such as non-cystic fibrosis bronchiectasis, alpha-1 antitrypsin deficiency, and primary ciliary dyskinesia. We advanced POL6014 into clinical development up to the demonstration of proof of mechanism in a Phase Ib clinical trial in cystic fibrosis patients. In February 2018, we exclusively out-licensed POL6014 to Santhera on a worldwide basis for the treatment of any disease. Currently, Santhera is conducting a Phase 1b multiple ascending dose (MAD, ClinicalTrials.gov Identifier: NCT03748199) trial with POL6014 in patients with CF. The study is designed to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of orally inhaled multiple doses of POL6014 in patients with CF. On March 1, 2021 Santhera announced positive results from its multiple ascending dose Phase 1b study with POL6014.

Corporate Governance

This corporate governance section of the annual report of Polyphor Ltd (the "Company") follows the structure and numbering of the SIX Swiss Exchange Directive on Information relating to Corporate Governance and takes into account the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse. The board of directors of the Company (the "Board of Directors" or "Board") believes that good corporate governance is important to ensure that our company is managed for the long-term benefit of shareholders.

Complete copies of our organizational rules (the "Organizational Rules"), corporate governance guidelines committee charters for each of our Compensation and Nomination Committee ("CNC") as well as our Audit and Finance Committee ("AFC") and code of conduct ("Code of Conduct") are available on the "Investor Relations—Corporate Governance" section of our website, which is located at www.polyphor.com. Alternatively, you can request a copy of any of these documents by writing us at Polyphor Ltd, Hegenheimermattweg 125, CH-4123 Allschwil, Attention: Investor Relations or by e-mail at info@polyphor.com.

1 Group structure and shareholders

1.1 Group structure

Polyphor Ltd is based in Allschwil, Switzerland, near Basel (Registered Number CHE-108.535.251). It is listed on the SIX Swiss Exchange (Valor: 10621379, ISIN: CH0106213793, SIX: POLN). Market capitalization as of December 31, 2020 was CHF 91.3 million. As of December 31, 2020, there were no other listed companies belonging to the Company.

The Company has two unlisted subsidiaries, set up for the purpose of acting as agents for the registration of its clinical trials in the European Union and the United Kingdom. These subsidiaries have no other purpose nor employees or operations. Polyphor Ltd holds 100% equity interest in both subsidiaries.

- Polyphor UK Ltd. is based in London, UK (Registered Number 08045435). Polyphor UK was founded in 2012 as wholly owned subsidiary of the Company. The nominal share capital as of December 31, 2020 was GBP 1'000.
- Polyphor Deutschland GmbH, Germany was incorporated on February 7, 2019, The nominal share capital as of December 31, 2020 was EUR 25'000.

1.2 Significant shareholders

Shareholders with shares amounting to 3% or more of Company's issued ordinary share capital as of December 31, 2020 are shown in the financial statements of the Company on page 95.

The following disclosures were published on the reporting and publication platform of the Disclosure Office of SIX Swiss Exchange during 2020 (percentages shown being as of the date of the disclosure):

September 5, 2020: CSIF 2-Credit Suisse (Lux) Digital Health Equity Fund (beneficially owned by Credit Suisse Fund Management S.A., Luxembourg (controlling 5.92% of the voting rights)
https://www.ser-ag.com/en/resources/notifications-market-participants/significant-shareholders.html?issuedBy=POLYP#/

1.3 Cross-shareholdings

As of the date of this Report, there are no cross-shareholdings of the Company that exceed 5% of the holdings of capital rights on both sides.

2 Capital structure

2.1 Capital

As per 31.12.20, the share capital registered in the commercial register amounted to CHF 22'126'414, divided into 11'063'207 shares. As per December 31, 2020, 145'201 registered shares with a nominal value of CHF 2 per share have been issued from the Company's conditional share capital in connection with the exercise of stock options and convertible bonds and have not been registered in the commercial register as per 31.12.20. The registration of these 145'201 registered shares in the commercial register is expected to occur in March, 2021. Taking into account the issuance of these 145'201 registered shares, on 31.12.20 the Company's share capital amounts to CHF 22'416'816, divided into 11'208'408 registered shares with a nominal value of CHF 2 per share.

2.2 Authorized and conditional capital

Authorized Share Capital:

As of June 4, 2020 the Board of Directors is authorized to increase the share capital, at any time until May 27, 2022, by a maximum amount of CHF 11'063'206 by issuing a maximum of 5'531'603 registered shares with a par value of CHF 2 each, to be fully paid up. An increase of the share capital (i) by means of an underwriting (ii) by a subsidiary in view of and related to any of the below mentioned transactions allowing an exclusion of the pre-emptive rights and (iii) in partial amounts shall be permissible.

The Board of Directors shall determine the time of the issuance, the issue price, the manner in which the new registered shares have to be paid up, the date from which the registered shares carry the right to dividends, the conditions for the exercise of the pre-emptive rights and the allotment of pre-emptive rights that have not been exercised. The Board of Directors may allow the pre-emptive rights that have not been exercised to expire, or it may place with third parties such rights or registered shares, the pre-emptive rights of which have not been exercised, at market conditions or use them otherwise in the interest of the Company.

The Board of Directors is authorized to withdraw or limit the pre-emptive rights of the shareholders and to allot them to third parties: (a) if the issue price of the new registered shares is determined by reference to the market price; or (b) for the acquisition of an enterprise, part of an enterprise or participations, or for the financing or refinancing of any of such acquisition; or (c) for purposes of

broadening the shareholder constituency of the Company in certain financial or investor markets, for purposes of the participation of strategic partners, or in connection with the listing of new registered shares on domestic or foreign stock exchanges; or (d) for purposes of granting an over-allotment option (Green shoe) of up to 15% of the number of registered shares offered in a base-tranche in a placement or sale of registered shares to the respective initial purchaser(s) or underwriter(s); or (e) for raising of capital (including private placements) in a fast and flexible manner which probably could not be reached without the exclusion of the statutory pre-emptive right of the existing shareholders.

Conditional Share Capital for Employee Benefit Plans:
The share capital of the Company shall be increased by an amount not exceeding CHF 1'699'216 through the issue of a maximum of 849'608 registered shares, payable in full, each with a nominal value of CHF 2, in connection with the exercise of option rights granted to any employee of the Company or a subsidiary, and any consultant, members of the Board of Directors, or other person providing services to the Company or a subsidiary.

As per December 31, 2020, the conditional share capital as per the articles of association amounted to CHF 1'680'454 divided into 840'227 shares.

Shareholders' subscription rights shall be excluded with regard to these shares. These new registered shares may be issued at a price below the current market price. The Board of Directors shall specify the precise conditions of issue including the issue price of the shares.

Conditional Capital for Bonds and Similar Debt Instruments:
The share capital of the Company shall be increased by a maximum amount of CHF 4'425'282.00 through the issuance of a maximum of 2'212'641 registered shares, payable in full, each with a nominal value of CHF 2 through the exercise of conversion and/or option rights granted in connection with bonds or similar instruments, issued or to be issued by the Company or by subsidiaries of the Company, including convertible debt instruments.

As per December 31, 2020, the conditional share capital as per the articles of association amounted to CHF 4'153'642 divided into 2'076'821 shares.

Shareholders' subscription rights are excluded. Shareholders' advance subscription rights with regard to the new bonds or similar instruments may be restricted or excluded by decision of the Board of Directors in order to finance or refinance the acquisition of companies, parts of companies or holdings, or new investments planned by the Company, or in order to issue convertible bonds or similar instruments on the international capital markets or through private placement. If advance subscription rights are excluded, then (1) the instruments are to be placed at market conditions, (2) the exercise period is not to exceed ten years from the date of issue of option rights and twenty years

for conversion rights and (3) the conversion or exercise price for the new shares is to be set at least in line with the market conditions prevailing at the date on which the instruments are issued.

2.3 Changes in capital

The following table shows the changes in share capital of the Company from January 1, 2017 until December 31, 2020:

Date of Share Issuance Registration	New Nominal Share Capital in Swiss Francs	Number of Shares issued
April 26, 2017	11’836’264	5’918’132 Shares at CHF 2 each
August 22, 2017	13’071’034	6’535’517 Shares at CHF 2 each
December 12, 2017	13’365’922	6’682’961 Shares at CHF 2 each
March 20, 2018	13’397’286	6’698’643 Shares at CHF 2 each
May 15, 2018	21’555'186	10'777'593 Shares at CHF 2 each
July 10, 2018	21'711'502	10'855'751 Shares at CHF 2 each
October 12, 2018	22'069'396	11'034'698 Shares at CHF 2 each
April 3, 2019	22'093'004	11'046'502 Shares at CHF 2 each
April 6, 2020	22'126'414	11'063'207 Shares at CHF 2 each

2.4 Shares

As of December 31, 2020, the registered share capital of the Company, as recorded in the commercial register, amounts to CHF 22’126’414 and is divided into 11’063’207 registered shares, with a nominal value of CHF 2 per share. The share capital is fully paid in and non-assessable. Each Share carries one vote. The Company does not have any preference shares (Vorzugsaktien).

2.5 Dividend-right certificates and participation certificates

As of December 31, 2020, the Company has not issued any non-voting equity securities, such as participation certificates *(Partizipationsscheine)* or profit sharing certificates *(Genussscheine)*.

2.6 Limitations on transferability and nominee registrations

Acquirers of shares will be registered in the share register without limitation as shareholders upon request, if they expressly certify that they acquired the shares in their own name and for their own account. The Board of Directors may register nominees as shareholders with voting rights up to a maximum of 2% of the currently issued share capital. Beyond that limit, registered shares of nominees shall only be entered as voting if the nominees in question disclose in writing the names, addresses and shareholdings of the persons on whose account they hold 2% percent or more of the currently issued share capital. Nominees are persons who do not expressly declare in the registration application that they are holding the shares on their own account. After hearing the registered shareholder or nominee, the Board of Directors may remove entries in the share register with retroactive effect as per the date of entry, if such entry was based on false information. The party affected must be

informed of such removal immediately. The restrictions on registration also apply to shares that are subscribed or acquired by exercising a subscription, option or conversion right.

2.7 Convertible bonds and options

Conditional Share Capital for Employee Benefit Plans:

For the amount of outstanding conditional capital available for employee benefit plans, see Section 2.2 above.

Details are shown in the notes to the consolidated financial statement, page 78.

Conditional Capital for Bonds and Similar Debt Instruments:

For the amount of outstanding conditional capital available for bonds and similar debt instruments, see Section 2.2 above. In July 2020 the Company entered into an equity-linked financing arrangement with the French company IRIS to raise a gross amount of up to CHF 19.3 million over the period of two years. IRIS will receive Polyphor shares to be created from the Company's conditional capital based on this interest-free mandatory convertible bonds program. It remains at the sole discretion of Polyphor to suspend or terminate the staggered financing. IRIS is committed to buy on a monthly basis over a period of two years twenty-four tranches of CHF 800'000 of unsecured zero-coupon mandatorily convertible bonds. The program can be tailor-made in terms of period and tranche size, according to Polyphor's financing needs. During the term of the financing, IRIS will convert each month the mandatory convertible bonds into shares at a discount to the applicable volume weighted average price (VWAP). These shares are expected to be sold on the market or in block trades.

Details are shown in the notes to the consolidated financial statement, page 75.

3 Board of Directors

The Board of Directors consists of non-executive members. None of the members of the Board of Directors has significant business connections with the Company or its subsidiaries with the exception of (i) Kuno Sommer, who is Chairman of the Bachem group, a supplier of the Company.

Corporate Governance

Board of Directors

3.1/3.2 Members of the Board of Directors

Kuno Sommer, Ph.D., Swiss

CHAIRMAN

Kuno Sommer, Ph.D., today focuses on active board memberships in the life sciences sector as non-executive member. He is Chairman of the Board of The Bachem Group; the Sunstar group; TargImmune; PDS Pathology Data Systems AG and Kenta Biotech AG. In his last operational role he headed the contract research division of Harlan Laboratories Ltd. From 2000 until 2006 he was CEO of Berna Biotech Ltd, which was sold to Crucell N.V. in 2006 (today Johnson & Johnson). Starting in 1986 at F. Hoffmann-La Roche Ltd he worked in various functions until 1999 and spent 4 years in the US. In his last position at Roche he became a member of the Executive Committee, responsible for the Flavours and Fragrances division (today Givaudan Ltd).

Dr. Sommer holds a Ph.D. in Business Administration from the University of Basel as well as an MBA.

Andreas Wallnöfer, Ph.D. MBA, Swiss

VICE-CHAIRMAN

Andreas Wallnöfer served at F.Hoffmann-La Roche Ltd from 2007 to 2009 as Global Head of Clinical Research & Exploratory Development and Senior Vice President. After Roche's acquisition of Genentech, he was appointed in 2010 as Head of Roche pRED Development and, in addition, in 2012 he took on the role of Global Head of Cardiovascular & Metabolism Disease (CVM). After Roche decided to exit CVM for strategic reasons, he left the company and joined BioMedPartners as designated General Partner in their new fund III. In his role as founder of "Andreas Wallnöfer, Life Sciences Consulting Ltd.", he acted as interim Head of Development at Polyphor between 2016 and 2017 (i.e. until closure of BMI fund III) and directed the company's lead project successfully through end of the Phase II regulatory meetings. He currently also serves as Board member of Alentis Ltd. Basel, Switzerland, Tolremo Ltd, Muttenz & Zurich, Switzerland as well as of Azafaros BV, Leiden, The Netherlands and Basel, Switzerland.

Dr. Wallnöfer holds a Ph.D. in Pharmacology from the University of Basel, trained as Clinical Pharmacologist at the University Hospital of Leiden and holds an Executive MBA from IMD Lausanne.

Corporate Governance

Bernard Bollag, MBA, Swiss

Bernard Bollag, MBA, has more than 20 years' senior finance leadership experience across publicly listed and privately held companies. As Group Treasurer at Syngenta during 2000-2005, he played an important role in establishing financial governance by developing the funding and risk structures for the Group in its initial years. At Unisys before, Bernard held several senior finance roles in corporate and operations, leading and participating in key performance improvement programs. Bernard was CFO of UK's HomeSun Ltd., helping to steer the company to a successful exit. Prior to that as CFO of the Aktiva Group, he led a Family Office held group of companies and investments, to preserve value across the financial crisis. Bernard is the founder and Managing Director of Beaufort Capital, a boutique assisting owners of private equity assets in creating value for their investments. Bernard brings to the Board a keen expertise in funding and investment markets, as well as a track record of leading and supporting organizations to deliver on their strategic goals. Bernard Bollag received his MBA in Finance from the Columbia Business School in New York and holds a BA in Economics from the Bar Ilan University of Tel-Aviv.

Silvio Inderbitzin, Ph.D., Swiss

Silvio Inderbitzin, Ph.D., is active as an active board member and investor in various start-up and small to mid-sized life science companies in Switzerland. He is Chairman at a new on the market dermatological company Mavena International Ltd., but also at the following Swiss companies: Hänseler Holding AG, Vital Solutions Swiss AG and HTHC High Tech Home Care AG. In addition, he is member of the Board of the following companies: Aurealis Therapeutics AG, Helvecura Genossenschaft, Just Finance AG, NEXILIS AG, Artidis AG, Strekin AG, Kinarus AG, Ulrich Jüstrich Holding AG, as well as the following non-profit organizations/Foundations: Swiss Cancer Research and Swiss Cancer Foundation, Lucerne symphony orchestra.

Before he served a privately-held 450-employee pharmaceutical company Spirig Pharma Ltd. where he first joined as Head of QA, was elected to Technical Director, member of the Corporate Management Team, Board of Directors and also became a co-owner. Prior to the successful sale of the company in 2012/2013, he served as CEO and was responsible for its foreign subsidiaries. He has his origin in pharmaceutical manufacturing.

Dr. Inderbitzin studied Pharmacy at the University of Berne, holds a Ph.D. in Pharmacology from the University of Zurich/ETH and obtained an Executive MBA from the University of St. Gallen.

Corporate Governance

Jean-Pierre Obrecht, Ph.D., Swiss

BOARD MEMBER (until June 4, 2020; did not stand for re-election)

Jean-Pierre Obrecht, Ph.D. is co-founder of Polyphor Ltd and has been its CEO for more than 18 years, from the company's inception until March 2015. Under his leadership the proprietary Macrocycle Technology Platform was developed and business relations were established with companies in Japan, USA and Europe. Three own product candidates were advanced into clinical development and Polyphor evolved from a drug discovery chemistry service provider into a clinical stage pharma company supported by a strong and broad investor base. Prior to that Jean-Pierre Obrecht was Head Logistics Chemicals at F. Hoffmann-Roche Pharma in Basel. Before that he was head of the production and engineering department and member of the management team of Dr. R. Maag AG, a former affiliate of Roche and later Ciba-Geigy.

Jean-Pierre Obrecht obtained his Ph.D. in Natural Sciences (chemistry) from the ETH Zurich and an Executive MBA degree from the University St. Gallen (NDU / HSG).

Corporate Governance

3.3 Permitted Activities pursuant to Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC)

The members of the Board of Directors can have not more than the following number of mandates outside of the Company, either as members of the Board of Directors, the senior management or an administrative body of a legal entity which is obliged to be registered in the Swiss commercial register or an equivalent foreign register: a) seven mandates for publicly traded companies pursuant to Article 727 para. 1 number 1 CO; b) eight mandates for companies pursuant to Article 727 para. 1 number 2 CO; and c) five mandates for companies which do not fulfil the criteria under a) and b) hereunder. Mandates held in several legal entities each operating under the same management or same beneficial owner (Group) are deemed to be a single mandate. If a legal entity fulfills several of the above mentioned criteria, it can be freely counted towards any category. Mandates in legal entities which are controlled by the Company or which control the Company and honorary mandates in charitable legal entities are exempt from the above restrictions.

3.4 Elections and terms of office

The members of the Board of Directors are individually elected by the meeting of shareholders for a term of one year until the end of the next Annual General Meeting (AGM), provided that such member does not resign or is not replaced during his term. The members of the Board of Directors may be re-elected without limitation.

Name	Function	Committee memberships	First elected	End of current period	Year of birth
Kuno Sommer	Chairman	CNC	2012	2021	1956
Bernard Bollag	Member	AFC (Chair)	2013	2021	1961
Silvio Inderbitzin	Member	AFC & CNC (Chair)	2016	2021	1965
Andreas Wallnöfer	Vice-Chairman	CNC	2017	2021	1961

3.5 Internal organizational structure

The Board of Directors has adopted Organizational Rules (including Charters for the Compensation and Nomination Committee and the Audit and Finance Committee), which define the essential roles and responsibilities of the Board of Directors, the committees of the Board, the Chairman of the Board, the CEO and the executive management (the "Executive Committee").

In accordance with good corporate governance standards, the Board of Directors has established two sub-committees, with membership determined according to expertise.

Compensation and Nomination Committee:

The Compensation and Nomination Committee ("CNC") consists of Silvio Inderbitzin (Chair), Kuno Sommer and Andreas Wallnöfer. The CNC Committee held 4 meetings during 2020. In case of vacancies on the CNC, the Board shall appoint from among its members substitutes for a term of office extending until completion of the following Annual General Meeting (AGM).

Corporate Governance

The CNC is established as a permanent committee of the Board of Directors. The CNC shall assist the Board in establishing the compensation of the members of the Board, the CEO and the Executive Committee *(Geschäftsleitung)*, and the guidelines for nomination and election of the members of the Board, its committees and the CEO.

The CNC shall have the following responsibilities:

- to draw up principles for compensation of members of the Board of Directors and the Executive Committee and to submit them to the Board of Directors for approval;
- to propose to the Board of Directors the resolution to be submitted to the AGM for the maximum total compensation of the Board of Directors and Executive Committee;
- subject to and within the bounds of the maximum compensation approved by the AGM, to request approval by the Board of Directors of the individual remuneration packages to be paid to members of the Board of Directors and members of the Executive Committee;
- to request approval by the Board of Directors regarding the determination of the compensation-related targets for the Executive Committee;
- to request approval by the Board of Directors regarding the adjustments to the articles of association relating to remuneration;
- to prepare the Compensation Report and submit it to the Board of Directors;
- to propose to the Board the contractual terms (if any) and compensation of the members of the Board (incl. the Chairman of the Board) and the CEO.
- to determine, upon proposal by the CEO, the terms of employment, promotion or termination of the other members of the Executive Committee (except for the CEO).
- to determine, upon proposal by the CEO, the grants and awards under incentive-based compensation plans and equity-based plans, in each case consistent with the terms of such plans, provided that such grants and awards shall be within the bounds of the maximum compensation approved by the AGM;
- to evaluate the Executive Committee's performance in light of the goals and objectives; and
- to oversee annual evaluation of the Board and the Executive Committee for the prior year.

Audit and Finance Committee:

The Audit and Finance Committee ("AFC") consists of Bernard Bollag (Chair) and Silvio Inderbitzin. The term of office of the members of the AFC is until the next AGM. Re-election is possible. The Board of Directors appoints the chairperson. The AFC was convened 4 times during 2020.

The AFC is established as a permanent committee of the Board of Directors. The Board of Directors is ultimately responsible for the general policies and management of the Company, amongst others for the accounting, financial controls, and financial planning. The Audit and Finance Committee prepares recommendations to the Board of Directors that may be approved by the Board of Directors.

The Audit and Finance Committee shall make an independent assessment of the quality of external auditors, the financial statements and the internal controls and assists the Board in fulfilling its duties to supervise management.

In particular, the AFC has the following duties and responsibilities:

- assess the effectiveness and independence of the external auditors (the statutory auditors and group auditors) and the internal controls;
- make a quality assessment of the financial risk management framework and monitor its implementation within the Company;
- decide upon audit work outside the regular audit of the yearly accounts, including operational audits and system audits;
- review the individual and consolidated financial statements and discuss these with the CFO and, separately with the responsible person(s) of the external auditors;
- decide whether the statutory and consolidated financial statements are to be recommended to the Board for presentation to the AGM;
- assess the performance and the fees charged by the external auditors and ascertain their independence;
- review the scope of the prospective external audit and the estimated audit fees;
- take notice of all comments including on critical accounting policies and practices from the external auditors;
- support the Board of Directors in preparing the decision on appointment and/or removal of the external auditors;
- discuss with the CFO any legal matters (including the status of purchase, financial and business development agreements) that may have a material impact on the Company's financial statements or which could materially impact the Company's balance sheet;
- evaluate the CFO's principles and proposals for, and formulate recommendations to the Board of Directors in regards to financial planning; and
- review finance policy and operations in treasury, controlling, insurance, taxes and investment and acquisitions.

3.6 Definition of areas of responsibility

The Board's non-transferable and inalienable duties include: (i) the ultimate management of the Company and the giving of the necessary directives in this regard; (ii) the determination of the organization of the Company; (iii) the structuring of the accounting system, financial controls and financial planning; (iv) the appointment and removal of the persons entrusted with the management and representation of the Company; (v) the ultimate supervision of the persons entrusted with the management of the Company, in particular with respect to their compliance with applicable law, the articles of association, regulations and directives; (vi) the preparation of the annual report as well as the preparation of shareholders' meetings and the implementation of their resolutions; (vii) notification of the judge in case of over-indebtedness; (viii) the adoption of resolutions concerning increases in share capital to the extent that such power is vested in the Board (Article 651 (4) CO), including resolutions concerning the confirmation of capital increases and respective amendments to the articles of association, and (ix) the non-transferable and inalienable duties and powers of the Board pursuant to the Swiss Federal Merger Act *(Fusionsgesetz)* and any other applicable law.

Corporate Governance

In accordance with Swiss law, the articles of association and the Organizational Rules and subject to those matters that lie within the responsibility of the Board by law, the articles of association and the Organizational Rules, the Board of Directors has delegated the Company's management to the CEO, who leads the top tier of the Company's Executive Committee.

3.7 Information and control instruments vis-à-vis the executive committee

The Board of Directors receives regular reports regarding the financial and business situation of the Company and semi-annual reports presented by the CEO. In general, the Executive Committee informs the Board of Directors at each meeting about the current course of business and important transactions. Furthermore, the Board of Directors is informed about the most important key figures. Under Polyphor's Management Information System (MIS) a monthly report with balance sheet, income statement and other operating key figures as well as comments is prepared. The balance sheet, income statement, cash flow statement and various key figures are prepared and consolidated on a monthly basis. These figures are compared with the budget. At the meetings of the Board of Directors, the financial reports are discussed with the Executive Committee. Extraordinary events and important decisions are brought to the attention of all members of the Board of Directors immediately. The Company also has an internal control system (ICS) and a risk management system, which are described under the heading Risk assessment on page 90. Polyphor does not have an internal audit department.

Corporate Governance

4 Executive Committee

4.1/4.2 Members of the Executive Committee

Gökhan Batur
CHIEF EXECUTIVE OFFICER

Gökhan Batur joined Polyphor on June 3, 2019 as Chief Commercial Officer and was appointed Chief Executive Officer on January 23, 2020. Prior to joining Polyphor, Mr Batur was Executive Director, as Global Brand Leader at MSD, responsible for leading the global commercial strategy and execution for the entire Merck antibiotics portfolio managing multiple in-line, launch and pipeline products and sales of ~2 billion dollars. Prior to this role he was Executive Director, Global Brand Leader, Gram Negative Antibiotics. Previous roles at MSD included Executive Director, Hospital Acute Care Franchise for Emerging Markets and China and, before, he held positions both at regional and country level in marketing and sales including regional marketing leader for Hospital Products and Oncology in the EEMEA region.

Gökhan Batur studied Management Information Systems and holds a Bachelor of Science from Bosphorus University, Istanbul.

Giacomo Di Nepi, MBA
(retired on January 23, 2020)

Giacomo Di Nepi brings over 30 years' experience in the industry, most recently as Executive Vice President and General Manager, Europe for InterMune Inc., where he launched Esbriet, an orphan drug, and built from scratch a USD 140 million and 200-person business – until the acquisition of InterMune by Roche for USD 8.3 billion. Prior to that he held senior leadership positions with Takeda and Novartis, where he was also a member of the Pharma Executive Committee, and was a Partner with McKinsey&-Co. He currently serves on the boards of Geneuro SA (GNRO.PA), Kuros Biosciences (KURN: SIX Swiss Ex) (until May 21, 2019) and NTC, a privately held company. Giacomo Di Nepi holds a degree in Economics from Bocconi University, Milan, Italy and an MBA from INSEAD, Fontainebleau, France. Giacomo Di Nepi retired on January 23, 2020.

Corporate Governance

Frank Weber, M.D.

CHIEF MEDICAL & DEVELOPMENT OFFICER
(as per december 31, 2020)

He has 25 years of industry experience, having served from 2010 to 2014 as Senior Vice President, EU Medical and Global Medical Advisor of Intermune and prior to that as Chief Medical Officer at Merck and Merck-Serono. Dr. Weber has also served in various clinical development and medical affairs positions at American Cyanamid/ Lederle, Sythelabo and Merck KGaA. He also worked as International Medical Director for the managed care health insurance company MedNet, a Munich Re/United Health Care joint venture. Dr. Weber began his career in health-care as a maxillo-facial surgeon and immunologist. Dr. Weber has worked in Germany, Switzerland, France, the UK and the United States.

As of September 1, 2019 Frank T. Weber has taken over the position of a Chief Medical and Development Officer succeeding Dr. Debra Barker who resigned in January 2019.

Daniel Obrecht, Ph.D.

CHIEF SCIENTIFIC OFFICER

Dr. Daniel Obrecht spent 11 years at the Central Research Laboratories of Roche Basel. In his previous position he was Head of the Combinatorial Chemistry Group. Dr. Daniel Obrecht obtained his Ph.D. in Chemistry from the University of Zurich in 1983 under the supervision of Prof. H. Heimgartner, after which he was associated with Prof. R. E. Ireland at Caltech as a postdoctoral fellow for 2 years. Dr. Daniel Obrecht is the author of numerous publications and books and holds several patents in the field of pharmaceuticals. He was appointed Roche Lecturer in 1993.

Corporate Governance

Hernan Levett

CHIEF FINANCIAL OFFICER

Hernan Levett joined Polyphor in October 2019 from NASDAQ listed company Auris Medical where he served as CFO. He started his international Pharma career at Novartis where he held roles of increasing responsibility in various countries and regional functions and as CFO for one its affiliates. Following a 10 year tenure at Novartis, Mr. Levett continued to build his experience in biotech joining InterMune where he served as VP of Finance. Mr. Levett brings over 25 years of finance and pharma / biotech experience at leading companies and holds a CPA degree from the University of Buenos Aires, Faculty of Economics.

Franziska Müller

HEAD OF HUMAN RESOURCES

Franziska Müller is responsible for all strategic personnel-related topics at the Company as well as the management of the daily business in Human Resources. She joined the Company in 2008 as an assistant in Human Resources. From 2005 to 2007 she completed internships at Credit Suisse and Basler Insurance in Human Resources and Management Development. Franziska Müller studied personnel and organizational psychology and holds a master's degree from the University of Fribourg, Switzerland.

Corporate Governance

Name	Function	Year of joining Polyphor	Year of birth
Gökhan Batur	Chief Executive Officer	2019	1982
Giacomo Di Nepi	Chief Executive Officer (retired in 2020)	2016	1953
Frank T. Weber	Chief Medical and Development Officer	2019	1960
Daniel Obrecht	Chief Scientific Officer	1996 (founder)	1955
Hernan Levett	Chief Financial Officer	2019	1975
Franziska Müller	Head Human Resources	2008	1982

4.3 Rules on the number of permitted activities

Each member of the Executive Committee may, with approval of the CNC, cumulatively assume not more than the following number of mandates in the Board of Directors, the senior management or an administrative body of a legal entity which is obliged to be registered in the Swiss commercial register or an equivalent foreign register: a) two mandates for publicly traded companies pursuant to Article 727 para. 1 number 1 CO; (b) one mandate for companies pursuant to Article 727 para. 1 number 2 CO; and c) two mandates for companies which do not fulfil the criteria under litera a) and b) hereunder.

Mandates held in several legal entities each operating under the same management or same beneficial owner (group) are deemed to be a single mandate. If a legal entity fulfills several of the above mentioned criteria, it can be freely counted towards any category. The following mandates are exempt from these restrictions: a) mandates in legal entities which are controlled by the Company or which control the Company and b) honorary mandates in charitable legal entities.

4.4 Management contracts

Mr. Di Nepi serves as Non-Executive Director at Geneuro (Euronext. PA: GNRO) at Zambon S.p.A. and is a Shareholders' Advisory Board member at NTC S.r.l (two privately held Companies).

5 Compensation, shareholders and loans

For details on the compensation of the members of the Board of Directors and the Executive Committee as well as the employee stock ownership plans of the Company, please refer to the compensation report starting on page 39 of this annual report.

Details on shares and options held by the Board of Directors and the Executive Committee can be found in the compensation report starting on page 52 of this annual report.

Corporate Governance

6 Shareholder's participation rights

6.1 Voting rights restrictions and representation

Shareholders who are entered in the share register of the Company are entitled to vote at general meetings of shareholders. The deadline for being entered in the share register is set approximately 14 days prior to the general meeting of shareholders. The exact date is made public with the press release following the presentation of the financial results to the public for the full year ending on 31 December. For limitations on transferability and nominee registrations see Section 2.6.

6.2 Quorums required by the articles of association

Shareholders' resolutions generally require the approval of an absolute majority of the votes represented at the general meeting of shareholders (with abstentions, blank or invalid ballots being counted towards the total number of votes whose majority is to be reached) unless otherwise required by Swiss law or the articles of association. The resolutions requiring the approval of an absolute majority of the votes represented include, inter alia, amendments to the articles of association (subject to exceptions), the election and removal of the Chairman and the members of the Board, the independent voting rights representative and the auditors, approval of the annual report and the financial statements, approval of dividends (if any), approval of the aggregate amounts of compensation of the members of the Board and the Executive Committee, releasing the members of the Board and the Executive Committee from liability for matters disclosed to the general meeting of shareholders, and ordering an independent investigation into specific matters proposed to the general meeting *(Sonderprüfung)*.

A resolution passe d at a general meeting of shareholders with a qualified majority of at least two-thirds of the votes represented and the absolute majority of the nominal share capital represented at such meeting (a "Qualified Majority") is required by law and/or the articles of association for: (i) modifications of the Company's purpose; (ii) the creation of shares with preferential voting rights; (iii) restrictions of the transferability of registered shares and the easing or lifting of such restrictions; (iv) an authorised or conditional share capital increase; (v) a share capital increase by conversion of equity surplus, against contributions in kind or for purposes of an acquisition of assets, or the granting of special benefits; (vi) the limitation or exclusion of preemptive rights of shareholders; (vii) the conversion of registered shares into bearer shares; (viii) the relocation of the registered office of the Company; and (ix) the dissolution of the Company. The Qualified Majority requirement and, in some instances, other qualified majority requirements, apply by law to a merger *(Fusion)*, demerger *(Spaltung)* or conversion *(Umwandlung)* of the Company. The introduction or abolition of any provision of the articles of association providing for a higher majority requirement than is prescribed by law must be adopted by such majority.

Shareholders of the Company may elect to be represented by proxy at general meetings of shareholders, by the independent voting rights representative, by their legal representative(s), or, by means of a written proxy or by any other proxy who need not be a shareholder.

Corporate Governance

6.3 Convocation of the general meeting of shareholders

General meetings of shareholders are convened by the Board of Directors. The Annual General Meeting (AGM) shall be called by the Board of Directors, or, if necessary, by the Auditors. It may also be called by the Liquidator.

6.4 Inclusion of items on the agenda

Shareholders holding shares with a nominal value of at least 5% of the share capital may at least 45 days prior to the meeting of shareholders demand that an item be included in the agenda; and, in the case of elections, the names of the proposed candidates shall be given. No resolution shall be passed on items for which no proper notice has been given, excluding the provisions regarding meetings of all shareholders; this prohibition does not apply to proposals to call an extraordinary meeting of shareholders or to initiate a special audit. No prior notice is required for proposals concerning items included in the agenda and discussions that do not result in the adoption of resolutions. A meeting of shareholders must be also held for reasons stated by law.

6.5 Entries in the share register

The relevant date determining the right of shareholders to participate in the meeting of shareholders on the basis of entries in the share register is set by the Board of Directors in the invitation to the meeting of shareholders.

7 Changes of control and defence measures

7.1 Duty to make an offer

There is no provision on opting-out or opting-up in the articles of association of the Company. The threshold of 33 1/3% of the voting rights of an offeree company specified in Article 135 of the Financial Market Infrastructure Act (FMIA) is thus applicable.

7.2 Clauses on changes of control

There is no contractual agreement for members of the Board of Directors or members of the Executive Committee in the event of change in control.

8 Auditors

8.1 Duration of the mandate and term office of lead auditor

Since 2005, the Company's statutory auditors have been Ernst & Young AG, Aeschengraben 9, 4051, Basel ("EY"). By resolution of the shareholders on June 4, 2020 EY was re-elected for the financial year 2020.

Ms. Elisa Alfieri has been lead auditor since 2016. The term of office of the lead auditor is seven years.

Corporate Governance

8.2 Auditing fees

The total auditing fees in connection with auditing the statutory financial statements of Polyphor Ltd, as well as the consolidated financial statements (including half year review) charged and accrued by EY in the year under review was CHF 112'000.

8.3 Additional fees

During the year ending December 31, 2020, additional fees amounting to CHF 13'500 were billed by EY for audit related work in connection with the Remuneration report, providing audit opinions for capital increases and other general audit related services.

8.4 Information instruments pertaining to the external audit

The Board of Directors is responsible for the evaluation of the external audit and decides on an annual basis on the scope of the external audit and its audit plan. The auditor prepares an annual report for the Board of Directors. There is at least one meeting between the external auditors and the Board of Directors.

The external auditors meet with the AFC to present their plan, scope, audit approach, budget and audit results. The AFC reviews these and evaluates the independence of the external auditors from a risk analysis perspective. In addition to that, the auditors present their opinions resulting from an integrated audit, along with an annual management letter.

9 Information Policy

The most important information tools of the Company are the annual and semi-annual reports, the website, the presentation of financial statements, media releases and the Annual General Meeting (AGM). The corporate website of the Company can be accessed at www.polyphor.com.

Polyphor is a listed company. The Listing Rules of the SIX Swiss Exchange can be found at: https://www.ser-ag.com/dam/downloads/regulation/listing/listing-rules/LR-en.pdf

The Investor Relations department is available to respond to your questions on Corporate Governance matters. You can contact us by phone (+41 61 567 16 00) or by writing to us at Polyphor Ltd, Hegenheimermattweg 125, CH-4123 Allschwil, Attention: Investor Relations or by e-mail at info@polyphor.com.

Compensation Report

1 Introduction

This compensation report describes our compensation philosophy and principles, as well as the governance framework related to the compensation of the Board of Directors (Board) and the Executive Committee (EC) of Polyphor. The report also provides details of the compensation made to the Board and to the EC for 2019/2020 and their shareholding in the Company. This report is based on Section 5 of the annex to the Corporate Governance Directive issued by SIX Swiss Exchange and Articles 13 to 16 of the Ordinance against Excessive Compensation in Listed Stock Companies (OaEC). The aim of the compensation report is to create transparency regarding the compensation provided by the company.

2 Compensation Policy

Our success depends to a significant degree on the quality and commitment of our employees. Our compensation policy is designed to attract, motivate and retain employees. By combining short- and long-term incentive elements, we believe that we align the interests of the Board, management and employees with the interests of the Company and its shareholders.

3 Compensation Periods and Approval by Shareholders

Our Annual General Shareholders' Meeting (AGM or General Meeting) must vote each year on the approval of motions from the Board concerning the aggregate maximum amount of compensation for the Board and separately for the EC until the following AGM. For the Board the compensation period starts after the AGM and ends on the day before the AGM of the subsequent year. With respect to the Board compensation, the approval of the shareholders for fixed compensation is prospective. For the compensation of the EC the approval of the shareholders is prospective allowing the Board to set targets and reward achievements of corporate and individual goals for each member of the EC.

4 Responsibilities of Compensation and Nomination Committee

4.1 Composition of the Compensation and Nomination Committee

Our members of the Compensation and Nomination Committee (CNC) are elected by the General Meeting for a one-year term. The General Meeting held on June 4, 2020 elected Silvio Inderbitzin (Chairman of the CNC), Kuno Sommer and Andreas Wallnöfer as its members.

All members of the CNC abstain from discussions regarding their compensation.

Compensation Report

4.2 Tasks/Competences of the CNC

The CNC reviews and validates the compensation policies, compensation models, and principles of compensation for the members of the Board, the EC and the company's total compensation costs. It assists the Board of Directors in determining the compensation system and the principles of compensation, and in the preparation of motions to the General Meeting for approving compensation. The CNC may submit proposals and recommendations to the Board of Directors in all matters pertaining to compensation. All final decisions are taken by the Board within the framework approved by the General Meeting.

On an ongoing basis, the CNC reviews and monitors the compensation policy in light of the Company's business strategy, corporate goals and values. The CNC aims to safeguard the long-term interests of our shareholders while allowing Polyphor to attract and retain employees with the required qualifications. The CNC reviews periodically the stock option ownership program with regard to its suitability for the purpose of incentivizing the employees and the alignment with the corporate goals. In 2020 the topics discussed in the CNC included the following: performance review of the CEO and the Executive Committee, annual salary and bonus review, Employee Stock Option Plan, suitability, and potential adaptation of the overall compensation system.

For more information about the CNC responsibilities, see note 3.5 in the Corporate Governance report.

5 Description of Benchmarks Used, Salary Comparisons and Support from External Consultants

In 2020, we performed a benchmark study with an external consultancy firm (Kienbaum) to assess market competitiveness of our compensation levels, to get a benchmarking against industry standards of compensation levels and to better understand market trends. We will use this benchmark to address compensation topics 2021 of employees and the EC.

6 Rules in the Articles Regarding Compensation

Our Articles of Association include rules regarding (i) principles of compensation of the Board and the EC (Articles 30 to 32 and 37), (ii) rules on say-on-pay (Article 17), (iii) agreements regarding compensation of the Board and EC (Article 33), and (iv) loans and credits and pension benefits not based on occupational pension schemes (Article 36).

Compensation Report

A Principles of Compensation

According to Article 30 to 32 of our Articles of Association and subject to the approval by the General Meeting, the compensation payable to the members of the Board may include the following elements:

a) a fixed basic remuneration
b) a fixed committee fee for work in a committee of the Board
c) a possible additional compensation of the Board for the preceding business year and
d) an equity-based remuneration.

We may pay such compensation in cash, non-cash benefits, options, shares or equity-based instruments in the Company. Subject to the approval by the General Meeting, the members of the Board may receive remuneration in cash at customary conditions for advisory services rendered outside their capacity as Board member for the benefit of the Company or companies under its control. The General Meeting may approve an additional bonus for the members of the Board in exceptional cases.

Subject to the approval by the General Meeting, the compensation payable to our members of the EC may include the following elements:

a) a fixed remuneration payable in cash
b) a performance-related remuneration payable in cash (variable)
c) an equity-based remuneration.

The performance-related remuneration depends on our business success and the individual performance of the member of the EC based on the achievement of pre-determined targets during a business year. Our Board determines annually at the beginning of each business year the decisive targets of the Company and their weighting upon proposal by the Compensation Committee. Our Board also determines the amount of the performance-related cash remuneration for each member of the EC, which according to our Articles of Association may not exceed 100 percent of the respective individual fixed remuneration for the same year.

According to Article 32 of our Articles of Association if new members of the EC are appointed for current or new positions of the EC after the General Meeting has approved the maximum total compensation for members of the EC for the year in question, we may pay the new members an additional amount. Such additional amount payable to all new members of the EC may not exceed 50% of the respective total compensation (fixed, performance-related and equity-based) already approved by the General Meeting. We may pay the additional compensation only if the total compensation amount already approved by the General Meeting for the compensation of the members of the EC is insufficient to compensate the newly appointed members.

According to Article 37 of our Articles of Association, compensation may be paid in the form of shares, options or other equity-related instruments. The Board of Directors shall determine grant, vesting, exercise, restriction and forfeiture conditions and periods. The lock-up or vesting period shall be at least three years whereby the Board may foresee a shorter period for valid reasons. The conditions may provide for continuation, acceleration or removal of vesting, exercise, restriction and

Compensation Report

forfeiture conditions and periods, for payment or grant of compensation based upon assumed target achievement, or for forfeiture, in each case in the event of pre-determined events such as a change of control or termination of service.

B Rules on Say-on-Pay at the General Meeting of Shareholders

The Compensation Ordinance requires a "say on pay" approval mechanism for the compensation of the Board and the EC pursuant to which the shareholders must vote separately on the compensation of the Board and the EC on an annual basis.

Pursuant to Article 17 of our Articles of Association, the General Meeting must approve each year separately the total maximum amounts for:

a) the compensation of the Board for the next term of office, whereby the cash-based and the equity-based compensation may be voted in in two separate votes;
b) a possible additional compensation of the Board for the preceding business year; and
c) the compensation of the EC for the next business year after the General Meeting, whereby the cash-based and the equity-based compensation may be voted on in two separate votes.

If our General Meeting refuses to approve a respective motion by the Board, the Board may either submit a new motion at the same meeting or determine a maximum total remuneration or several maximum partial remunerations, subject to the relevant principles of the compensation, and submit them to the next General Meeting for approval.

C Compensation Agreements

According to Article 33 of our Articles of Association, agreements on compensation with members of the Board may not exceed the term of maximum one year. Employment agreements of the members of the EC are principally concluded for an indefinite period of time whereas a notice period may not exceed 12 months by the end of each month. If an employment agreement is concluded for a fixed term, such term may not exceed one year.

A post-contractual non-compete agreement shall be permitted, provided that the duration does not exceed twelve months and that the related compensation does not exceed the amount of individual compensation of the preceding twelve months.

We may pay fixed expenses up to the amount approved by the tax authorities. We may reimburse additional expenses not covered by such arrangement following presentation of the supporting receipts. Such fixed and itemized expenses are not subject to a vote by the General Meeting.

D Loans, Credits and Pension Benefits not based on Occupational Pension Schemes

According to Article 36 of our Articles of Association, we may not grant loans, credits or securities to the members of the Board and the EC, except advances in the maximum amount of CHF 200'000 per person for attorney's fees, court and other similar costs required for the defense of third party liability claims.

Compensation Report

7 Voting procedures at the 2021 General Meeting

We propose the following votes on compensation for shareholder approval:

1 **Board of Directors**

- The maximum total amount of the fixed compensation for the period between the 2021 General Meeting and the 2022 General Meeting.
- The maximum total amount for an allocation of stock options under the Employee Stock Options Plan (ESOP2019).

2 **Executive Committee**

- The maximum total amount of the fixed and variable compensation payable in the business year 2022.
- The maximum total amount for an allocation of employee stock options under the Employee Stock Options Plan (ESOP2019).

8 Board of Directors Compensation

A **Overview**

The members of the Board receive a fixed annual cash compensation, including Board membership and sub-committee memberships and a grant of options. Any stock options granted are non-transferable, except in the case of death. In case of death only vested options are transferable. For the Board the compensation period starts after the Annual General Meetings (AGM) and ends on the day before the AGM of the subsequent year. Stock options as of the ESOP2013 for the Board vest after the AGM until the day before the AGM of the subsequent year. Stock options as of the ESOP2019 for the Board vest 25% on the grant date, thereafter 25% vest on each of the three consecutive calendar quarters following the grant date.

When granting options, the Board may deviate from this vesting schedule in individual cases. During such vesting periods, employee stock options may lapse subject to certain conditions as defined by the ESOPs. The term of the employee stock options granted is 10 years for the ESOP2013 and 7 years for the ESOP2019. For more information about the underlying Plan, see note 17 "Share-based payment arrangements" in the consolidated financial statements.

Both components, cash fees and stock option allocation, do not depend on the achievement of corporate goals or the individual performance of a Board member. Additionally, we assume the payment of employer's social security contributions due on these amounts wherever such is applicable. Board members do not receive any variable compensation.

Compensation Report

B **Cash compensation approved at the 2020 AGM**

At our 2020 General Meeting, the shareholders approved for the period between the 2020 and the 2021 General Meeting a total cash compensation for the entire Board of a maximum of CHF 300'000 (2019: CHF 364'175), including social security contributions and including a maximum of CHF 50'000 for additional consultancy services by Board members.

C **Equity based compensation approved at the 2020 AGM**

At our 2020 General Meeting, the shareholders approved for the entire Board a total maximum amount of CHF 106'688 plus related social security contributions (2019: CHF 189'375) to be granted in a maximum of 18'750 options (2019: 25'250) for the period until the 2021 General Meeting.

D **Disclosure of compensation of members of the Board (audited) 2020**

2020

1) **AGM 2020-December 31, 2020**

in CHF	Annual Cash Fee	Consul-tancy fees	Value of Stock Options [1]	Social Security [2]	Total Compen-sation	Number of stock options granted
Sommer Kuno, Chairman	52'500	0	18'814	3'369	74'683	4'500
Bollag Bernard, Member	26'250	0	14'135	1'684	42'069	3'250
Inderbitzin Silvio, Member	26'250	0	13'886	1'684	41'820	3'250
Wallnöfer Andreas, Member	37'500	0	15'088	0	52'588	3'750
Obrecht Jean-Pierre, Member	5'833	0	4'207	175	10'215	0
Total	**148'333**	**0**	**66'130**	**6'912**	**221'375**	**14'750**

2) **January 2021-AGM2021 (forecast)**

in CHF	Annual Cash Fee	Consul-tancy fees	Value of Stock Options [1]	Social Security [2]	Total Compen-sation	Number of stock options granted
Sommer Kuno, Chairman	17'500	0	0	1'123	18'623	0
Bollag Bernard, Member	8'750	0	0	561	9'311	0
Inderbitzin Silvio, Member	8'750	0	0	561	9'311	0
Wallnöfer Andreas, Member	12'500	0	0	0	12'500	0
Obrecht Jean-Pierre, Member	0	0	0	0	0	0
Total	**47'500**	**0**	**0**	**2'246**	**49'746**	**0**

Compensation Report

3) Total AGM 2020 to AGM 2021

in CHF	Annual Cash Fee	Consul-tancy fees	Value of Stock Options[1]	Social Security[2]	Total Compen-sation	Number of stock options granted
Sommer Kuno, Chairman	70'000	0	18'814	4'491	93'305	4'500
Bollag Bernard, Member	35'000	0	14'135	2'246	51'381	3'250
Inderbitzin Silvio, Member	35'000	0	13'886	2'246	51'132	3'250
Wallnöfer Andreas, Member	50'000	0	15'088	0	65'088	3'750
Obrecht Jean-Pierre, Member	5'833	0	4'207	175	10'215	0
Total	**195'833**	**0**	**66'130**	**9'157**	**271'121**	**14'750**

1. Reflects value of share-based payments in accordance with IFRS 2 at grant. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions
2. Covers all employer-paid statutory social security contributions (AHV/IV/ALV for Swiss-based parties)

2019

1) AGM 2019 – December 31, 2019

in CHF	Annual Cash Fee	Consul-tancy fees	Value of Stock Options[1]	Social Security[2]	Total Compen-sation	Number of stock options granted
Karabelas Argeris, Chairman	46'668	0	30'287	1'760	78'715	1'500
Sommer Kuno, Vice-Chairman / Chairman	39'167	0	27'534	2'454	69'155	1'250
Bollag Bernard, Member	26'250	4'036	22'027	1'645	53'958	1'000
Weber Frank, Member	8'750		14'684	548	23'982	1'000
Inderbitzin Silvio, Member	26'250	0	22'027	1'645	49'922	1'000
Wallnöfer Andreas, Member	27'500	16'000	22'027	0	65'527	1'000
Obrecht Jean-Pierre, Member	26'250	0	22'027	705	48'982	1'000
Total	**200'835**	**20'036**	**160'613**	**8'757**	**390'241**	**7'750**

Compensation Report

2) **January 1, 2020 – AGM 2020**

in CHF	Annual Cash Fee	Consul-tancy fees	Value of Stock Options[1]	Social Security[2]	Total Compen-sation	Number of stock options granted
Sommer Kuno, Vice-Chairman / Chairman	17'500	0	13'446	1'116	32'062	3'000
Bollag Bernard, Member	8'750	0	11'205	558	20'513	2'500
Inderbitzin Silvio, Member	8'750	0	10'085	558	19'392	2'250
Wallnöfer Andreas, Member	12'500	9'000	8'964	0	30'464	2'000
Obrecht Jean-Pierre, Member	8'750	0	8'964	240	17'954	2'000
Total	**56'250**	**9'000**	**52'664**	**2'471**	**120'385**	**11'750**

3) **Total AGM 2019 – AGM 2020**

in CHF	Annual Cash Fee	Consul-tancy fees	Value of Stock Options[1]	Social Security[2]	Total Compen-sation	Number of stock options granted
Karabelas Argeris, Chairman	46'668	0	30'287	1'760	78'715	1'500
Sommer Kuno, Vice-Chairman / Chairman	56'667	0	40'980	3'570	101'217	4'250
Bollag Bernard, Member	35'000	4'036	33'232	2'203	74'471	3'500
Weber Frank, Member	8'750	0	14'684	548	23'982	1'000
Inderbitzin Silvio, Member	35'000	0	32'112	2'203	69'314	3'250
Wallnöfer Andreas, Member	40'000	25'000	30'991	0	95'991	3'000
Obrecht Jean-Pierre, Member	35'000	0	30'991	945	66'936	3'000
Total	**257'085**	**29'036**	**213'277**	**11'228**	**510'626**	**19'500**

1. Reflects value of share-based payments in accordance with IFRS 2 at grant. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions
2. Covers all employer-paid statutory social security contributions (AHV/IV/ALV for Swiss-based parties)

Compensation Report

E Comparison of the approved and paid Board compensation during the approval period from one General Meeting to the next

The table below represents the approved maximum compensation for the Board, the actual amounts paid or granted or due for 2020, and the forecast amounts still payable or due until the General Meeting 2021.

2020

in CHF	Approved at AGM 2020	Paid/granted until AGM 2021 [3]
Board compensation incl. social security [1]	300’000	204’990
Stock options [2]	114’156	70’759
Total	**414’156**	**275’749**

1. Includes Board Fees of CHF 195’833, Board consultancy fees of CHF 0.00 and social security contributions of CHF 9’157. A social security contribution of CHF 4’625, which is related to options exercise has been allocated to the “Stock options” compensation line
2. Includes a stock option compensation of CHF 66’130 CHF and a social security contribution of CHF 4’629, which is related to options exercise.
3. “Paid/granted until AGM 2021” includes the actual numbers for 2020 plus the forecast for the time until the AGM 2021.

2019

in CHF	Approved at AGM 2019	Paid/granted until AGM 2020
Board compensation incl. social security[1]	364’175	297’349
Stock options[2]	201’685	228’206
Total	**565’860**	**525’555**

1. Includes Board Fees of CHF 257’085, Board consultancy fees of CHF 29’036 and social security contributions of CHF 11’228. A social security contribution of CHF 14’929, which is related to options exercise has been allocated to the “Stock options” compensation line
2. Includes a stock option compensation of CHF 213’277 and a social security contribution of CHF 14’929, which is related to options exercise.

Compensation Report

F **Changes in the Board of Directors in 2020**

At the AGM 2020 Dr. Jean-Pierre Obrecht left the Board of Directors as he did not stand for re-election.

9 Executive Committee Compensation

A **Overview**

Our members of the EC receive a fixed annual base salary (including the base salary, social security contributions and payments to the pension fund) which takes into consideration the scope and responsibilities of the role.

In addition, our EC members receive a performance-related annual bonus, expressed as a percentage of the annual base salary. Depending on their function, the target bonus ranges between 20% and 40% of the annual base salary for the members of the EC.

The payment of performance-based remuneration depends on the achievement by the EC member of pre-defined objectives and on the achievement of the corporate objectives.

The corporate objectives are adopted by the Board and reflect the short-, medium- and long-term goals of the company. These relate in particular to the financing and economics of the company, as well as to the progress on the development of our products.

The objectives of the CEO reflect to 80% the company objectives. The individual objectives of the EC members are set by the CEO and are reviewed at mid-year. The individual objectives reflect the corporate goals, as well as the objectives within the area of responsibility of the EC member. The weightings of the corporate and individual goals are individual for each EC member and vary gradually depending on the position between 60% and 80% on the corporate and 20% to 40% on the individual objectives. In general, the higher the position of the employee, the more weight is put on the achievement of corporate goals rather than on individual goals.

Our members of the EC receive a grant of stock options at the discretion of the CNC's evaluation, Board approval and based on the total performance of the respective member of the EC. Any stock options granted are non-transferable, except in case of death. According to the ESOP2013 and ESOP2019, 25% of the stock options vest after a period of one year from the grant date, thereafter, each calendar quarter 6.25% of the total stock options vest for twelve calendar quarters. When granting options, the Board may deviate from this vesting schedule in individual cases. During such vesting periods, employee stock options may lapse or become forfeited subject to certain conditions as defined by the ESOP2013 and the ESOP2019. Such conditions relate to death, retirement, disability, and termination of, or resignation from, employment. In such cases only the vested options, as well as options for certain pre-specified periods may be exercised, while the remaining options lapse. The term of the employee stock options granted is 10 years for the ESOP2013 and 7 years for the ESOP2019. For more information about the ESOP2013 and ESOP2019, see note 17 "Share-based payment arrangements" in the consolidated financial statements.

Compensation Report

The company pension fund insures the annual base salary of the EC. For further details please see note 19 "Employee benefits" of the consolidated financial statements.

Other benefits include one-off anniversary payments of CHF 3'000 and CHF 6'000 after 10 and 20 years of service respectively. An expense regulation for flat rate charges ("*Pauschalspesen*") for management positions has been approved by the tax authority Basel-Landschaft.

Our employment agreements with EC members stipulate a notice period between three and six months for the end of each month. They do not contain any "golden parachutes" in case of a change of control, or any severance provisions in case of termination of employment.

B **Cash compensation approved at the 2019 and 2020 AGMs**

At our 2019 General Meeting, the shareholders approved a maximum total compensation for the EC payable in 2020 as follows: CHF 1'960'794 (2019: CHF 1'751'800) for fixed (non-performance-related) compensation and CHF 790'000 (2019: CHF 698'000) for variable (performance related) compensation (relating to the performance in 2019 but generally payable only in the first quarter of 2020).

At our 2020 General Meeting, the shareholders approved a maximum total compensation for the EC payable in 2021 as follows: CHF 1'750'000 for fixed (non-performance-related) compensation and CHF 750'000 for variable (performance related) compensation (relating to the performance in 2020 but generally payable only in early 2021).

C **Equity-based compensation approved at the 2019 and 2020 AGMs**

At our 2019 General Meeting, the shareholders approved total maximum grant of 161'250 options to the EC with a maximum value at time of grant of CHF 1'196'475 plus related social security costs estimated at CHF 77'771 (2019: CHF 1'010'625 plus related social security costs estimated at CHF 65'700). In accordance with our ESOP2019, 84'051 (2019: 67'750) options were granted to the members of the EC in 2020. For more information about the underlying Plan, see note 17 "Share-based payment arrangements" in the consolidated financial statements.

At our 2020 General Meeting, the shareholders approved a total maximum grant of 130'000 options to the EC with a maximum value at time of grant of CHF 790'000 plus related social security costs estimated at CHF 31'437.

Compensation Report

D Disclosure of compensation of members of the Executive Committee paid during the year 2020 (audited)

2020

in CHF	Base Salary	Cash bonus	Stock Options [1]	Social Security [2]	Total Compen-sation	Number of stock options granted
Gökhan Batur	310'011	64'377	137'499	62'319	574'206	17'800
Frank Weber	342'000	41'496	86'287	95'034	564'818	9'100
Other 3 members of the EC	499'730	98'942	75'918	107'622	782'213	25'651
Total existing EC members [3]	**1'151'742**	**204'815**	**299'704**	**264'976**	**1'921'236**	**52'551**
Former 1 member of the EC [4]	159'218	140'832	262'290	32'360	594'701	31'500
Grand Total	**1'310'960**	**345'647**	**561'994**	**297'336**	**2'515'938**	**84'051**

1. Reflects value of share-based payments in accordance with IFRS 2 at grant. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions.
2. Covers all employer-paid statutory social security contributions (AHV/IV/ALV for Swiss-based parties) and employer pension contributions to Polyphor's pension fund.
3. Reflects all active members of the EC for the full year 2020.
4. Reflects the full year compensation of the one member who left the EC within the year 2020.

2019

in CHF	Base Salary	Cash bonus	Stock Options [1]	Social Security [2]	Total Compen-sation	Number of stock options granted
Di Nepi Giacomo	360'152	166'316	303'728	81'272	911'468	13'000
Other 5 members of The EC [3]	955'486	68'618	138'903	172'769	1'335'777	50'750
Total existing EC members	**1'315'638**	**234'934**	**442'632**	**254'041**	**2'247'245**	**63'750**
Former 3 members of the EC [4]	449'017	224'509	22'373	114'119	810'018	4'000
Grand Total	**1'764'656**	**459'443**	**465'004**	**368'160**	**3'057'263**	**67'750**

1. Reflects value of share-based payments in accordance with IFRS 2 at grant. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions.
2. Covers all employer-paid statutory social security contributions (AHV/IV/ALV for Swiss-based parties) and employer pension contributions to Polyphor's pension fund.
3. Reflects all active members of the EC for the full year 2019, and includes additional fees of CHF 215'000 for the ad interim CMO consulting of Frank Weber from February 1, 2019 until August 30, 2019.
4. Reflects the full year compensation of the three members who left the EC within the year 2019.

Compensation Report

E Comparison of the approved and paid EC compensation

The table below represents the approved maximum compensation for the EC, the actual amounts paid or granted during 2020.

2020

in CHF	Approved at AGM	Paid/granted in 2020
Fixed compensation 2020 (full year)	1'960'794	1'310'960
Variable compensation payable in 2020	790'000	345'647
Stock options for 2020 [1]	1'274'246	601'334
Number of stock options	161'250	84'051

1. Includes social security contributions.

2019

in CHF	Approved at AGM	Paid/granted in 2019	Payable/due in 2020
Fixed compensation 2019 (full year)	1'751'800	2'132'815	0
Variable compensation payable in 2019	790'000	0	390'272
Stock options for 2019 [1]	1'274'246	621'473	403'084
Number of stock options	161'250	67'750	84'051

1. Includes social security contributions.

The effective pay out of the performance-related cash bonus of 2019 amounted 83% for the EC and 93% for employees paid in 2020.

F Changes in the Executive Committee in 2020

Gökhan Batur became CEO as of January 23, 2020 succeeding Giacomo Di Nepi, who retired.

10 Executive Agreements

The employment contracts with the EC members are compliant with the OaEC and the Company's Articles of Association. Any post-contractual non-compete clauses for the period after termination of an employment agreement shall not exceed one year with the maximum compensation for such a period not exceeding the last total annual compensation of the EC member in question and is limited by industry and geography.

Compensation Report

11 Loans and Credits

No loans, credits or securities have been granted to members of the Board and the EC.

12 Compensation of Former Members of the Board and Executive Committee

With regard to former Board members, Polyphor made no payments in the period under review nor in the previous period. The compensation of former members of the Executive Committee is disclosed in Table 9 D above.

The Board decided that options of Jean-Pierre Obrecht granted by March 2020, shall vest within one year after grant.

13 Shareholdings of Members of the Board and Executive Committee

A Disclosure of shareholdings in the Company of Board members for the year 2020

	Number of shares	Number of share options (vested)	Number of share options (unvested)
December 31, 2020			
Sommer Kuno, Chairman	5'000	2'031	7'969
Wallnöfer Andreas, Vice-Chairman	0	1'000	5'750
Bollag Bernard, Member	5'240	1'625	6'125
Inderbitzin Silvio, Member	17'744	1'625	5'875
Total	**27'984**	**6'281**	**25'719**

Compensation Report

B Disclosure of shareholdings in the Company of EC members for the year 2020

	Number of shares	Number of share options (vested)	Number of share options (unvested)
December 31, 2020			
Di Nepi Giacomo	26'031	69'750	10'750
Obrecht Daniel	196'729	344	5'197
Batur Gökhan	4'875	4'781	35'144
Levett Hernan	0	0	18'338
Müller Franziska	1'396	594	4'226
Weber Frank	0	5'958	24'475
Total	**203'000**	**81'427**	**98'130**

C Disclosure of shareholdings in the Company of Board members for the year 2019

	Number of shares	Number of share options (vested)	Number of share options (unvested)
December 31, 2019			
Sommer Kuno, Chairman	5'000	469	2'031
Wallnöfer Andreas, Vice-Chairman	0	375	1'625
Bollag Bernard, Member	5'240	375	1'625
Inderbitzin Silvio, Member	17'744	375	1'625
Obrecht Jean-Pierre, Member[1]	183'450	375	1'625
Total	**211'434**	**1'969**	**8'531**

1 Includes shares held by related parties controlled by the Board Member

D Disclosure of shareholdings in the Company of EC members for the year 2019

	Number of shares	Number of share options (vested)	Number of share options (unvested)
December 31, 2019			
Di Nepi Giacomo	26'031	29'813	19'187
Obrecht Daniel	195'244	157	3'219
Batur Gökhan	0	0	27'000
Levett Hernan	0	0	0
Müller Franziska	1'396	63	94
Weber Frank	0	375	21'625
Total	**222'671**	**30'408**	**71'125**

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To the General Meeting of
Polyphor Ltd, Allschwil

Basle, 4 March 2021

Report of the statutory auditor on the compensation report

We have audited the compensation report of Polyphor Ltd for the year ended 31 December 2020. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled “audited” on page 44 and page 50 of the compensation report.

Board of Directors’ responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor’s responsibility
Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

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

Opinion
In our opinion, the compensation report for the year ended 31 December 2020 of Polyphor Ltd complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Elisa Alfieri
Licensed audit expert
(Auditor in charge)

Jürg Zürcher
Licensed audit expert

Financial Report 2020

Consolidated statement of financial position in CHF

	Notes	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents	6	34'336'611	77'411'286
Trade accounts receivable	7	0	4'029
Other accounts receivable	7	464'095	698'505
Accrued income	8	262'052	128'080
Prepaid expenses	8	2'204'011	2'965'934
Total current assets		**37'266'769**	**81'207'834**
Non-current assets			
Property, plant and equipment (PPE)	9	1'937'101	2'749'807
Right-of-use asset	10	5'319'598	6'107'687
Intangible assets	11	36	6'000
Technology Platforms	12	1'799'424	2'249'280
Rent deposit	7	447'356	447'331
Total non-current assets		**9'503'514**	**11'560'105**
Total assets		**46'770'284**	**92'767'938**
Liabilities and shareholders' equity			
Current liabilities			
Trade accounts payable	13	5'884'819	8'304'279
Other accounts payable	13	146'632	350'037
Current lease liability	10	742'933	721'003
Current convertible notes (IRIS)	15	1'522'500	0
Current portion of debt	15	264'315	250'660
Deferred income		0	4'274
Accrued expenses	14	9'679'850	10'506'774
Current derivative financial instruments (IRIS)	15	150'577	0
Total current liabilities		**18'391'626**	**20'137'028**
Non-current liabilities			
Pension liabilities	19	8'329'447	9'959'046
Non-current lease liability	10	4'732'119	5'475'052
Non-current portion of debt	15	1'824'584	2'088'898
Total non-current liabilities		**14'886'150**	**17'522'996**
Total liabilities		**33'277'776**	**37'660'024**
Shareholders' equity			
Share capital	16	22'416'816	22'126'414
Additional paid-in capital		355'013'615	354'303'228
Other reserves		9'872'567	8'611'400
Cumulative translation differences		593	-3'127
Accumulated deficit		-373'811'083	-329'930'001
Total shareholders' equity		**13'492'508**	**55'107'914**
Total liabilities and shareholders' equity		**46'770'284**	**92'767'938**

Consolidated income statement for the year ended December 31
in CHF

	Notes	2020	2019
Polyphor library sales	4	6'568	10'040
Upfront and milestone payments	4	14'271'000	0
Total revenue		**14'277'568**	**10'040**
Other income	5	1'020'437	1'902'856
Research and development		-52'342'852	-60'735'309
Marketing and sales		-771'134	-1'441'167
General and administrative		-4'572'680	-4'661'064
Net operating expenses		**-56'666'230**	**-64'934'684**
Operating loss		**-42'388'662**	**-64'924'644**
Financial income	20	52'266	1'315'201
Financial expenses	20	-638'590	-630'046
Net foreign exchange loss	20	-1'973'766	-431'819
Net loss for the period		**-44'948'752**	**-64'671'308**
Net loss per share (basic)	23	-4.05	-5.85
Net loss per share (diluted)	23	-4.05	-5.85

Consolidated statement of comprehensive income for the year ended December 31
in CHF

	Notes	2020	2019
Net loss for the period		**-44'948'752**	**-64'671'308**
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Cumulative translation differences		3'720	-2'560
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement of pension liabilities	19	1'067'670	-1'722'316
Other comprehensive income/ (loss)		**1'071'390**	**-1'724'876**
Total comprehensive loss		**-43'877'362**	**-66'396'184**

Consolidated statement of cash flows for the year ended December 31
in CHF

	Notes	2020	2019
Net loss for the period		-44'948'752	-64'671'308
Adjustments for			
– Other non-cash items		-205'774	-139'989
– Depreciation and amortization		2'096'211	2'311'772
– Impairment losses on PPE and Technology Platforms		0	1'685'637
– Net finance cost		586'324	430'324
– Revaluation losses / (gains) financial investment		0	-1'115'479
– Share-based compensation	17	1'261'167	757'807
– Net foreign exchange loss		1'973'766	431'819
Changes in			
– Trade and other receivables		238'438	22'635
– Prepaid expenses		761'923	-2'330'696
– Trade and other payables		-2'622'865	-995'763
– Accrued expenses and employee benefits		-1'418'852	7'532'870
– Accrued income	8	-138'246	-123'806
– Interest received		52'241	199'675
Net cash from operating activities		-42'364'420	-56'004'503
Cash flows from investing activities			
Proceeds from sale of investments		0	1'881'670
Acquisition of PPE and intangible assets	9	-48'040	-502'849
Net cash from investing activities		-48'040	1'378'821
Cash flows from financing activities			
Proceeds from issue of share capital (ESOP)		46'905	96'785
Transaction costs of capital increases		-10'402	-5'416
Proceeds from convertible notes (IRIS)	15	2'400'000	0
Transaction cost from convertible notes (IRIS)		-60'000	0
Repayment of lease liability		-721'003	-699'720
Repayment on debt		-250'660	-237'712
Interest paid		-311'228	-630'046
Net cash from financing activities		1'093'612	-1'476'110
Net increase/(decrease) in cash equivalents		**-41'318'849**	**-56'101'792**
Cash and cash equivalents at 1 January		**77'411'286**	**133'809'266**
Effect of movements in exchange rates on cash and cash equivalents		-1'755'827	-296'188
Cash and cash equivalents as at end of period		**34'336'611**	**77'411'286**

Consolidated statements of changes in shareholders' equity for the year ended December 31
in CHF

	Share Capital	Additional paid-in capital	Other reserves	Cumulative translation differences	Accumulated deficit	Total Equity
Balance as of January 1, 2019	**22'087'700**	**354'250'574**	**7'853'593**	**-567**	**-263'536'377**	**120'654'923**
Net loss for the period	0	0	0	0	-64'671'308	-64'671'308
Other comprehensive loss	0	0	0	-2'560	-1'722'316	-1'724'876
Total comprehensive loss	**0**	**0**	**0**	**-2'560**	**-66'393'624**	**-66'396'184**
Issuance of share capital (note 16)	38'714	58'071	0	0	0	96'785
Cost of capital increase	0	-5'416	0	0	0	-5'416
Share-based compensation (note 17)	0	0	757'807	0	0	757'807
Balance as of December 31, 2019	**22'126'414**	**354'303'228**	**8'611'400**	**-3'127**	**-329'930'001**	**55'107'914**
Balance as of January 1, 2020	**22'126'414**	**354'303'228**	**8'611'400**	**-3'127**	**-329'930'001**	**55'107'914**
Net loss for the period	0	0	0	0	-44'948'752	-44'948'752
Other comprehensive income	0	0	0	3'720	1'067'670	1'071'390
Total comprehensive loss	**0**	**0**	**0**	**3'720**	**-43'881'082**	**-43'877'362**
Issuance of share capital (note 16)	18'762	28'143	0	0	0	46'905
Cost of capital increase	0	-10'402	0	0	0	-10'402
Capital increase from conversion of notes (IRIS) (note 15)	271'640	692'646	0	0	0	964'286
Share-based compensation (note 17)	0	0	1'261'167	0	0	1'261'167
Balance as of December 31, 2020	**22'416'816**	**355'013'615**	**9'872'567**	**593**	**-373'811'083**	**13'492'508**

Notes to the Consolidated Financial Statements as of December 31, 2020

1 General information

Polyphor Ltd ("Polyphor" or the "Company", and together with its subsidiaries "the Group") is a clinical stage, Swiss specialty Pharma Company, focused on the development of macrocycle drugs that address severe diseases. The Company's lead drug candidate is balixafortide (POL6326, currently in pivotal registration program), an antagonist of the chemokine receptor CXCR4 for combination treatment in oncology.

In addition, Polyphor has discovered and is developing the OMPTA class to address infections caused by difficult-to-treat, resistant Gram-negative pathogens. Polyphor also owns a proprietary macrocycle technology platform used for the discovery of new drugs that can address difficult targets.

POL6014 (in Phase Ib), an inhaled inhibitor of neutrophil elastase for the treatment of cystic fibrosis and other neutrophilic lung diseases has been out-licenced to Santhera Pharmaceuticals (Switzerland) Ltd. ("Santhera").

The legal domicile of the Company is:

POLYPHOR Ltd
Hegenheimermattweg 125
CH-4123 Allschwil
Switzerland

The Company is listed on SIX Swiss Exchange (ticker symbol «POLN») since May 15, 2018.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies set forth below have been consistently applied to all years presented.

The consolidated financial statements have been prepared on a historical cost basis and are presented in Swiss Francs (CHF), rounded to the nearest Swiss Franc. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

The consolidated financial statements were authorised for issue by the Company's Board of Directors on March 4, 2021 and are subject to approval of the annual general meeting of shareholders on April 6, 2021.

2.2 Functional and presentation currency

These consolidated financial statements are presented in Swiss Francs (CHF), which is the Company's functional currency.

2.3 Consolidation

The consolidated financial statements include the Company and its subsidiaries. Control exists when the investor is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights or potential voting rights of a company's share capital that are currently exercisable. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are deconsolidated from the date control ceases.

Notes to the Consolidated Financial Statements as of December 31, 2020

All inter-company balances, transactions and unrealized gains on transactions have been eliminated in the consolidated financial statement. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The following entities are within the scope of consolidation:

Company	Registered	Currency	Nominal Capital	Equity Interest
Polyphor Ltd	Switzerland	CHF	22'416'816	
Polyphor Ltd	United Kingdom	GBP	1'000	100%
Polyphor GmbH	Germany	EUR	25'000	100%

2.4 Adoption of new accounting standards and changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of amendments effective as of January 1, 2020 which do not have an impact on the condensed consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.5 Use of judgement and estimates

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

Estimates and assumptions

The key assumptions 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 relate to the valuation of technology platforms (note 12), valuation of defined benefit obligation (note 19) and estimates of number of options expected to vest during the year under the employee stock option plan (note 17).

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

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 that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

2.6 Foreign currency translation

Each company in the Group uses its functional currency, and items in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated in the functional currency at the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, as well as from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Notes to the Consolidated Financial Statements as of December 31, 2020

Upon consolidation, assets and liabilities of the subsidiaries reporting in foreign currency are translated into Swiss Francs using the exchange rate at the reporting date. Their income statements are translated at the average monthly exchange rates of the reporting year.

The exchange rates for the most significant foreign currencies are as follows:

	Income statement in CHF average rates per year-end		Statement of financial position in CHF year-end rates	
	2020	2019	2020	2019
1 USD	0.9207	0.9930	0.8828	0.9709
1 EUR	1.0859	1.1121	1.0844	1.0874
1 GBP	1.2084	1.2672	1.1987	1.2735

2.7 Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and 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. With the exception of trade receivables, 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 are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost, it needs to be held to collect contractual cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Polyphor's financial assets at amortised cost comprise cash and cash equivalents, trade and other accounts receivable and rent deposits. Subsequently to initial recognition, these financial instruments are carried at amortised cost using the effective interest method and are subject to an impairment assessment applying the expected credit loss (ECL) model. ECLs 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. For trade receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead determines a loss allowance based on lifetime ECLs at each reporting date.

Until their disposal in 2019 Polyphor's financial assets at fair value through profit or loss comprised equity instruments.

Financial assets are derecognised when the rights to receive the cash flows from the financial assets have expired or been transferred and Polyphor has transferred substantially all risks and rewards of ownership.

2.8 Grants

Grants received from governmental and other organisations are recognised in the statement of financial position initially as accrued income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. Grants that compensate the company for expenses incurred are recognized as other operating income on a systematic basis in the same periods in which the expenses are incurred.

2.9 Property, plant and equipment

Property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses. The cost includes acquisition costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use. If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

When assets are sold or disposed of, any gain or loss resulting from their disposal is included in the income statement.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in the income statement.

The assets' useful life and residual values are reviewed and adjusted if appropriate at each reporting date.

The estimated useful lives are summarized as follows:

Office furniture	5 years
Laboratory equipment	8 years
IT equipment, office machines	3 years
Laboratory & building infrastructure "leasehold improvements"	10-15 years

2.10 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost where it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be reliably measured. Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses. Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. The amortisation period and amortisation method are reviewed annually.

Intangible assets are amortized using the straight-line method over three years.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

The Group has not capitalized any intangible assets with indefinite lives.

2.11 Technology Platforms

Technology Platforms relate to capitalized cost of PEMfinder® and MacroFinder® screening libraries which include directly attributable material and production cost.

PEMfinder® and MacroFinder® screening libraries are capitalized based on the number of compounds. In addition, specific characteristics of the compounds such as quantity and purity thresholds have to be met in order to qualify for asset recognition.

Future economic benefits from Technology Platforms are expected from selling these to industry partners engaged in drug discovery.

The cost of the build-up of the PEMfinder® and MacroFinder® screening libraries is fully written down to the extent that it is not recoverable.

Following the initial recognition, the Technology Platforms assets are depreciated on a straight-line basis over the estimated remaining useful life based on the use of the compounds by screening activities as well as dilution of purity over time. The estimated useful life is as follows:

Technology Platforms	10 years

2.12 Leases

As a lessee

The Group only leases its property. The Group recognises a right-of-use-asset and a lease liability for its property lease. The right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) and variable lease payments that depend on an index or a rate.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The Group presents lease liabilities in current and non-current portion of lease liability.

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below CHF 5’000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

As a lessor

During the period under review, the Group sub-leases space of its leased property. The sub-lease contract is classified as operating leases due to the fact that the sublease term is much shorter compared to the main leasing period.

2.13 Impairment of property, plant and equipment, intangible assets, right-of-use asset and Technology Platforms

An impairment assessment is carried out when there is evidence that an asset may be impaired. If any such indication exists, the Group makes an estimate of 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 of disposal 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 asset groups.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is impaired to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An appropriate valuation model is used to determine fair value less costs of disposal. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairment losses are recognized in the income statement. When an impairment loss arises, the useful life of the asset in question is reviewed and, if necessary, the future depreciation / amortization charge is accelerated.

2.14 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.

2.15 Financial liabilities

All financial liabilities are recognised 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 and interest-bearing debt.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

If a financial liability also embeds a derivative which is not closely related to the host, then the derivative is bifurcated at the inception of the financing facility.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

If the contractual cashflows of a modified financial debt instrument are not substantially different from the cashflows of the original debt instrument, the financial debt instrument is not derecognised. However, the amortised cost of the instrument is adjusted to the net present value of the revised cashflows discounted at the original effective interest rate with the different recognised in the profit or loss.

2.16 Share capital

The costs of an equity transaction are accounted for as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12. Equity transaction costs are comprised of only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

2.17 Revenue recognition

Revenue from "Polyphor Library sales" results from the sale of Polyphor Library components and is recognized when control transfers to our customers and our performance obligations are satisfied at the time of delivery as defined in the contract. Revenue from "Active Component Sales" is derived from the sale of compounds of licenced products and is recognized when control transfers to our customers and our performance obligations are satisfied at the time of delivery as defined in the contract.

Control over a promised good or service refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, those goods or services. Control is usually transferred upon shipment, delivery to, upon receipt of goods by the customer, or as services are rendered, in accordance with the delivery and acceptance terms agreed with the customers.

Revenue from "Upfront and milestone payments" is received in the context of licensing and technology access agreements. Polyphor enters into licensing agreements with partners and customers under which it may obtain upfront and milestone as well as royalty payments. Polyphor determines its performance obligations under such agreements and in case of multiple deliverables allocates consideration to each distinct performance obligation based on stand-alone selling prices. For distinct licences granted, Polyphor determines the nature of its promise, e.g. whether Polyphor grants a right to access its intellectual property over the license term, in which case revenue would be recognised over time; or whether it is licensing a right to use its intellectual property as it exists, in which case revenue would be recognised at the point in time the license is granted. Revenue is recognized at the point in time when control over the right-to-use license is transferred (typically shortly after signing the agreement) and the upfront payment becomes receivable and when milestone criteria are highly probable of being met and the risk of revenue reversal is remote.

The Group does not incur costs to obtain or fulfil a contract with customers. The Group has determined that its contracts with customers do not contain any significant financing component.

2.18 Research and development

Research and development ("R&D") expenses are charged to the income statement when incurred. Polyphor considers that the regulatory and other uncertainties inherent in the development of its key new products preclude it from capitalizing development costs.

Costs of applying for patents for internally developed products, costs of defending existing patents and costs of challenging patents held by third parties where these are considered invalid, are considered part of development expense and expensed as incurred.

2.19 Employee benefit costs

Wages, salaries, social security contributions, paid annual leave, sick leave and other benefits are paid or accrued undiscounted in the year in which the associated services are rendered by employees of the Group. Legal or constructive obligations such as bonus are recognized for the amount expected to be paid in the year in which the services are provided and are presented under other liabilities.

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Pension plans

The Company operates two pension schemes in Switzerland; one for employees and an one for members of the Executive Management.

The assets of the pension plans are held in separate trustee-administered funds. Contributions to these funds are made by both the employees and the Company in accordance with Swiss legal requirements and the plan rules. The plan qualifies as defined benefit plans under IFRS and provides for an annuity or a lump sum payment on retirement. In addition, the plan covers disability and death in service.

The Group's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The defined benefit obligation is calculated annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in Other Comprehensive Income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Share-based compensation

The Group's share-based compensation plans qualify as equity-settled plans. The fair value of the employee services received in exchange for the grant of shares or share options is recognized as an expense over the relevant vesting period in line with the graded vesting patterns of the awards. For equity-settled plans, the fair value is determined at the grant date. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity.

In the year the options are exercised the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid-in capital.

2.20 Taxation

Income tax expense comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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 balance sheet date. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred income taxes

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

3 Segment information

The Group has one operating segment focusing on the research and development and prospective commercialisation of macrocycle drugs addressing high unmet medical needs.

In the following table, revenue from contracts is disaggregated based on location of the customer.

Revenue by location	2020 CHF	2019 CHF
Switzerland	14’271’000	0
Rest of Europe	6’568	2’940
United States	0	7’100
Asia	0	0
Total	**14’277’568**	**10’040**

All non-current assets are located in Switzerland.

4 Revenue

As per August 30, 2020 Polyphor entered into an exclusive licensing agreement for balixafortide in China with Shanghai Fosun Pharmaceutical (Group) Co. Ltd, through its Swiss affiliate Fosun Pharmaceutical AG to grant Fosun a license to commercialise and sell the licensed product only in the territory of China.

As part of the agreement, Polyphor received a CHF 14.27 million (USD 15 million) upfront payment and is eligible for additional development milestone payments of up to USD 19 million and sales milestone payments of up to USD 148 million. Furthermore, Polyphor is eligible for royalties on sales as well as regulatory milestones.

The Group has concluded that it has granted a right-to-use license and has recognized the non-refundable upfront payment in revenue on transferring control of the license to Fosun. All milestone payments remain fully constrained at 31 December 2020.

During the period under review the upfront payment from Fosun represents the major part of the revenue for the Group.

5 Other income

As per January 1, 2019 Polyphor entered into a cost reimbursement research sub award agreement with Trustees of Boston University to initiate and complete the preclinical development of POL 7306.

	2020 CHF	2019 CHF
Grants	952'951	1'830'152
Sublease	56'872	29'819
Other	10'614	42'885
Total	**1'020'437**	**1'902'856**

As per December 11, 2020 Polyphor announced the extension of the agreement of 2019 and that CARB-X is committing to Polyphor additional funding of up to USD 2.3 million, bringing potential funding for this contractual stage to USD 5.1 million. Polyphor may also receive up to USD 13 million in future option stages that could take the program through a first-in-human program if certain project milestones are met.

During 2020 the reimbursement for the grant amounted to CHF 605'696 (USD 637'935); CHF 1'830'152 (2019: USD 1'843'053). The reimbursement has been recognized as other income.

On October 14, 2020 Polyphor received a new and second non-dilutive funding award from CARB-X. This award will support the development of the "thanatin derivatives program" belonging to Polyphor's novel Outer Membrane Protein Targeting Antibiotic (OMPTA) class of antibiotics to potentially treat life-threatening infections caused by difficult-to-treat Gram-negative bacteria. CARB-X will provide Polyphor with initial funding of up to USD 2.62 million to complete the hit-to-lead stage and up to USD 15.82 million if certain project milestones are met.

Based on the new and second non-dilutive funding award from CARB-X Polyphor charged CHF 347'255 (USD 376'215) which has been recognized as other income.

Based on the sublease-agreements, the Group recognized CHF 56'872 (2019: CHF 29'918) in other income.

6 Cash and cash equivalents

Cash is held mainly in CHF, EUR, USD and GBP in the form of cash and bank deposits with Zürcher Kantonalbank and UBS.

Cash and cash equivalents comprise the following at December 31:

Cash and cash equivalents	December 31, 2020 CHF	December 31, 2019 CHF
Cash at banks and on hand		
In CHF	11'893'646	59'629'028
In EUR	51'428	616'201
In USD	19'867'347	11'348'151
in GBP	2'524'190	5'817'907
Total at end of period	**34'336'611**	**77'411'286**

Cash at banks is subject to positive or negative interest at floating rates. Funds not immediately needed are invested as bank deposits with varying maturities of 3 months or less.

Cash and cash equivalents are restricted for credit card payment in the amount of CHF 150'000 and EUR 50'000 are pledged.

7 Trade accounts receivable, other accounts receivable and rent deposit

As at December 31, 2020 no trade accounts receivable were held. Neither in the period under review nor in the previous periods, any overdue items have been identified.

	2020 CHF	2019 CHF
Trade accounts receivable	0	4'029
Other accounts receivable	464'095	698'505
Rent deposit	447'356	447'331
Total at end of	**911'451**	**1'149'864**

The other receivables consist mainly of amounts due from the government (VAT receivable) and from social security institutions. They are due within 30-180 days and bear no interest.

No bad debt provision was recognized on these receivables as management estimates that no allowance is necessary as of December 31, 2020 and 2019. Rent deposit held with Zürcher Kantonalbank serves as collateral for the lease related to the facilities at the Group's headquarters in Allschwil (i-parc). The rent deposit earns interest at floating rates.

Notes to the Consolidated Financial Statements as of December 31, 2020

8 Accrued income and Prepaid expenses

Expenses for the work performed in the period under review but not reimbursed as per December 31, 2020 amount to CHF 262'052 (2019: CHF 128'080) which have been recognized as accrued income (see also note 2.8).

As of December 31, 2020 and 2019 prepaid expenses relate primarily to prepaid patent and trademark expenses, service contracts, insurances and software licences.

9 Property, plant and equipment / Leasehold Improvements

Property, plant and equipment (CHF)	Leasehold Improvements	Office Equipment	Laboratory Equipment	IT Equipment	Others	Total
Cost at January 1, 2019	7'802'125	271'057	8'716'490	1'140'128	150'487	18'080'287
Additions	156'894	0	125'567	209'913	10'475	502'849
Disposals	0	-169'539	-666'883	-521'344	-2'475	-1'360'241
Cost at December 31, 2019	**7'959'019**	**101'518**	**8'175'174**	**828'698**	**158'486**	**17'222'896**
Depreciation at January 1, 2019	5'935'449	251'838	7'542'984	1'039'080	141'962	14'911'313
Additions	431'971	4'911	368'969	87'543	5'182	898'576
Disposals	0	-169'477	-643'651	-521'200	-2'473	-1'336'801
Depreciation at December 31, 2019	**6'367'420**	**87'273**	**7'268'302**	**605'423**	**144'670**	**14'473'088**
Net book value at December 31, 2019	**1'591'599**	**14'245**	**906'872**	**223'275**	**13'816**	**2'749'807**
Cost at January 1, 2020	7'959'019	101'518	8'175'174	828'698	158'486	17'222'896
Additions	0	2'849	45'192	0	0	48'040
Disposals	0	-271	-1'322'918	-341'271	-21'680	-1'686'140
Cost at December 31, 2020	**7'959'019**	**104'096**	**6'897'448**	**487'427**	**136'806**	**15'584'796**
Depreciation at January 1, 2020	6'367'420	87'273	7'268'302	605'423	144'670	14'473'088
Additions	437'330	5'085	309'323	100'381	3'474	855'593
Disposals	0	-270	-1'317'963	-341'083	-21'670	-1'680'986
Depreciation at December 31, 2020	**6'804'750**	**92'088**	**6'259'662**	**364'721**	**126'474**	**13'647'695**
Net book value at December 31, 2020	**1'154'269**	**12'008**	**637'786**	**122'706**	**10'332**	**1'937'101**

Depreciation and impairment has been charged to:	2020 CHF	2019 CHF
Research and development	695'700	619'298
Marketing and sales	11'854	52'477
General and administrative	148'039	226'800
Total	**855'593**	**898'576**

Notes to the Consolidated Financial Statements as of December 31, 2020

10 Right-of-use asset / lease liability

The table below illustrates the right-of-use and the corresponding lease liability asset held by the Group.

Right-of-use asset	2020 CHF	2019 CHF
As at January 1	**6'107'687**	**6'895'775**
Additions	0	0
Depreciation expenses	-788'089	-788'089
As at December 31	**5'319'598**	**6'107'687**

Lease liability	2020 CHF	2019 CHF
As at January 1	**-6'196'055**	**-6'895'775**
Additions	0	0
Interest expenses (-)	-176'022	-197'304
Payments	897'024	897'024
As at December 31	**-5'475'052**	**-6'196'055**

	2020 CHF	2019 CHF
Right-of-use asset	5'319'598	6'107'687
Lease liability	5'475'052	6'196'055
– thereof current	742'933	721'003
– thereof non-current	4'732'119	5'475'052
Depreciation expense	788'089	788'089
Cash-out flow current portion of lease liability	721'003	699'720
Interest expense	176'022	197'304
Short-term lease expenses	0	0
Expenses low value asset	0	0
Income from sublease agreements (note 5)	56'872	29'918

Notes to the Consolidated Financial Statements as of December 31, 2020

11 Intangible assets

The table below illustrates the intangible assets held by the Group. At the end of 2020 and 2019 the intangible assets were primarily comprised of licence fees for IT-software:

Intangible assets	2020 CHF	2019 CHF
Cost at January 1	754'541	754'731
Additions	0	0
Disposals	-588'046	-190
Cost at December 31	**166'495**	**754'541**
Amortisation at January 1	748'541	726'348
Additions	2'673	22'380
Disposals	-584'755	-187
Amortisation at December 31	**166'459**	**748'541**
Net book value at December 31	**36**	**6'000**

	2020 CHF	2019 CHF
Amortisation has been charged to:	CHF	CHF
Research and development	1'891	15'424
Marketing and sales	58	1'307
General and administrative	724	5'649
Total	**2'673**	**22'380**

12 Technology Platforms

Technology Platforms relate to capitalized expenses of PEMfinder® and MacroFinder® screening libraries. Polyphor has reached commercial proof of concept, as exemplified by the deal terms of the Novartis PEMfinder® and Boehringer Ingelheim MacroFinder® collaborations in prior periods, thus confirming that future revenues can be generated due to these proprietary and patent protected drug discovery tools.

Technology Platforms	December 31, 2020 CHF	December 31, 2019 CHF
Cost at January 1	23'133'200	23'133'200
Cost at end of period	**23'133'200**	**23'133'200**
Depreciation at January 1	20'883'920	18'597'355
Additions	449'856	600'928
Impairment	0	1'685'637
Depreciation at end of period	**21'333'776**	**20'883'920**
Net book value at end of period	**1'799'424**	**2'249'280**

In 2020 and 2019 depreciation has been charged to research and development.

Impairment Testing "Technology Platforms"
The recoverable amount has been determined using key assumptions that represent management's assessment of future cash flows in the relevant business and have been based on expectations for potential future sales of the Technology Platforms within the next 4 years taking into account past experience and existing contracts. The cash flow projections included specific estimates for 4 years (see note 2.11).

The discount rate was a pre-tax measure based on the rate of 10-year government bonds issued by the Swiss government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU. The discount rate used to determine the recoverable amount is 7.6% (2019: 11.74%).

No impairment has been identified.

13 Trade accounts payable and other liabilities

	2020 CHF	2019 CHF
Trade accounts payable	5'884'819	8'304'279
Other accounts payable	146'632	350'037
Prepayments	0	0
Deferred income	0	4'274
Total at December 31	**6'031'451**	**8'658'591**

Trade accounts payable are non-interest bearing and usually settled within 30 to 60 days. Other accounts payable comprise amounts due for pension fund, social security institutions, tax at source and VAT.

Deferred income included upfront payments received which may not be fully recognized as certain terms of the agreement may require fulfilment of obligations after the reporting date of the financial statements.

14 Accrued expenses

Accrued expenses relate primarily to employee expenses, licence fees and other operating expenses. The employee expenses are considered to be non-financial liabilities. The licence fees and other operating expenses (financial) are included in financial liabilities (see note 24.4). Other operating expenses (financial) include accruals for energy costs, clinical costs, IT expenses and third party contractors/advisors. The accrued expenses are mainly related to the Phase III Pivotal Study FORTRESS.

	2020 CHF	2019 CHF
Employee expenses	2'155'336	1'636'681
Licence fees (financial)	336'552	60'000
Other operating expenses (financial)	7'187'963	8'810'092
Total at December 31	**9'679'850**	**10'506'774**

Notes to the Consolidated Financial Statements as of December 31, 2020

15 Debt

Infrastructure loan

In 2008, Polyphor entered into a loan agreement to finance the laboratory and building infrastructure in its research building. The original loan was interest bearing at a rate of 6% and was repayable in instalments over a period of 15 years. Based on this agreement, Polyphor obtained CHF 7'402'174 in 2008 and CHF 199'563 in 2009.

In 2018 the loan agreement was re-negotiated and as a result the interest rate has been reduced to 3% and the term of the loan was extended until September 2027.

As of December 31, 2020 and 2019, the carrying amount of the loan amounts to CHF 2'088'898 and CHF 2'339'559 respectively.

The time to maturity of the financial liabilities as of December 31, 2020 is between 1 and 81 months (2019: between 1 and 93 months) (see note 24.4).

Equity linked financing facility with IRIS

In July 2020 Polyphor entered an equity-linked financing arrangement with the French company IRIS to raise a gross amount of up to CHF 19.32 million over a period of two years. IRIS will receive Polyphor shares to be created from the Company's conditional capital based on this interest-free mandatorily convertible notes program. It remains at the sole discretion of Polyphor to suspend or terminate the staggered financing. IRIS is committed to buy on a monthly basis over a period of two years twenty-four tranches of CHF 800'000 of unsecured zero-coupon mandatorily convertible notes. The program can be tailor-made in terms of period and tranche size, according to Polyphor's financing needs.

As a result of the implementation of the contractual agreements Polyphor issued for free 7'728 warrants in favour of IRIS.

The initial commitment is divided into 24 tranches (7'680 tranche warrants) to subscribe CHF 800'000 of principal amount of notes convertible into shares pursuant to their terms and conditions and one tranche to subscribe CHF 120'000 (48 tranche warrants) of principal amount of notes convertible into shares pursuant to their terms and conditions at a conversion price of CHF 2.00.

These warrants entitle IRIS to subscribe convertible notes under certain condition. Subscriptions are made in bundles with the exercise of at least 320 warrants which is equal to CHF 800'000. One convertible note's principal amount is CHF 2'500 and the note does not bear interest. The subscription price for a convertible note for IRIS is the principal amount.

Each note is convertible at the discretion of its holder into a number of shares of Polyphor. If a note is not converted optionally, it is mandatorily convertible 18 months after issuance of the relevant note. The pricing of the conversion of a note is at market, whereby during the period of five consecutive trading days, preceding a notice date for conversion, the lowest VWAP (volume weighted average price) is identified. A relevant percentage of 95% is applied to this lowest VWAP, which is then the divisor for the number of shares eligible for IRIS in the event of a conversion of notes. IRIS is selling the shares on the market or in block trades.

The embedded derivates of the convertible notes are closely related to each other and are therefore accounted for as a single instrument (i.e. compound derivative). Due to the conversion based on the market share price the conversion right triggers a variable number of shares and the embedded derivative is classified as a financial liability and measured at fair value through profit and loss.

IRIS is entitled to receive a structuring fee of the subscription price of every note issued under the tranche warrants.

Expenses related to the fair value measurement of the embedded derivative as well as the structuring fee are recorded as financial expenses in the income statement.

The convertible notes are classified as a hybrid contract containing a host that is a financial liability and embedded derivatives separated from the host and measured at fair value with all changes fair value recognized in profit or loss.

During the period under review, the company drew an amount of CHF 2.4 million, whereas CHF 877'500 have been already converted into 135'820 Polyphor shares. The notes can be settled at the option of the lender at any time through a variable number of equity shares based on the conversion price which is defined as a price per share at a discount of 5% to the volume weighted average price of the listed securities.

As of December 31, 2020, the carrying amount of the host for notes issued but not yet converted amounted to CHF 1'522'500 and is included in the balance sheet under current liabilities. The fair value of the embedded derivatives of the outstanding notes amounts to CHF 150'577.

	Convertible notes	Current derivative financial instruments
Cash flows in 2020:	**2'400'000**	**0**
Non-cash changes		
Initial recognition of derivative financial instruments	0	237'363
Nominal value of convertible notes converted into shares	-877'500	0
Derecogniton of derivative financial instruments on conversion of notes	0	-86'786
December 31, 2020	**1'522'500**	**150'577**

At December 31 2020, the Group had available CHF 16.92 million of undrawn committed bond tranches (1 Tranche at CHF 120'000 and 21 Tranches at CHF 800'000).

16 Share capital

Ordinary share capital

At December 31, 2020 the Company's share capital consisted of 11'208'408 Common Shares with a nominal value of CHF 2 each.

Thereof, 145'201 shares were issued out of conditional share capital upon the exercise of stock options (9'381 shares) and for convertible notes (135'820 shares).

No dividends were declared or paid by the Company for the year under review (2019: nil).

Notes to the Consolidated Financial Statements as of December 31, 2020

Shares (Number of shares)	Total Shares	Nominal Value
Shares at December 31, 2018	**11'043'850**	**22'087'700**
Shares at January 1, 2019	11'043'850	22'087'700
Capital Increase	19'357	38'714
Shares at December 31, 2019	**11'063'207**	**22'126'414**
Shares at January 1, 2020	11'063'207	22'126'414
Capital Increase	145'201	290'402
Shares at December 31, 2020	**11'208'408**	**22'416'816**

Authorized share capital

As per April 5, 2020 the remaining authorized capital in the amount of CHF 1'477'130 expired. The annual general meeting at June 4, 2020, authorized the Board of Directors again to increase the share capital at any time until May 27, 2022, by a maximum amount of CHF 11'063'206 by issuing a maximum of 5'531'603 registered shares.

Conditional share capital

The conditional share capital exclusively reserved for the members of the employee stock option plan has been increased at the annual general meeting as per June 4, 2020, by an additional amount of CHF 600'000 through the issue of a maximum of 300'000 registered shares.

At the annual general meeting the conditional share capital has been additionally increased by another amount of CHF 4'425'282 through the issue of a maximum of 2'212'641 registered shares reserved for convertible bonds or other similar financial instruments.

As of December 31, 2020, the Company had conditional share capital pursuant to which the share capital may be increased by a maximum amount of CHF 5'834'096 through the issue of a maximum of 2'917'048 registered shares. An amount of CHF 1'680'454 of the conditional share capital is exclusively reserved for the members of the employee stock option plan.

Notes to the Consolidated Financial Statements as of December 31, 2020

17 Share-based payment arrangements

ESOP2013

In 2013, the Group established a share option program (employee stock option program) that entitles key management personnel and other employees to purchase shares in the Company. Under this program, holders of vested options are entitled to purchase shares at a price of CHF 5.

The fair value of the stock options had been determined at the grant date based on either the calculated share price of the Company's last capital increase (prior to its listing) or the closing share price on SIX Swiss Exchange using the Black-Scholes model. 25% of the stock options vest one year after grant start date and the balance (75%) vest in twelve quarterly equal instalments of 6.25% per calendar quarter. The maximum term for exercising the options is 10 years.

In 2019 this share option program has been replaced by the new ESOP2019 share option program. No further stock options were granted to employees in 2020 (2019: 65'850)

The tables below show the assumptions applied to value the share-based payment arrangements for 2019:

Stock options, conditions and assumptions with a maximum vesting period of 4 years

Nature of arrangement	Grant of stock options 2019
Grant date	various
Number of options granted	65'850
Exercise price (CHF)	5
Share price at date of grant (CHF)	11 to 20
Contractual life (years)	10
Vesting period (years)	4
Settlement	Shares
Expected volatility (%)	31 / 107
Expected option life at grant date (years)	7
Risk-free interest rate p.a. (%)	-0.76 to -0.42
Expected dividend	Zero
Estimated fair value of option at grant date (CHF)	10 /12 /16 /22
Expiry date	January 1 to July 1, 2029

Notes to the Consolidated Financial Statements as of December 31, 2020

ESOP2013 (Board)

During 2019 the Group established an additional share option program exclusively for members of the board. This share option program is based exactly on the terms of the ESOP2013 but with a vesting period until the annual general meeting 2020 for 100% of the granted shares.

Based on this plan the company granted 7'750 stock options to members of the board in 2019. Optionees are not entitled to sell any shares purchased under this specific share option plan within a period of three years after the vesting period has lapsed.

In 2019 this share option program has been replaced by the new ESOP2019 share option program. No further stock options were granted to members of the board in 2020.

The table below shows the stock options, conditions and assumptions applied to value the share-based payment arrangements for 2019.

Stock options, conditions and assumptions with a maximum vesting period of 1 year (AGM2020)

Nature of arrangement	Grant of stock options 2019
Grant date	May 1, 2019
Number of options granted	7'750
Exercise price (CHF)	5
Share price at date of grant (CHF)	22
Contractual life (years)	10
Vesting period (years)	1 (AGM 2020)
Settlement	Shares
Expected volatility (%)	44
Expected option life at grant date (years)	7
Risk-free interest rate p.a. (%)	-0.45
Expected dividend	Zero
Estimated fair value of option at grant date (CHF)	22
Expiry date	May 1, 2029

Notes to the Consolidated Financial Statements as of December 31, 2020

ESOP2019

Since the third quarter 2019 the Group maintains a new share option plan (ESOP2019) under which eligible persons like Members of the Executive Management and employees of the company obtain rights to acquire options. Under this new plan, holders of vested options are entitled to purchase shares at a price which is equal to the Company's average share price of the last twenty trading days of the months of the grant.

Based on this plan, the Company granted 316'262 stock options to employees in 2020 (2019: 27'500). The fair value of the stock options has been determined at the grant date based on the closing share price on SIX Swiss Exchange using the Black-Scholes model. 25% of the stock options vest one year after grant start date and the balance (75%) vest in twelve quarterly equal instalments of 6.25% per calendar quarter. The maximum term for exercising the options is 7 years.

The table below shows the stock options, conditions and assumptions applied to value the share-based payment arrangements for 2020 and 2019:

Stock options, conditions and assumptions with a maximum vesting period of 4 years

Nature of arrangement	Grant of stock options 2020	Grant of stock options 2019
Grant date	March 31, 2020	various
Number of options granted	316'262	27'500
Exercise price (CHF)	6	5 to 6
Share price at date of grant (CHF)	6	6 to 7
Vesting period (years)	4	4
Expected volatility (%)	123	100 to 107
Expected option life at grant date (years)	4	5.5
Risk-free interest rate p.a. (%)	-0.5	-1.04 to -0.76
Expected dividend	Zero	Zero
Estimated fair value of option at grant date (CHF)	4	5 to 6
Expiry date	March 31, 2027	September 1 to September 14, 2026

Notes to the Consolidated Financial Statements as of December 31, 2020

ESOP2019 (Board)

Along with the establishment of the new ESOP2019 the Group established an additional share option program exclusively for members of the board. This share option program is based exactly on the terms of the ESOP2013 but with 25% of the options vesting immediately at grant date and the remaining 75% vesting in three quarterly instalments.

Based on this plan the company granted 26'500 stock options to members of the board in 2020 (2019: nil).

Stock options, conditions and assumptions with a maximum vesting period of 1 year (AGM2020)

Nature of arrangement	Grant of stock options 2020
Grant date	various
Number of options granted	26'500
Exercise price (CHF)	5 to 7
Share price at date of grant (CHF)	6 to 7
Vesting period (years)	1 (AGM 2021)
Expected volatility (%)	123 to 127
Expected option life at grant date (years)	4
Risk-free interest rate p.a. (%)	-0.5
Expected dividend	Zero
Estimated fair value of option at grant date (CHF)	4 to 5
Expiry date	March to June 2027

The movements in the number of all stock options are as follows:

Stock option movements	Options (number)
Balance outstanding December 31, 2018	**95'498**
Granted	101'100
Expired	0
Forfeited	-15'986
Excercised	-19'358
Balance outstanding December 31, 2019	**161'254**
Granted	342'762
Expired	0
Forfeited	-27'530
Excercised	-9'381
Balance outstanding December 31, 2020	**467'105**

Notes to the Consolidated Financial Statements as of December 31, 2020

The weighted average fair value of stock options granted for employees during the year was CHF 4.48 (2019: CHF 10.83).

The weighted average price of board stock options granted during the year was CHF 4.97.

The exercise price of all outstanding stock options is between CHF 4.80 up to CHF 7.22 (ESOP 2013/ESOP2013 (board) and ESOP2019).

The following table applies to all stock options outstanding at December 31, 2020:

Options (number)	Weighted average remaining contractual life (years)	Exercisable options (number)
3'450	3.0	3'450
2'500	3.0	2'500
700	3.5	700
550	4.5	550
6'600	5.0	6'600
3'094	5.5	3'094
25'000	5.8	25'000
1'800	6.0	1'800
1'875	6.4	1'875
2'450	6.5	1'991
11'638	7.3	8'200
6'313	7.3	3'969
375	7.5	375
2'700	7.5	1'913
2'700	8.0	1'181
15'891	8.2	8'219
5'958	8.3	5'958
26'509	8.4	7'200
550	8.5	7'200
20'000	5.7	7'200
7'500	5.7	7'200
292'452	6.2	31'500
11'750	6.2	11'750
14'750	6.5	11'063
467'105	**6.4**	**160'488**

Notes to the Consolidated Financial Statements as of December 31, 2020

The following table applies to all stock options outstanding at December 31, 2019:

Options (number)	Weighted average remaining contractual life (years)	Exercisable options (number)
3'450	4.0	3'450
2'500	4.0	2'500
700	4.5	700
550	5.5	550
6'288	6.0	6'288
5'395	6.5	4'457
25'000	6.8	25'000
1'125	7.0	1'125
1'875	7.4	1'875
1'575	7.5	1'313
11'638	8.3	5'450
7'750	8.3	3'391
375	8.5	375
3'975	8.5	1'350
2'700	9.0	0
16'750	9.2	0
6'458	9.3	0
35'100	9.4	0
550	9.5	0
20'000	6.7	0
7'500	6.7	0
161'254	**7.8**	**57'823**

The expenses for share-based compensation recognized in the income statement are shown below:

2020 CHF	2019 CHF
1'261'167	757'807

Notes to the Consolidated Financial Statements as of December 31, 2020

18 Expenses by nature – net operating expenses

The following tables show the Group's net operating expenses by their nature:

	2020 CHF	2019 CHF
Other income	1'020'437	1'902'856
Cost of materials	-394'825	-496'003
Cost of third party services	-37'949'774	-43'731'806
Employee expenses	-12'588'143	-12'596'395
Patent and trademark expenses	-1'194'757	-936'768
Other operating expenses	-3'462'956	-5'080'958
Impairment charges	0	-1'685'637
Depreciation and amortization	-2'096'211	-2'309'972
Total net operating expenses	**-56'666'230**	**-64'934'684**

Employee expenses have been charged to:	2020 CHF	2019 CHF
Research and development	-8'903'593	-8'681'436
Marketing and sales	-273'163	-735'629
General and administrative	-3'411'387	-3'179'330
Total	**-12'588'143**	**-12'596'395**

19 Employee benefits

In accordance with the Swiss pension fund law "Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision" (OPA), Polyphor Ltd, Allschwil is affiliated with a collective independent pension fund. The fund provides for retirement benefits, as well as risk benefits (death and disability). The company entered into an agreement with "Vita Sammelstiftungen" for occupational benefits. The "Vita Sammelstiftungen" is responsible for the governance of the plan; its board is composed of an equal number of representatives from the employers and employees chosen from all affiliated companies. "Vita Sammelstiftungen" has set up investment guidelines, defining in particular the strategic allocation with margins. The "Vita Sammelstiftungen" has reinsured its risks (investment risk, mortality and disability risks) with Zurich Life Insurance Company Ltd. Zurich Investment Foundation manages the savings capital/investments on behalf of "Vita Sammelstiftungen". The accumulated saving capital is allocated to each insured individual and consists of annual contributions, saving credits and interest credits. In certain situations, additional payments or increased periodic contributions by the employer may become due based on the pension plans' funded status as measured under Swiss pension rules (OPA). The assets cannot revert to the employer. Contributions to the plans are shared equally between the employer and the employees. Contributions are computed as percentage of the salary, depending on age.

Notes to the Consolidated Financial Statements as of December 31, 2020

The defined benefit obligations are estimated on a yearly basis. Plan assets are recognised at fair values. An independent actuary has calculated the net defined benefit liability.

Detailed information on the defined benefit plans:

Changes in the present value of the defined benefit obligation (DBO)	2020 CHF	2019 CHF
Present value of DBO at the beginning of the year	28'397'161	27'717'972
Current service cost	1'502'975	1'456'487
Contributions by the employees	640'298	709'159
Past service cost	-1'135'160	-371'919
Interest cost	11'907	172'178
Benefits (paid)/deposited	-1'462'606	-3'300'657
Actuarial (gains)/losses:		
From changes in demographic assumptions	0	0
From changes in financial assumptions	472'841	1'807'629
From experience adjustments	-1'265'165	206'312
Present value of DBO at the end of the year	**27'162'251**	**28'397'161**

Changes in the fair value of the plan assets	2020 CHF	2019 CHF
Fair value of the plan assets at the beginning of the year	18'438'115	19'586'208
Interest Income	7'758	120'597
Contributions by the employer	960'455	1'063'746
Contributions by the employees	640'298	709'159
Benefits (paid)/deposited	-1'462'606	-3'300'657
Administration cost of insurance company	-26'562	-32'563
Remeasurement of plan assets	275'346	291'625
Fair value of the plan assets at the end of the year	**18'832'804**	**18'438'115**

Pension liability recognised in the statement of financial position	2020 CHF	2019 CHF
Present value of the defined benefit obligation	27'162'251	28'397'161
Fair value of the plan assets	-18'832'804	-18'438'115
Funded status	**8'329'447**	**9'959'046**
Net defined benefit liabilities	**8'329'447**	**9'959'046**

Notes to the Consolidated Financial Statements as of December 31, 2020

Pension expense recognized in profit and loss	2020 CHF	2019 CHF
Current service cost	1'502'975	1'456'487
Past service cost	-1'135'160	-371'919
Administration cost of insurance company	26'562	32'563
Net-interest cost	4'149	51'581
Pension expense recognized in profit and loss	**398'526**	**1'168'712**

Pension expense recognized in other comprehensive income (OCI)	2020 CHF	2019 CHF
Actuarial losses/(gains) of the current year	-792'324	2'013'941
Remeasurement of plan assets	-275'346	-291'625
Pension (income)/expense recognized in OCI	**-1'067'670**	**1'722'316**

Reconciliation of net defined benefit liabilities	2020 CHF	2019 CHF
Net defined benefit liabilities at the beginning of the year	9'959'046	8'131'764
Expense recognized in profit and loss	398'526	1'168'712
(Income)/expense recognized in OCI	-1'067'670	1'722'316
Contributions by the employer	-960'455	-1'063'746
Net defined benefit liabilities at the end of the year	**8'329'447**	**9'959'046**

Asset allocation	2020 CHF	2019 CHF
Cash	37'666	737'525
Debt instruments	6'195'993	5'900'197
Equity instruments	5'612'176	4'978'291
Property	2'711'924	2'396'955
Mortgages	1'450'126	1'106'287
Others	2'824'921	3'318'860
Total	**18'832'804**	**18'438'115**

Principal actuarial assumptions at the end of the year	2020	2019
Discount rate	0,15%	0,25%
Expected rate of salary increase	1,25%	1,25%
Expected rate of pension increase	0.00%	0.00%

Notes to the Consolidated Financial Statements as of December 31, 2020

Sensitivity analysis, change in DBO	2020 CHF	2019 CHF
if the discount rate is changed by +0.5%	-2'024'247	-2'146'181
if the discount rate is changed by -0.5%	2'319'217	2'391'847
if the expected rate of salary increase is changed by +0.5%	230'032	238'606
if the expected rate of salary increase is changed by -0.5%	-218'887	-227'711
if the expected rate of pension increase is changed by +0.5%	1'540'186	1'586'570

In the first half year 2020 Polyphor undertook a restructuring. A significant number of plan participants were dismissed, resulting in a curtailment gain of CHF 1'135'160.

To determine the effect of the curtailment as of February 2020 a discount rate of 0.00% was considered. All other assumptions remained unchanged compared to December 31, 2019.

The discount rate decreased by 10 bps to 0.15% compared to the discount rate as of December 31, 2019.

The weighted average duration of the defined benefit obligation is 15.8 years (2019: 16.0 years).

In 2021, the Company expects to contribute at least CHF 1'396'882 to its defined benefit pension plans.

The investment strategy of Vita Joint Foundation ("Vita Sammelstiftungen") is determined by the Foundation Board within the limits of BVG investment regulations.

At the Vita Plus Sammelstiftung, the entire pension assets are held by Zurich. The pension assets are fully protected (capital guarantee) by Zurich, which also guarantees interest payments on pension assets at an annually defined interest rate (interest guarantee). Vita Plus does not invest in direct investments, but rather "transfers" the capital to Zurich. It is supervised by FINMA and must ensure at least the statutory requirements at all times.

Pension assets are invested in secure long-term investments and in collective investment schemes. The disclosed investment allocation as of December 31, 2020 consisted of cash and cash equivalents 0.2% (2019: 4.0%), bonds 32.9% (2019: 32.0%), equities 29.8 % (2019: 27.0%), property 14.4 % (2019: 13.0%), mortgages 7.7% (2019: 6.0%), other 15% (2019: 18.0%) No investments in shares of Polyphor AG have been disclosed.

20 Financial Result

Financial income

The financial income recognized during the period under review comprises interest income from cash at banks and other financial institutions. Valuation gains of other financial investments, which had been classified at fair value through profit and loss and were sold during the prior period had been also recognised in financial income. In 2019 the Group sold its other financial investments consisting of Santhera shares which were classified at fair value through profit and loss. Due to this transaction the Group realised a gain of CHF 1'115'479 in 2019.

Financial expenses

The financial expenses recognized during the period under review comprise bank charges, negative interest, interest of the infrastructure loan, fair value changes of the derivative and structuring fees for the convertible notes.

	2020 CHF	2019 CHF
Bank charges incl. negative interest	46'889	301'476
Interest expenses related to lease liability	176'022	197'304
Loan interest charges	118'317	131'266
Fair value changes of the derivative	237'363	0
Structuring fees for the convertible notes	60'000	0
Total at December 31	**638'590**	**630'046**

21 Income taxes and deferred taxes

As the Group companies do not generate profits, no current income taxes have been charged to the Group. The Group has the following unrecognized tax loss carry-forwards available:

Tax loss carry-forwards	2020 CHF	2019 CHF
for one year	20'701'071	0
for two years	34'651'850	20'701'071
for three years	21'193'708	34'651'850
for four years	40'354'933	21'193'708
for five years	50'109'857	40'354'933
for six years	63'670'737	50'109'857
for seven years	43'893'681	63'670'737
Total	**274'575'837**	**230'682'157**

The significant components of deferred taxes are shown in the following table:

Deferred taxes	2020 CHF	2019 CHF
Deductible temporary differences:		
Pension liability	8'329'447	9'959'046
Lease liability	5'475'052	6'196'054
Current derivative financial instruments (IRIS)	150'527	0
Taxable temporary differences:		
Infrastructure loan (current and non-current debt)	-163'185	-209'099
Right of use asset	-5'319'598	-6'107'687
Net deductible temporary differences	**8'472'243**	**9'838'315**
Deferred tax asset (not recognised) from temporary differences	1'139'523	1'323'253
Deferred tax asset recognised in the balance sheet	**0**	**0**

Notes to the Consolidated Financial Statements as of December 31, 2020

Deferred tax assets (not recognized in the statement of financial position) consist mainly of tax losses in Switzerland which can be carried forward for 7 years.

The Group's expected tax rate is 18.0 % for the period under review (2019: 20.7%), which is the expected statutory tax rate of Polyphor Ltd.

As at December 31, 2019 tax changes are substantively enacted, reducing the effective tax rate stepwise to 13.45% until 2025. Deferred taxes are therefore measured at tax rates between 18.0% and 13.45% that are expected to apply in the periods in which the temporary differences and/or tax loss carry forwards are expected to be realised or settled.

The following table shows the reconciliation between expected and effective taxes: expenses not deductible for tax purposes consist primarily of pension liabilities and share-based payment expenses.

Income tax reconciliation	2020 CHF	2019 CHF
Net income/(loss) before taxes	-44'948'752	-64'671'308
Tax expense/(income) at applicable tax rate (18.0%; prior year 20.7%)	-8'090'775	-13'386'961
Tax effect of non-deductible expenses	242'631	156'866
Tax effect from differences between the tax rates	1'983'836	4'633'729
Effect of unrecognised deferred taxes on tax loss carry-forwards	5'904'436	8'563'623
Effect of unrecognised deferred taxes on temporary differences	-40'128	32'743
Effective tax income/(expenses)	**0**	**0**
Effective tax rate	**0%**	**0%**

Due to the changes in the cantonal tax law enacted as per January 1, 2020, the cantonal tax rates in Basel-Land will decrease stepwise until 2025, whereas the federal tax rates remain unchanged. The enacted (blended) effective tax rate will decrease step by step from 20.7% (2019) to 18% (2020 and following years) to finally 13.45% (2025 and following years).

22 Commitments

The Company did not enter into any contracts resulting in capital commitments.

23 Earnings per share (EPS)

Basic and diluted earnings per share have been computed based upon the weighted average number of registered shares outstanding. Basic earnings per share excludes any dilutive effects of options, warrants and convertible notes. Outstanding employee stock options to purchase registered share are not included in the computation of the diluted earnings per share as the effect would have been anti-dilutive.

Notes to the Consolidated Financial Statements as of December 31, 2020

For the period ending

Basic and diluted earnings	2020 CHF	2019 CHF
Net loss attributable to the ordinary shareholders	-44'948'752	-64'671'308

Weighted average number of shares	2020 shares	2019 shares
Weighted average number of ordinary shares (basic)	11'109'677	11'052'662
Weighted average number of ordinary shares (diluted)	11'109'677	11'052'662

Earnings per share	2020 CHF	2019 CHF
Basic earnigs per share	-4.05	-5.85
Diluted earnings per share	-4.05	-5.85

24 Financial Risk Management Objectives and Policies

Polyphor works with clinical research organizations ("CRO") in Europe, Asia and the United States of America and conducts its own R&D activities in Switzerland. The Group is exposed to financial risks, mainly foreign exchange rate, credit liquidity risk, and interest rate risk. Polyphor's overall financial risk management program focuses on securing capital protection (measured in CHF) to ensure that the funds provided by its investors will be available for the primary purpose.

As a consequence, it is Polyphor's policy to reduce material exposures to foreign currencies, to invest liquidity in cash and other liquid instruments, and to limit its financial counterparties to highly rated financial institutions.

24.1 Foreign exchange risk

Polyphor's primary exposure to foreign exchange risk arises from the mismatch between its CHF assets and its EUR, USD and GBP liabilities. When unmatched, financial risk is produced by fluctuations in the rate of exchange between the CHF and these currencies.

Polyphor's policy is to match the risk exposure by holding a limited amount of its liquidity reserves in foreign currencies. This is typically done over a 12 months horizon. The ongoing management of foreign currency reserves is based on the budget for the forthcoming 12 months. Thereby the aim is to cover the net expenditures (expenditure less income) for each respective foreign currency by converting into the applicable foreign currency 100% of the budgeted net expenses for the forthcoming 6 months and 50% of the net expenses for the 6 months thereafter.

The impact on the pre-tax result of the Group of a reasonably possible change in exchange rates on the Group's net exposure would be as follows:

Notes to the Consolidated Financial Statements as of December 31, 2020

Foreign exchange rate (in CHF)

2020	EUR	USD	GBP
+ 10%	-15'492	2'060'581	244'492
- 10%	15'492	-2'060'581	-244'492

Foreign exchange rate (in CHF)

2019	EUR	USD	GBP
+ 10%	-43'023	897'733	548'999
- 10%	43'023	-897'733	-548'999

24.2 Interest rate risk

Polyphor is subject to paying negative interest on cash held in Swiss Franc cash deposits. There is no significant other interest rate risk, given that the Group has an insignificant debt position at a fixed interest rate. The Group invests its cash reserves in cash and other short-term deposits.

In the prior years the major interest rate risk existed to cash and cash equivalents in Swiss Francs. A movement of +/- 50 basis points would lead to an impact amounting to +/- CHF 61'705 (2019: +/- CHF 300'382).

In 2020 the interest rate risk existed also for cash and cash equivalents in USD. A movement of +/- 50 basis points would lead to an impact amounting to +/- CHF 99'337 (2019: +/- 56'741).

A movement of +/- 50 basis points in other foreign currencies is not material.

24.3 Credit and Counterparty risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to liquidity or of a financial instrument fails to meet its contractual obligations. As at December 31, 2020 the Group has no significant credit and counterparty risk.

Polyphor currently holds its cash deposits and handles its financial transactions solely with highly rated financial institutions.

24.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Currently Polyphor is financed primarily through equity. Polyphor's treasury calculates on a rolling basis the needs for settling the current expenses against the need for optimized financial investments.

Notes to the Consolidated Financial Statements as of December 31, 2020

Changes in liabilities arising from financing activities	January 1, 2020	inflows	outflows	non-cash items	December 31, 2020
(CHF)					
Current portion of debt	250'660	0	-250'660	264'315	264'315
Current portion of lease liability	721'003	0	-721'003	742'933	742'933
Non-current portion of debt	2'088'898	0	0	-264'315	1'824'584
Non-current portion of lease liability	5'475'052	0	0	-742'933	4'732'119
Current onvertible notes (IRIS)	-	2'400'000	0	-877'500	1'522'500
Derivative financial instruments (IRIS)	-	0	0	150'577	150'577
Total liabilities from financing activities	**8'535'614**	**2'400'000**	**-971'663**	**-726'923**	**9'237'028**

Please refer to note 15 for the explanation of the non cash items relating to the current convertible notes (IRIS) and the related derivative financial instrument.

Changes in liabilities arising from financing activities	January 1, 2019	inflows	outflows	non-cash items	December 31, 2019
(CHF)					
Current portion of debt	237'712	0	-237'712	250'660	250'660
Current portion of lease liability	699'720	0	-699'720	721'003	721'003
Non-current portion of debt	2'339'559	0	0	-250'660	2'088'898
Non-current portion of lease liability	6'196'055	0	0	-721'003	5'475'052
Total liabilities from financing activities	**9'473'046**	**0**	**-937'432**	**0**	**8'535'614**

The maturity analysis of contractually agreed cash flows (principal and interest) of the Group's financial liabilities is as follows:

		contractual cash flows			
	Carrying amount	1 to 3 months	4 to 12 months	2-5 years	more than 5 years
(CHF)					
Trade accounts payables	**5'884'819**	5'884'819	0	0	0
Accrued expenses	**7'524'515**	7'524'515	0	0	0
Other loans	**2'088'898**	92'245	276'734	1'475'912	645'712
Lease liability	**5'475'052**	224'256	672'768	3'588'098	1'569'793
Current derivative financial instruments (IRIS)*	**150'577**	0	0	0	0
Current convertible notes (IRIS)*	**1'522'500**	0	0	0	0
Total as per December 31, 2020	**22'646'361**	**13'725'834**	**949'502**	**5'064'010**	**2'215'504**
Trade accounts payables	**8'304'279**	8'304'279	0	0	0
Accrued expenses	**8'870'092**	8'870'092	0	0	0
Other loans	**2'339'559**	92'245	276'734	1'475'912	1'014'690
Lease liability	**6'196'055**	224'256	672'768	3'588'098	2'466'817
Total as per December 31, 2019	**25'709'985**	**17'490'872**	**949'502**	**5'064'010**	**3'481'507**

*Mandatorily convertible note, therefore no cash out flows.

Notes to the Consolidated Financial Statements as of December 31, 2020

25 Categories of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. The carrying amounts are a reasonable approximation of fair values.

For the period ended December 31, 2020 (CHF)	Book value	Financial assets at amortized costs	Financial liability at FVTPL	Other liabilities at amortized costs
Assets				
Cash and cash equivalents	34'336'611	34'336'611	0	0
Rent deposit	447'356	447'356	0	0
Total	**34'783'967**	**34'783'967**	**0**	**0**
Liabilities				
Trade accounts payable	5'884'819	0	0	5'884'819
Debt (current and non-current)	2'088'898	0	0	2'088'898
Lease liabilites	5'475'052	0	0	5'475'052
Current convertible notes (IRIS)	1'522'500	0	0	1'522'500
Current derivative financial instruments (IRIS)	150'577	0	150'577	0
Accrued expenses	7'524'515	0	0	7'524'515
Total	**22'646'361**	**0**	**150'577**	**22'495'784**

For the period ended December 31, 2019 (CHF)	Book value	Financial assets at amortized costs	Financial asset at FVTPL	Other liabilities at amortized costs
Assets				
Cash and cash equivalents	77'411'286	77'411'286	0	0
Trade accounts receivable	4'029	4'029	0	0
Rent deposit	447'331	447'331	0	0
Total	**77'862'645**	**77'862'645**	**0**	**0**
Liabilities				
Trade accounts payable	8'304'279	0	0	8'304'279
Debt (current and non-current)	2'339'559	0	0	2'339'559
Lease liabilites	6'196'055	0	0	6'196'055
Accrued expenses	8'870'092	0	0	8'870'092
Total	**25'709'985**	**0**	**0**	**25'709'985**

The table above analyses recurring fair value measurement for financial assets and financial liabilities. These fair value measurements are categorized into different levels in the fair value hierarchy based on the input and techniques used. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The fair value measurement for the current convertible notes from IRIS are classified in level 2.

26 Transactions with related parties

Key management

Key management includes the Executive Management and the Board of Directors.

Compensation to the Executive Management

	2020 CHF	2019 CHF
Short-term employee benefits	1'769'041	2'363'073
Post-employment benefits (pension fund)	184'902	229'185
Share-based compensation	561'994	465'004
Total	**2'515'937**	**3'057'263**

At the end of the reporting year the Executive Management comprised 5 members (2019: 6 members).

Compensation to the Board of Directors

As per September 1, 2019 Frank Weber left the Board of Directors and became a member of the Executive Management. The compensation for the period from September 1, 2019 until December 31, 2019 is included in the total compensation to the Executive Management. The position was not replaced per year end.

The gross compensation to the Board of Directors in 2020 amounted to CHF 204'583 (2019: CHF 280'417).

In 2020, the share-based compensation amounted CHF 194'282 (2019: CHF 199'914).

Other related party transactions

Purchases of services	2020 CHF	2019 CHF
Consulting services from related parties	9'000	26'036

Year-end balances arising from purchases of services at December 31,	2020 CHF	2019 CHF
Payables to related parties	0	21'588

Notes to the Consolidated Financial Statements as of December 31, 2020

Major Shareholders

The major shareholders above 3% are as of December 31, are:

	2020	2019
Ingro Finanz AG	11.0%	11.2%
Varuma AG	8.4%	8.6%
CS Inv. Funds 2-Credit Suisse (Lux) Digital Health Equity Fund	5.9%	N/A

27 Events after the reporting period

Despite the COVID-19 pandemic the Company has conducted operations without significant impacts to its operation, employees and development programs. Polyphor's first priority remains the health and safety of its employees and clinical trial participants. Regarding the ongoing Phase III Pivotal Study FORTRESS, the Company has completed enrolment and at this time, the Company expects to continue its clinical trial activities without significant delays or significant additional costs.

Kuno Sommer
Chairman of the Board of Directors

Gökhan Batur
CEO

Hernan Santiago Levett
CFO

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To the General Meeting of
Polyphor Ltd, Allschwil

Basle, 4 March 2021

Statutory auditor's report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Polyphor Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as of 31 December 2020 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 56 to 95) give a true and fair view of the consolidated financial position of the Group as of 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and 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 and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond

to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Revenue recognition

Risk	Polyphor's revenue mainly consist of research and development contributions as well as upfront and milestone payments received under collaboration agreements which in general include various performance obligations (multi-element arrangements). In August 2020, Polyphor Ltd entered into an exclusive global license agreement with Fosun Pharmaceutical AG (Fosun) to exclusively commercialize balixafortide in the Chinese territory. Under the terms of the agreement, Polyphor received an upfront payment of CHF14.27 million. Polyphor is further entitled to potential development, regulatory and sales milestones, as well as royalties on sales. Revenue recognized relating to the Fosun agreement amounts to 100% of total revenue. This, in combination with the complexity and uniqueness of each such collaboration agreement, made us conclude that revenue recognition is a key audit matter of our audit.
Our audit response	Our audit procedures related to the key audit matter revenue recognition included amongst other: We assessed the Company's revenue recognition policies relating to revenue from research and development activities and the related accounting. We analyzed the revenue recognition process, including performing walkthroughs of revenue transactions and identifying key controls and management monitoring procedures in this area. With respect to the agreement with Fosun, we assessed the contractual terms and conditions and the related accounting thereof. Our audit procedures included the inspection of the contract to assess the identification of all relevant elements, as well as the assessment of the timing of the revenue recognized. We performed inquiries with members of management regarding new collaboration agreements, changes to or amendments of existing agreements and any events which might have an impact on the method of releasing income. Our audit procedures did not lead to any reservations concerning the recognition of the revenue.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the remuneration report and our auditor's reports thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report 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.

Responsibility 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 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 Swiss Auditing Standards 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 our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. 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 the Swiss Auditing Standard 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.

Ernst & Young Ltd

Elisa Alfieri
Licensed audit expert
(Auditor in charge)

Jürg Zürcher
Licensed audit expert

Balance Sheet as at December 31, 2020

	31.12.2020 CHF	31.12.2019 CHF
Assets		
Current assets		
Cash and cash equivalents	34'310'537	77'380'641
Trade accounts receivable from third parties	0	4'029
Other accounts receivable	725'498	826'464
Prepaid expenses	2'204'011	2'965'934
Total current assets	**37'240'046**	**81'177'068**
Non-current assets		
Financial assets (rent deposit)	447'356	447'331
Loan to subsidiary	29'982	34'768
Investment	29'765	29'765
Property, plant and equipment	1'937'101	2'749'807
Technology Platforms	1'799'424	2'249'280
Intangible assets	36	6'000
Total non-current assets	**4'243'663**	**5'516'950**
TOTAL ASSETS	**41'483'709**	**86'694'018**

Balance Sheet as at December 31, 2020

	31.12.2020 CHF	31.12.2019 CHF
Liabilities and shareholders' equity		
Liabilities		
Trade accounts payable to third parties	5'884'818	8'304'278
Current portion of debt	305'594	296'574
Other accounts payable	146'276	350'037
Prepayments	0	4'274
Current Convertible notes (IRIS)	1'522'500	0
Accrued expenses	9'667'310	10'506'774
Current liabilities	**17'526'499**	**19'461'937**
Long-term portion of debt	1'946'489	2'252'084
Non-current liabilities	**1'946'489**	**2'252'084**
Total liabilities	**19'472'988**	**21'714'021**
Shareholders' equity		
Share capital	22'416'816	22'126'414
Legal capital reserves		
Reserves from capital contributions	309'059'597	308'425'594
Accumulated losses		
Loss carryforward	-265'572'011	-201'901'274
Loss for the year	-43'893'681	-63'670'737
Accumulated losses	-309'465'692	-265'572'011
Total shareholders' equity	**22'010'721**	**64'979'997**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**41'483'709**	**86'694'018**

Income statement for the year 2020

	31.12.2020 CHF	31.12.2019 CHF
Income		
Revenue from services and collaborations	14'271'000	0
Revenue from product sales	6'568	10'040
Other income	1'020'437	1'897'811
Total income	**15'298'005**	**1'907'851**
Expenses		
Cost of materials	-394'825	-494'203
Research and development expenses	-37'949'774	-43'731'806
Employee expenses	-11'932'139	-12'132'084
Other operating expenses	-5'504'782	-6'264'840
Depreciation and amortization	-1'308'122	-3'209'320
Total operating expenses	**-57'089'643**	**-65'832'253**
Operating income/(loss) before interest and taxes	**-41'791'638**	**-63'924'402**
Financial income	52'266	1'315'201
Financial expenses	-178'936	-382'634
Net foreign exchange gain/(loss)	-1'973'766	-431'819
Net income/(loss) before taxes	**-43'892'073**	**-63'423'654**
Tax expenses	-1'608	-247'083
NET INCOME/(LOSS) FOR THE YEAR	**-43'893'681**	**-63'670'737**

Notes to the Financial Statements as at December 31, 2020

1 Accounting principles

1.1 General Aspects

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

1.2 Revenue Recognition

As per August 30, 2020 Polyphor entered into an exclusive licensing agreement for balixafortide in China with Shanghai Fosun Pharmaceutical (Group) Co. Ltd, through its Swiss affiliate Fosun Pharmaceutical AG to grant Fosun a license to commercialise and sell the licensed product only in the territory of China. As part of the agreement, Polyphor received a CHF 14.27 million (USD 15 million) upfront payment and is eligible for additional development milestone payments of up to USD 19 million, sales milestone payments of up to USD 148 million, and royalties on sales.

2 Information on Income Statement and Balance Sheet Items

2.1 Other operating expenses	31.12.2020 CHF	31.12.2019 CHF
Legal, consulting and audit expenses	- 1'271'503	- 1'652'151
Patent & trademark expenses	- 1'194'757	- 936'768
Rent expenses	- 914'722	- 923'722
Other expenses	- 2'123'799	- 2'752'198
Total other operating expenses	**- 5'504'782**	**- 6'264'840**

2.2. Debt	31.12.2020 CHF	31.12.2019 CHF
Fixed loan	305'594	296'574
Total short term portion of debt	**305'594**	**296'574**
Fixed loan	1'946'489	2'252'084
Total long term portion of debt	**1'946'489**	**2'252'084**

2.3 Impairment

Impairment of Technology Platforms

Following the termination of Collaboration Services Business, Executive Management has recalculated the recoverable amount of Polyphor's Technology Platforms during the period under review.

The recoverable amount of the asset has been determined based on its value in use, by discounting the future cash flows to be generated from the sale of Technology Platforms to pharmaceutical companies. No impairment need has been identified.

Impairment of Property, plant and equipment

In the year under review no impairment charge neither for property, plant and equipment nor for laboratory equipment has been recognized.

Notes to the Financial Statements as at December 31, 2021

2.4 Participations	31.12.2020	31.12.2019
Polyphor UK Ltd., London, United Kingdom (founded on 25th April 2012)		
Paid-in capital (GBP)	1'000	1'000
Share in capital and voting rights in %	100	100
Polyphor GmbH, Lörrach, Germany (founded on 7th February, 2019)		
Paid-in capital (EUR)	25'000	25'000
Share in capital and voting rights in %	100	100

2.5 Capital increases

Share capital and legal reserves	31.12.2020 CHF	31.12.2019 CHF
Share capital	22'416'816	22'126'414
Reserves from capital contributions	309'059'597	308'425'594
Share capital and legal reserves	**331'476'413**	**330'552'008**
Accumulated losses		
Loss carryforward	- 265'572'011	- 201'901'274
Loss for the year	- 43'893'681	- 63'670'737
Accumulated losses	**- 309'465'692**	**- 265'572'011**
Total shareholders' equity	**22'010'721**	**64'979'997**

At December 31, 2020 the Company's share capital consisted of 11'208'408 Common Shares with a nominal value of CHF 2 each.

Thereof, 145'201 shares were issued during the period under review out of condidtional capital upon the exercise of stock options and convertible bonds.

No dividends were declared or paid by the company for the year under review (2019: nil)

As per April 5, 2020 the remaining authorized capital in the amount of CHF 1'477'130 expired. The annual general meeting at June 4, 2020, authorized the Board of Directors again to increase the share capital at any time until May 27, 2022, by a maximum amount of CHF 11'063'206 by issuing a maximum of 5'531'603 registered shares

The conditional share capital exclusively reserved for the members of the employee stock option plan has been increased at the annual general meeting as per June 4, 2020, by an additional amount of CHF 600'000 through the issue of a maximum of 300'000 registered shares. At the annual general meeting the conditional share capital has been additionally increased by another amount of CHF 4'425'282 through the issue of a maximum of 2'212'641 registered shares reserved for convertible bonds or other similar financial instruments.

As of December 31, 2020, the Company had conditional share capital pursuant to which the share capital may be increased by a maximum amount of CHF 5'834'096 through the issue of a maximum of 2'917'048 registered shares. An amount of CHF 1'680'454 of the conditional share capital is exclusively reserved for the members of the employee stock option plan.

Notes to the Financial Statements as at December 31, 2020

Based on the above figures if all legal reserves are included in the calculation of article 725 paragraph 1 CO, half of the nominal share capital and legal reserves are not covered by the net assets. However, if the capital reserves exceeding 50% of the nominal share capital are not considered in the calculation (i.e. those reserves which could be offset against accumulated losses), half of the nominal share capital and legal reserves are covered by the net assets. The Company notes in this context that the law has been clarified in the new Code of Obligations as adopted by the Federal Assembly of the Swiss Confederation on June 19, 2020 (expected to enter into force at the earliest in 2022) confirming that any share premium exceeding 50% of the nominal share capital does in principle not need to be taken into account in the calculation of article 725 paragraph 1 CO

The reserves from capital contributions include the premium after the issue costs from prior capital increases as well as from capital increases in the year 2020. From a fiscal point of view, any distributions made from reserves from capital contributions are treated the same as a repayment of share capital. The Swiss Federal Tax Administration (SFTA) has not finally confirmed that it will recognise the increases during the period under review in disclosed reserves from capital contributions as a captial contribution as per art. 5 para.1bis Witholding Tax Act.

3 Other Information

3.1 Full-time equivalents

The annual average number of full-time equivalents for the reporting year, as well as the previous year, exceeded 50 and did not exceed 250.

3.2 Liabilities to pension fund

Neither at December 31, 2019 nor December 31, 2020 any liabilities to pension fund existed.

3.3. Restricted cash	31.12.2020 CHF	31.12.2019 CHF
Rent deposit	447’356	447’331

At December 31, 2020 cash and cash equivalents in the amount of CHF 150’000 and EUR 50’000 are additionally restricted.

3.4 Significant shareholders

The following shareholders owed more than 5 percent of voting rights as at 31 December:

	31.12.2020	31.12.2019
Ingro Finanz AG	11.0%	11.2%
Varuma AG	8.4%	8.6%
CS Inv. Funds 2-Credit Suisse (Lux) Digital Health Equity Fund	5.9%	-

Notes to the Financial Statements as at December 31, 2021

3.5 Shares or options on shares for members of the board and employees

In 2020 the following options on shares were allocated to members of the board and to employees. The following information relates to the allocation in 2020 (valued at the average fair value of CHF 4.73 for each option):

	Options	
2020	Quantity	Value (CHF)
Allocated to Board of Directors / Management	79'051	373'911
Allocated to employees	263'711	1'247'353
Total	**342'762**	**1'621'264**

In 2019 the following options on shares were allocated to members of the board and to employees. The following information relates to the allocation in 2019 (valued at the average fair value of CHF 12'94 for each option):

	Options	
2019	Quantity	Value (CHF)
Allocated to Board of Directors / Management	74'500	964'030
Allocated to employees	26'600	344'204
Total	**101'100**	**1'308'234**

3.6 Equity owned by Management and the Board of Directors, including any related parties

As per as per December 31, 2020 the Board of Directors and the Management owned the following shares and options:

Board of Directors	Number of shares	Number of share options (vested)	Number of share options (unvested)
Sommer Kuno	5'000	2'031	7'969
Bollag Bernard	5'240	1'625	6'125
Inderbitzin Silvio	17'744	1'625	5'875
Wallnöfer Andreas	0	1'000	5'750
Total	**27'984**	**6'281**	**25'719**

Management	Number of shares	Number of share options (vested)	Number of share options (unvested)
Di Nepi Giacomo	26'031	69'750	10'750
Gökhan Batur	4'875	4'781	35'144
Obrecht Daniel	196'729	344	5'197
Hernan Levett	0	0	18'338
Weber Frank	0	5'958	24'475
Müller Franziska	1'396	594	4'226
Total	**229'031**	**81'427**	**98'130**

Notes to the Financial Statements as at December 31, 2020

As per as per December 31, 2019 the Board of Directors and the Management owned the following shares and options:

Board of Directors	Number of shares	Number of share options (vested)	Number of share options (unvested)
Sommer Kuno	5'000	469	2'031
Bollag Bernard	5'240	375	1'625
Inderbitzin Silvio	17'744	375	1'625
Wallnöfer Andreas	0	375	1'625
Obrecht Jean-Pierre	183'450	375	1'625
Total	**211'434**	**1'969**	**8'531**

Management	Number of shares	Number of share options (vested)	Number of share options (unvested)
Di Nepi Giacomo	26'031	29'813	19'187
Gökhan Batur	0	0	27'000
Obrecht Daniel	195'244	157	3'219
Hernan Levett	0	0	0
Weber Frank	0	375	21'625
Müller Franziska	1'396	63	94
Total	**222'671**	**30'408**	**71'125**

3.7 Current Convertible notes (IRIS)

In July 2020 Polyphor entered an equity-linked financing arrangement with the French company IRIS to raise a gross amount of up to CHF 19.32 million over a period of two years. IRIS will receive Polyphor shares to be created from the Company's conditional capital based on this interest-free mandatorily convertible notes program. It remains at the sole discretion of Polyphor to suspend or terminate the staggered financing. IRIS is committed to buy on a monthly basis over a period of two years twenty-four tranches of CHF 800'000 of unsecured zero-coupon mandatorily convertible notes. The program can be tailor-made in terms of period and tranche size, according to Polyphor's financing needs.

As of December 31, 2020, the carrying amount of the host for notes issued but not yet converted amounted to CHF 1'522'500 and is included in the balance sheet under current liabilities.

3.8 Events following the balance sheet date

Despite the COVID-19 pandemic the Company has conducted operations without significant impacts to its operation, employees and development programs. Polyphor's first priority remains the health and safety of its employees and clinical trial participants. Regarding the ongoing Phase III Pivotal Study FORTRESS, the Company has completed enrolment and at this time, the Company expects to continue its clinical trial activities without significant delays or significant additional costs.

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To the General Meeting of
Polyphor Ltd, Allschwil

Basle, 4 March 2021

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Polyphor Ltd, which comprise the balance sheet, income statement and notes (pages 100 to 107), for the year ended 31 December 2020.

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

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2020 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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. We have determined that there are no key audit matters to communicate in our report.

Report on other legal requirements

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

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 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 recommend that the financial statements submitted to you be approved.

Furthermore, we draw attention to the circumstance that half of the share capital and legal reserves is no longer covered (article 725 paragraph 1 CO). We refer to note 2.5.

Ernst & Young Ltd

Elisa Alfieri
Licensed audit expert
(Auditor in charge)

Jürg Zürcher
Licensed audit expert

Imprint

March 2021

Overall Responsibility

Corporate Communications, Polyphor Ltd

Realisation

LifeSci Advisors

Photography

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