ANNUAL REPORT 2018

MOLECULAR partners

Making the DARPin® Difference Reality for Patients

At a Glance: Key Milestones, Company Profile & Contents

- *Advancement of balanced portfolio of differentiated DARPin® product candidates offering patients a new dimension of protein therapeutics for the treatment of serious diseases*

- *Ongoing successful transition from a DARPin® platform company to a clinical oncology product company*

2018 R&D, Partnership & Team Milestones

- **MP0250**
  - In addition to trial of MP0250 in combination with Velcade® in Multiple Myeloma (MM), phase 2 trial of MP0250 in combination with Pomalyst® (IMiD) in MM in preparation
  - MP0250 in EGFR-mut NSCLC on track to share initial results in 2019

- **MP0274**
  - MP0274 in HER2-positive tumors on track to share initial results in 2019

- **MP0310 and Immuno-oncology**
  - Molecular Partners and Amgen announced strategic collaboration for clinical development and commercialization of lead IO candidate MP0310 (FAP x 4-1BB), validating the company's immuno-oncology toolbox and DARPin® platform
  - First-in-human trial planned for H2 2019

- **Abicipar**
  - Phase 3 secondary endpoint data presented in Q4 2018 underline potential to become first fixed 12 week anti-VEGF for wet AMD
  - Allergan plans to file abicipar with the FDA in H1 2019; results of MAPLE trial, testing further optimized formulation of abicipar, expected in H1 2019

- **Talent Base**
  - Talent base of 118 full-time employees (+10% year-on-year), reflecting further build-out of oncology expertise

2018 Financial Milestones

- 2018 financial performance in-line with expectations and guidance

- Ongoing strong financial position with CHF 99.0 million in cash as of December 31, 2018; financed into H2 2020, beyond targeted market launch of abicipar

- Net cash used in operating activities of CHF 42.5 million in 2018, reflecting further build-out of R&D and clinical pipeline

- Operating loss of CHF 37.4 million and net loss of CHF 37.0 million in 2018
  USD 50 million upfront payment from collaboration agreement with Amgen collected in January 2019, increased cash position to CHF 146 million per January 31, 2019, extending cash reach to H2 2020 — beyond the targeted abicipar launch

Company Profile

Molecular Partners AG is a clinical-stage biotech company that is developing a new class of therapies known as DARPin® therapies. The company continues to attract talented individuals who share the passion to develop breakthrough medicines for serious diseases. Molecular Partners has compounds in various stages of clinical and preclinical development and several more in the research stage, with a current focus on ophthalmology and oncology. The company establishes research and development partnerships with leading pharmaceutical companies and is backed by established biotech investors.

Contents


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To Our Shareholders

We are committed to pursuing a rapid cycle of innovation to create DARPin® candidates embodying novel therapeutic designs in order to truly move the needle of medicine.

We look back on an important year for Molecular Partners with the first-ever positive phase 3 read-out of a DARPin® candidate in ophthalmology and the first positive clinical results of MP0250 in multiple myeloma. In addition, our partnership with Amgen in immuno-oncology on a tumor-local immune-cell agonist, signed in December 2018, validates our successful transition into oncology. In research we look back on a productive year of testing novel therapeutic designs, securing pipeline growth for the coming years.

We are now preparing our company for the next phase of growth, marked by Allergan's expected launch of abicipar as early as 2020. We look forward to a number of key events to come in 2019, including Allergan's planned filing of abicipar with the FDA and data from the ongoing MAPLE trial in H1 2019. We plan to report initial data from our trials on MP0250 in EGFR-mut NSCLC and MP0274 in HER2-positive tumors in 2019, alongside updated data on our phase 2 trials in multiple myeloma. We also look forward to initiating first-in-human trials of MP0310 with our strategic partner Amgen in H2 2019.

In 2018, we achieved the following **important milestones**:

- With our initial positive results from MP0250 in combination with Velcade® in multiple myeloma (MM), we pioneered novel biological hypotheses to address patients' unmet need. To expand these findings beyond the Velcade® combination, we are preparing a phase 2 trial of MP0250 in combination with Pomalyst® (IMiD).

- We progressed trials for MP0250 in EGFR-mut NSCLC and MP0274 in HER2-positive tumors, which are on track for initial data in 2019.

- We announced a strategic collaboration with Amgen for clinical development and commercialization of our lead IO candidate MP0310 (FAP x 4-1BB), validating our immuno-oncology toolbox and DARPin® platform. First-in-human trials are planned for H2 2019.

- Phase 3 secondary endpoint data on abicipar were presented in Q4 2018 by Allergan and they underline abicipar's potential to become the first fixed 12 week anti-VEGF for neovascular AMD. Allergan plans to file abicipar with the FDA in H1 2019. Results of MAPLE trial, testing further optimized formulation of abicipar, are expected in H1 2019.

- We grew to a talent base of 118 full-time employees (+10% year-on-year), reflecting further build-out of our oncology expertise.

- We maintained our strong financial position, with USD 50 million upfront payment from collaboration agreement with Amgen collected in January 2019, extending funding into H2 2020 - beyond Allergan's expected abicipar launch which would resulting in expected steady income stream.

2018 Milestones

We presented initial positive data from our fully-owned MP0250 DARPin® therapeutic candidate in combination with bortezomib (Velcade®) in MM at the ASH conference in December 2018. Despite strong progress in the field of MM, the disease remains incurable, with patients' time to relapse and quality of response diminishing with every treatment line. Our results are on track to validate the hypothesis that blocking VEGF and HGF can overcome adaptive resistance in MM to re-activate Velcade®, a key backbone treatment in MM. This would allow patients more time on a well-established treatment before needing to change to other drugs. To be able to also offer patients the other key backbone, namely immunomodulatory drugs (IMiD), as a solution, we have started to plan a combination trial of MP0250 with pomalidomide (Pomalyst®).

Meanwhile, we are continuing patient recruitment for our ongoing phase 1b/2 clinical study of MP0250 in combination with osimertinib (Tagrisso®) in patients with EGFR-mutated Non-Small Cell Lung Cancer (NSCLC) who were pre-treated with osimertinib. A total of seven patients have been recruited as per the cut-off date in January 2019. As several patients are still on treatment, it is premature to present data on efficacy or toxicity at this point in time. We plan to report initial data in 2019.

For MP0274, our multi-DARPin® product candidate being developed for the treatment of HER2-positive solid tumors, our phase 1 trial is ongoing and dose escalation continues.

The last calendar year also saw important advances in our immuno-oncology portfolio. On December 19, 2018, we announced a collaboration and license agreement with Amgen for the clinical development and commercialization of MP0310 (FAP x 4-1BB). Under the terms of the agreement, Amgen obtains exclusive global development and commercial rights for MP0310.

Jointly with our partner, we will evaluate MP0310 in combination with Amgen's oncology pipeline products, including its investigational BiTE® (bispecific T cell engager) molecules. Under the collaboration, our company retains certain rights to develop and commercialize our proprietary DARPin® pipeline products in combination with MP0310. In January 2019, we collected the corresponding upfront payment of USD 50 million. Further, we are eligible to receive up to USD 497 million in development, regulatory and commercial milestone payments, as well as double-digit, tiered royalties up to the high teens.

We also were proud to present preclinical data on a second multi-specific preclinical DARPin® molecule in immuno-oncology, FAP x CD40. In 2019, the company plans to further advance additional DARPin® candidates arising from our DARPin® platform as well as to test other differentiating therapeutic designs with its DARPin® approaches.

Finally, 2018 saw new data from Allergan's ongoing phase 3 trials of abicipar. In Q4 2018, Allergan presented safety and efficacy data from SEQUOIA and CEDAR, two ongoing and identical global phase 3 trials designed to assess the efficacy and safety of abicipar compared with ranibizumab (Lucentis®) in treatment-naive patients with neovascular age-related macular degeneration (nAMD). These data underscore abicipar's potential to become the first fixed 12-week anti-VEGF therapeutic. The trials did indicate a higher inflammation rate in the abicipar arms than in the control arm, likely based on impurities resulting from manufacturing. Allergan consequently reiterated its intention to file the abicipar BLA with the US Food and Drug Administration (FDA) in H1 2019 and continues to plan the market launch for 2020. Additionally, Allergan expects to share results from the MAPLE study, testing a further optimized formulation of abicipar, in H1 2019.

Financial highlights

Molecular Partners remains solidly funded to capture upcoming value inflection points. In the financial year 2018, Molecular Partners recognized total revenues of CHF 10.4 million (2017: CHF 20.0 million) and incurred total expenses of CHF 47.8 million (2017: CHF 45.8 million). This led to an operating loss of CHF 37.4 million for 2018 (2017: Operating loss of CHF 25.8 million). The net financial result of CHF 0.4 million recorded in 2018 remained on the same level as in 2017. This resulted in a 2018 net loss of CHF 37.0 million (2017: Net loss of CHF 25.4 million).

The net cash used for operating activities in 2018 was CHF 42.5 million (2017: net cash used of CHF 40.0 million). Including time deposits, the cash and cash equivalents position decreased by CHF 42.1 million vs. year-end 2017 to CHF 99.0 million as of December 31, 2018 (December 31, 2017: CHF 141.1 million). Total shareholders' equity stood at CHF 91.7 million as of December 31, 2018, a decrease of CHF 25.0 million (December 31, 2017: CHF 116.7 million). The USD 50 million upfront payment from the strategic collaboration signed by the company with Amgen was collected in January 2019 and further increases the company's solid cash position with no debt on the balance sheet.

As a result of the adoption of IFRS 15, deferred revenues as of December 31, 2017 of CHF 18.4 million were partly reclassified to equity (CHF 9.0 million) in the IFRS consolidated financial statements to reflect the impact of the adoption as of January 1, 2018. The remaining portion of CHF 9.5 million was recognized as revenues in 2018 due to the option exercise in relation to the Discovery Alliance Agreement with Allergan in 2018. The remaining revenue in 2018 of approximately CHF 0.9 million was generated from the Amgen agreement in December 2018.

As of December 31, 2018, the company employed 118 FTE (full time equivalents), up 10% compared to year-end 2017. About 90% of the employees are employed in R&D-related functions.

In the course of 2018, Molecular Partners' financial position continued to develop in line with our expectations. We were able to reinforce our solid cash position with the USD 50 million upfront payment from the strategic collaboration with Amgen collected in January 2019. This further increases our financial flexibility to capture multiple value-creating inflection points into H2 2020, beyond Allergan's expected market launch of abicipar and the related expected steady income stream from there on. As we are setting up our organization for growth, we plan to substantially increase investments, both into our clinical program as well as into the expansion of our workforce.

Board of Directors and Management Team

Bill Burns elected Chairman at the 2018 AGM

William (Bill) Burns, former CEO of Roche Pharmaceuticals, was elected as Chairman of the Board of Directors of Molecular Partners at the Annual General Meeting held on April 18, 2018. Mr. Burns held various executive positions at Roche for 28 years, culminating in his nomination to the position of CEO of Roche Pharmaceuticals and board seats at Roche, Genentech and Chugai Pharmaceuticals. The company will benefit from Mr. Burns' experience in the development and commercialization of drugs, particularly in oncology, and from his extensive knowledge of pharmaceutical industry operations.

Pamela A. Trail appointed Chief Scientific Officer and member of the Executive Management

On June 21, Pamela A. Trail, Ph.D, was appointed Chief Scientific Officer of Molecular Partners and a new member of the Executive Management Team of our company. Dr. Trail served most recently as Vice President of Oncology Strategy and Program Direction at Regeneron Pharmaceuticals. She has over 30 years of experience in directing cancer drug discovery efforts at leading pharmaceutical companies worldwide. Dr. Trail holds a Ph.D. in Immunology and Virology from the University of Connecticut. With her addition we significantly strengthen our leading research capabilities applying the DARPin® platform to oncology drug development.

Michael T. Stumpp appointed Chief Operating Officer

On June 21, Michael T. Stumpp, Ph.D., a co-founder of our company and formerly Chief Scientific Officer of Molecular Partners, was appointed Chief Operating Officer of the company. He was part of the research team at University of Zurich that invented the DARPin® technology. Since Molecular Partners' inception, Dr. Stumpp has overseen the DARPin® pipeline.

Business outlook and priorities for 2019 and beyond

In 2019 we will execute our strategy to deliver patient value in oncology by advancing our clinical candidates and investing in research to produce novel DARPin® candidates to fill our pipeline.

We are planning to present additional data from our ongoing phase 2 trials of MP0250 in patients with MM and to start the IMiD combination trial. We also expect to present initial data of our phase 1b/2 trial of MP0250 in EFGR-mut NSCLC, as well as data from the phase 1 trial of MP0274.

In research, we will focus on solving previously intractable pharmaceutical challenges by testing novel DARPin® therapeutic designs, allowing us to choose the best candidates and advance them into preclinical development. For the company's most advanced IO candidate, MP0310, Molecular Partners and our strategic collaboration partner Amgen expect to enter into a clinical phase 1 monotherapy trial in H2 2019.

In ophthalmology, following the differentiating phase 3 efficacy data of abicipar in patients with neovascular AMD, Allergan plans to file abicipar with the FDA in H1 2019. Allergan also continues to expect results from the MAPLE study, using the further optimized formulation of abicipar, in H1 2019. We will continue to support Allergan in advancing abicipar through the phase 3 trials and in further optimizing the abicipar formulation. Allergan indicated its intention to launch the phase 3 study for abicipar in DME in H2 2019. Finally, Molecular Partners continues to support Allergan in advancing the three preclinical ophthalmology assets optioned-in from the existing research collaboration.

For the full year 2019, at constant exchange rates, the company expects total expenses of CHF 70-80 million, of which around CHF 7 million will be non-cash effective costs for share-based payments, IFRS pension accounting and depreciation. Capital expenditures in FY 2019 are expected to be approximately CHF 3 million. However, this 2019 guidance is subject to the progress of our pipeline, mainly driven by manufacturing costs, the speed of enrollment of patients in clinical trials and data from research and development projects.

Our purpose: Moving the needle of medicine

At Molecular Partners, we have a strong connection to our core purpose of transforming treatment options available to cancer patients. Our entire team knows what it feels like to be touched by this disease.

With our DARPin® platform, we are able to open a new therapeutic design space and, in a rapid cycle of innovation, to bring forward DARPin® candidates potentially holding true value for patients. We are committed to testing these drug candidates in a clinical setting and to finally making them available to patients.

To leverage the full potential of our platform we engage in strategic partnerships, such as those we have built with Allergan and Amgen. Together with our partners we work to realize the value of DARPin® product candidates for patients.

In the end, we measure our success based on our ability to repeatedly move the needle of medicine. To do so, we advance step by step to deliver the breakthroughs of tomorrow — bringing us closer to our vision of becoming a fully integrated leading biotech company.

Thank you to our supporters

The progress we have made wouldn't be possible without the unwavering support and hard work of our employees, strategic partners, investors, researchers and patients. We would like to take this opportunity to wholeheartedly thank all our supporters for their contributions. We look forward to sharing additional news of our progress throughout 2019.

Sincerely,

Patrick Amstutz
Chief Executive Officer

Bill Burns
Chairman of the Board

"I'm inspired on a daily basis by Molecular Partners' high-quality science, my driven colleagues, and our potential impact on the lives of cancer patients."

Laura

Financial Summary

Results and overview

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the IFRS Consolidated Financial Statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB.

In addition to historical data, this discussion contains forward-looking statements regarding our business and financial performance based on current expectations that involve risks, uncertainties and assumptions. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors.

Key Financials (CHF million, except per share, FTE data)	**FY 2018**	**FY 2017**	**Change**
Total revenues	**10.4**	**20.0**	**(9.6)**
R&D expenses	(38.2)	(37.4)	(0.8)
G&A expenses	(9.6)	(8.4)	(1.2)
Total operating expenses (incl depr. & amort.)	**(47.8)**	**(45.8)**	**(2.0)**
Operating result	**(37.4)**	**(25.8)**	**(11.6)**
Net finance result	0.4	0.4	—
Income taxes	—	—	—
Net result	**(37.0)**	**(25.4)**	**(11.6)**
Basic and diluted net result per share (in CHF)	(1.75)	(1.22)	(0.53)
Net cash from (used in) operating activities	(42.5)	(40.0)	(2.5)
Net cash from (used in) investing activities	9.6	20.9	(11.3)
Net cash from (used in) financing activities	0.4	0.8	(0.4)
Exchange gain/(loss) on cash positions	0.1	(0.1)	0.2
Net increase (decrease) in cash & cash equivalents	(32.4)	(18.4)	(14.0)
Cash & cash equivalents at December 31	**99.0**	**131.3**	**(32.3)**
Cash & cash equivalents at December 31 (incl. short-term time deposits)	**99.0**	**141.1**	**(42.1)**
Total non-current assets	1.8	1.9	(0.1)
Total current assets	153.3	142.5	10.8
Total shareholders' equity at December 31	91.7	116.7	(25.0)
Total non-current liabilities	26.6	13.5	13.1
Total current liabilities	36.9	14.1	22.8
Number of total FTE at December 31	**117.7**	**107.8**	**9.9**
- thereof in R&D	104.4	96.5	7.9
- thereof in G&A	13.3	11.3	2.0

Financial highlights

Over the course of 2018, Molecular Partners' financial position developed in line with management's expectations. The company continued and is continuing to increase its investments in its clinical and preclinical programs as well as in research and development in order to progress its proprietary oncology DARPin® candidates towards value-creating milestones.

Molecular Partners closed the financial year 2018 with an ongoing strong cash position. Moreover, the USD 50 million upfront payment from the strategic collaboration with Amgen was collected in January 2019. These proceeds further increase the company's solid cash position with no debt on the balance sheet. This strong balance sheet continues to provide the company with financial flexibility and a forecasted cash runway into H2 2020 - well beyond the envisaged key value inflection points expected to be captured in 2019 and 2020.

Molecular Partners' broad pipeline across multiple indications, its collaborations with bluechip pharma companies Allergan and Amgen, and its strong financial position combine to provide the company a uniquely robust position within the biotech sector. Molecular Partners continues to invest its financial and human resources into the evolution of its proprietary DARPin® technology, the progression of innovative programs as well as the advancement of its pipeline of proprietary drug candidates in clinical development targeting high-value indications.

On October 8, 2018, Molecular Partners Inc. was incorporated in the United States in the State of Delaware as a wholly owned subsidiary of Molecular Partners AG. Molecular Partners Inc. had no operations and consequently no results of operations to report as of the year ended December 31, 2018. Molecular Partners Inc. is based in Cambridge, Massachusetts.

Due to the incorporation of Molecular Partners Inc., Molecular Partners is presenting for the first time its financial statements on a consolidated basis. The inclusion of the subsidiary had no material impact on the 2018 consolidated financial statements, and therefore the comparison period for the 2018 consolidated financial statements are presented by the 2017 IFRS financial statements.

Summary of the financial highlights and key figures for the year 2018:

- 2018 revenues were CHF 10.4 million, with R&D expenses of CHF 38.2 million and G&A expenses of CHF 9.6 million
- This constitutes a net operating loss of CHF 37.4 million, in line with management's expectations and the guidance provided
- The Group incurred a net loss of CHF 37.0 million in 2018
- Cash-wise the Group recorded an operating cash outflow of CHF 42.5 million in 2018
- As at December 31, 2018, the Group held CHF 99.0 million cash
- The USD50 million upfront payment from the 2018 collaboration agreement with Amgen was collected in January 2019, increasing the cash position to CHF 146 million per January 31, 2019
- Molecular Partners maintains a strong, debt-free balance sheet with cash reach into H2 2020 - beyond the targeted abicipar launch - to advance the Group's proprietary pipeline
- As at December 31, 2018, the Group employed 118 full-time employees, almost a 10% increase versus the previous year
- As at December 31, 2018, there were 21,228,593 shares outstanding

Revenues

In 2018, the Group recognized total revenues of CHF 10.4 million, a decrease of 48% compared to the previous year (2017: CHF 20.0 million).

The revenue in 2018 was mainly from the Group's partnership with Allergan (CHF 9.5 million); an additional CHF 0.9 million came from the Amgen collaboration agreement that was signed in December 2018. In 2018 the Group implemented IFRS 15 and this implementation resulted in an adjustment to the equity as of January 1, 2018 of CHF 9.0 million and a revenue to be recognized of CHF 9.5 million during 2018.

As of December 31, 2018, the Group has CHF 48.7 million of deferred revenue under the Amgen collaboration agreement, presented as contract liabilities on the balance sheet. This contract liability is expected to be recognized into revenue in 2019 and 2020. See note 15 of the IFRS Consolidated Financial Statements on page 98 of this Annual Report.

Molecular Partners has entered into partnerships pursuant to which the Group generally has been and will be entitled to upfront fees and milestone payments upon the achievement of predetermined development, regulatory and sales events. The Group's revenues to date primarily consisted of amounts received under our collaboration agreements with Allergan. In addition, under the collaboration agreements, the Group will be generally entitled to royalty payments on the net sales of products ultimately developed and commercialized under our partnerships. For any of Molecular Partners' proprietary product candidates, the Group may decide to retain all or a portion of the commercialization rights. To date, Molecular Partners has not generated any revenue from commercial product sales and management does not expect to generate any product revenues until 2020.

Operating expenses (incl. depreciation and amortization)

The Group's operating expenses consist primarily of costs associated with research, preclinical and clinical testing, personnel-related costs and, to a lesser extent, royalty and license fees, facility expenses, professional fees for legal, tax, audit and strategic purposes, administrative expenses and depreciation of property, plant and equipment.

Overall, total operating expenses increased by CHF 2.0 million (+4%) to CHF 47.8 million (compared to CHF 45.8 million in 2017). These costs included CHF 5.2 million in non-cash effective share-based compensation and pension costs. The two major expense categories were personnel expenses of CHF 25.1 million (52% of total operating expenses) and research consumables and costs totaling CHF 13.5 million (28% of total operating expenses).

Total R&D expenses increased by CHF 0.8 million (+2%) to CHF 38.2 million (2017: CHF 37.4 million), mainly due to the growing proprietary pipeline of the Group. The Group charges all R&D expenses, including internal patent filing and patent maintenance costs, to the income statement when incurred. Total G&A expenses went up by CHF 1.2 million (+14%) to CHF 9.6 million (2017: CHF 8.4 million), mainly due to the higher legal and personnel cost, primarily driven by the further increase in personnel.

In 2019, operating expenses are expected to increase further, particularly related to the ongoing clinical and preclinical studies and the development of the Group's proprietary product candidates. The Group continues to expand its proprietary product pipeline and further invests in the DARPin® technology. Further, hiring additional personnel (mainly in R&D) and, potentially, expanding existing facilities will generate additional costs.

As of December 31, 2018, the Group had 118 full-time employees (FTEs) on its payroll, including 104 FTEs (ca. 90%) in R&D and 13 FTEs (ca. 10%) in G&A. By comparison, the Group had 108 total FTEs on its payroll as of December 31, 2017.

Operating profit (loss)

In 2018, the Group generated an operating loss of CHF 37.4 million (compared to an operating loss of CHF 25.8 million in 2017). The higher operating loss versus the previous year mainly reflects both the lower recognized revenues as well as further intensified R&D activities for the benefit of long-term value creation.

Financial income and expenses

In 2018, Molecular Partners recorded a net financial result of CHF 0.4 million, in line with the net financial result of CHF 0.4 million in 2017. In 2018 the financial income amounted to CHF 0.8 million, largely driven by interest income. The financial expense in 2018 of CHF 0.4 million arose mainly from a foreign exchange loss. The Group is not hedging for translation risks as it pursues a stringent natural hedging policy by maximizing the matching of cash in/out flows in the respective currencies. For more information see note 24 of the IFRS Consolidated Financial Statements.

Income and deferred taxes

The Group did not have to pay or accrue any income taxes in the reporting periods. Future net income in Switzerland will be subject to federal, cantonal and communal income taxes. The company's applicable income tax rate in Switzerland is 21%.

After considering the net operating loss of 2018, tax losses of CHF 65.8 million (CHF 4.3 million to expire in 2021) may be used as tax loss carry forwards to offset future taxable income over a period of seven years. No deferred tax assets have been recognized for these tax loss carry forwards, because it is unlikely that such loss carry forwards can be utilized in the foreseeable future. In addition, no deferred tax assets were recognized on the temporary difference on pension liabilities for the same reason.

Molecular Partners Inc., which is incorporated in the United States in the state of Delaware, is subject to statutory U.S. federal corporate income taxes and state income taxes for Massachusetts. As there were no operations in this entity during 2018 there were no income taxes recorded.

Net profit (loss)

In 2018, the Group recorded a net loss of CHF 37.0 million, basically mirroring the effects and the magnitude of the increased operating loss recorded (2017: net loss of CHF 25.4 million).

Balance sheet and capital resources

As of December 31, 2018, the Group's cash balance was reduced by CHF 42.1 million compared to year-end 2017 to a level of CHF 99.0 million. The Group's total cash balance continued to be very strong and still represented 64% of the total balance sheet. Following the signing of the Amgen collaboration agreement in December 2018 the Group recorded a trade receivable balance of CH 49.2 million that was offset by a total contract liability of CHF 48.7 million as described above. The receivable from Amgen was collected in January 2019, further enhancing the Group's strong cash position.

Compared to year-end 2017, the total shareholders' equity position decreased to CHF 91.7 million as of December 31, 2018 (December 31, 2017: CHF 116.7 million). The Group's balance sheet continued to be debt-free in 2018.

Liabilities in the balance sheet are made up of contract liabilities, trade payables and accrued expenses from our operations as well as pension liabilities as per IAS19. Total liabilities amount to CHF 63.5 million (2017: CHF 427.7 million), mainly driven by the collaboration agreement with Amgen. The contract liabilities (classified as deferred revenues in 2017) are the most significant liability item with an increased total of CHF 48.7 million at the end of 2018 (2017: CHF 18.4 million).

The contract liabilities are expected to be recognized as revenue pro-rata over time as the Group satisfies the related performance obligations. For more details see note 15 of the IFRS Financial Statements.

Cash flow statement

In 2018, Molecular Partners generated a net cash outflow from operations of CHF 42.5 million, compared to the net cash outflow from operations of CHF 40.0 million in 2017. The operating cash flow reflects the Group's increased expenses for clinical activities as well as investments in research and development in order to rapidly progress its proprietary oncology DARPin® candidates towards value-creating milestones.

Cash inflow from investing activities was CHF 9.6 million, compared to a CHF 20.9 million cash inflow in 2017. The amount in 2018 reflects a reduction of short-term time deposits. A CHF 0.9 million outflow was recorded for capital expenditure in equipment and a CHF 0.7 million inflow from interest. Net cash inflow from financing activities was CHF 0.4 million. Overall, this resulted in a net decrease of the Group's total cash balance and short-term time deposits by CHF 42.1 million from CHF 141.1 million at the end of 2017 to CHF 99.0 million at the year-end 2018.

Financial risk management

The Group is developing several products and is currently not generating a constant revenue stream, which results in a negative cash flow from operating activities. At present, the lack of positive operating cash flow may expose the Group to financing risks in the medium term. Risk management is carried out centrally under policies approved by the Board of Directors. Furthermore, management manages financial risks such as foreign exchange risk and liquidity.

Molecular Partners conducts R&D activities primarily in Switzerland, EU and USA. As a result, the Group is exposed to a variety of financial risks, such as foreign exchange rate risk, credit risk, liquidity risk, cash flow and interest rate risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. The Group is not exposed to market price development as it has no saleable products.

The following is a summary of how we manage and mitigate the **key financial risks**:

- Foreign exchange risk: In order to reduce its foreign exchange exposure, Molecular Partners may enter into currency contracts (forwards and options) with selected high-quality financial institutions to hedge against foreign currency exchange rate risks. The Group's primary exposure to financial risk is due to fluctuation of exchange rates between CHF, EUR, GBP and USD. The Group's hedging policy is (1) to maximize natural hedging by matching expected future cash flows in the different currencies and (2) to consider hedging some of the remaining expected net currency exposure as the need arises. However, due to market volatilities and uncertainties in the cash flows, a 100% hedging of the currency exposure is impossible. Molecular Partners does not engage in speculative transactions.
- Interest rate risk: Molecular Partners earns interest income on cash and cash equivalents and its profit and loss may be influenced by changes in market interest rates. The Group is investing part of its cash through risk-free money market investments in line with its treasury guidelines.
- Credit risk: The maximum credit risk on financial instruments corresponds to the carrying amounts of the Group's cash and cash equivalents and receivables. The Group has not entered into any guarantees or similar obligations that would increase the risk over and above the carrying amounts. All cash and cash equivalents are held with three major Swiss banks with ratings between A and AAA as per Standard & Poor's. The Group enters into partnerships with partners which have the appropriate credit history and a commitment to ethical business practices. Other receivables with credit risk mainly include interest receivables.
- Liquidity risk: Based on the Group's Business Plan 2019-2023, management estimates that the company is financed into H2 2020.

Outlook 2019

For the full year 2019, at constant exchange rates, the company expects total expenses of CHF 70-80 million, of which around CHF 7 million will be non-cash effective costs for share-based payments, IFRS pension accounting and depreciation. The increase versus the previous years reflects the manufacturing start of the phase 3 material and additional clinical trials for MP0250, expanded research activities and a planned accelerated growth of the headcount. Capital expenditures in FY 2019 are expected to be approximately CHF 3 million.

This guidance is subject to the progress of the pipeline, mainly driven by manufacturing costs, the speed of enrollment of patients in clinical studies and data from research and development projects. No guidance can be provided with regard to net cash flow projections. Timelines and potential milestone payments for existing and potentially new partnerships are not disclosed.

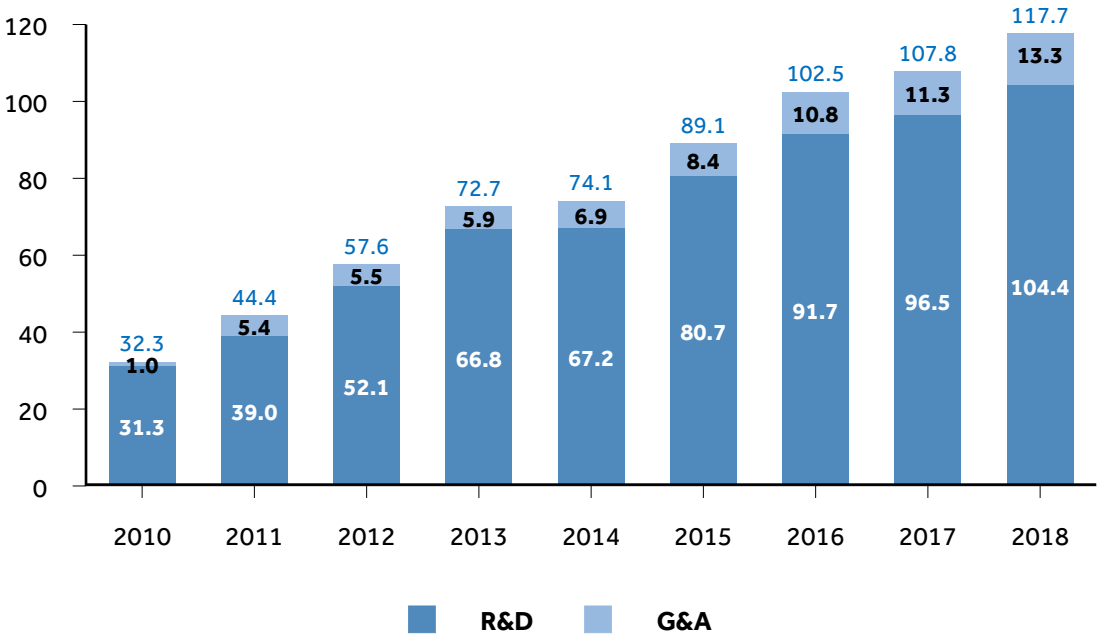
Financial calendar 2019

The following table summarizes the scheduled financial calendar for the financial year 2019.

Date:	**Event:**
March 19, 2019	Expected Publication Date of Annual General Meeting Invitation 2018
April 16, 2019	Annual General Meeting
May 9, 2019	Interim Management Statement Q1 2019
August 27, 2019	Publication of Half-year Results 2019 (unaudited)
October 31, 2019	Interim Management Statement Q3 2019

Development of employee base

The ongoing growth of the organization is reflected in the growth of the employee base, which continued in 2018. Total headcount (on a full-time equivalent/FTE basis) grew by 10% to 117.7 of which about 90% are employed in the R&D related areas.



"I am inspired by how an idea within a university lab has been transformed into a publicly-listed company with the opportunity to make a meaningful impact in patients' lives."

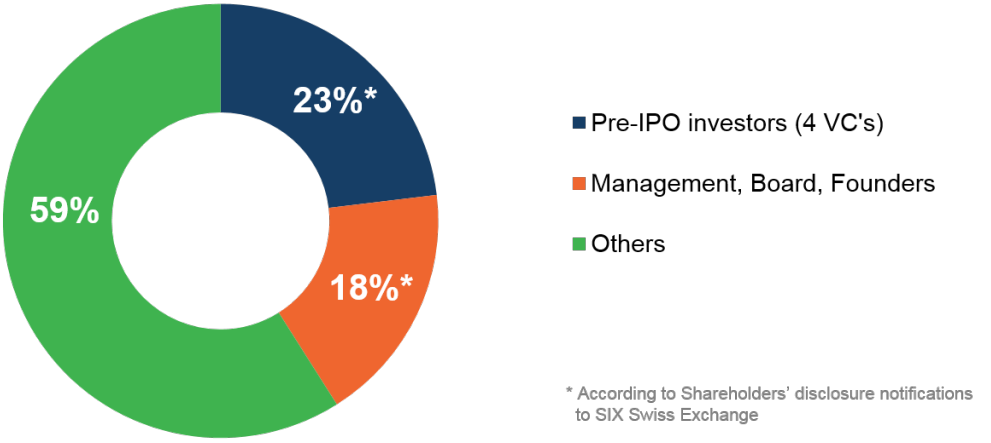
Yvonne

Shareholders & Share Price

In this section, we highlight the current status of the company's shareholder base, the development of the share price over the business year 2018 as well as the development of the trading activity in terms of volume and liquidity.

Shareholder structure

- Listed on SIX Swiss Exchange (ticker symbol: MOLN) since November 2014
- Included in key indices: Swiss Performance Index (SPI), SPI Extra, SXI Life Sciences, and SXI Bio+Medtech
- 21'228'593 shares outstanding as of December 31, 2018
- CHF 405 million market capitalization as of December 31, 2018
- Formal free float of 84% as per SIX Swiss Exchange definition



The Molecular Partners shares are trading at the SIX Swiss Exchange under the ticker symbol MOLN and the ISIN CH0256379097. It forms part of the Swiss Performance Index (SPI) as well as the SPI Extra index. Moreover, from a sector classification perspective, Molecular Partners is also part of the SXI Life Sciences and the SXI Bio+Medtech indices.

The Molecular Partners share capital consists of approximately 21.2 million registered shares (Namenaktien) with a nominal value of CHF 0.10 each.

As of December 31, 2018, the largest shareholders in Molecular Partners, holding each per year-end 2018 more than 3% of shares outstanding as recorded on the corresponding website of the SIX Swiss Exchange[1], were Hansjoerg Wyss (9.7%), Index Ventures Associates IV Limited (8.1%), Essex Woodlands Health Ventures VIII, LLC (7.8%), Johnson & Johnson (4.3%), Pictet Asset Management (Direction de Fonds) (3.1%), GAM Holding (3.1%) and UBS Fund Management (3.0%), as well as the founders of the Company, Andreas Plückthun (4.8%), Michael Tobias Stumpp (3.3%), and Patrick Amstutz (3.2%). These disclosed holding positions of the shareholders owning more than 3% in Molecular Partners summed up to approximately 51% of shares outstanding per December 31, 2018, down ca. 3% versus year-end 2017 (56%).

[1] % based on the share capital registered in the Commercial Register as of December 31, 2018 (i.e. CHF 2,104,406.20, divided into 21,044,062 registered shares).

As per the definition of the SIX Swiss Exchange, the free float of Molecular Partner shares per year-end 2018 was 84%, essentially unchanged from the previous year. The SIX Swiss Exchange deducts from the free float calculation those holdings of investors and groups of investors who are subject to a shareholder agreement, which is binding for more than 5% of the listed shares, or those positions of investors with respective holdings of more than 5% of the listed shares who have a long-term interest in the company.

As per year-end 2018, a total of 12.82 million shares were entered in the Company's share register, representing 60% of the total outstanding capital. Those shares were held by approximately 1,500 shareholders, including nominees, which represents a 9% increase over the number of registered shareholders of the previous year (1,370). In terms of shares registered, the increase from the previous year is even more substantial at 35% (year-end 2017: 9.48 million). Only shares registered in the share register of Molecular Partners possess voting rights at the Molecular Partners shareholder meetings.

In 2018, the brokerage firms Royal Bank of Canada (RBC), Octavian, Kempen and Credit Suisse initiated research coverage on Molecular Partners. Together with the existing coverage of J.P. Morgan and Cowen & Company, the total number of covering brokers is now six firms. The contact details of the respective research analysts can be found on the investor relations section of the Molecular Partners website.

Key share data

Valor symbol	MOLN
Valor number	25,637,909
ISIN	CH0256379097
Number of shares in issue	21,228,593
Nominal value	CHF 0.10
Share register	Molecular Partners c/o AREG AG

Share price development

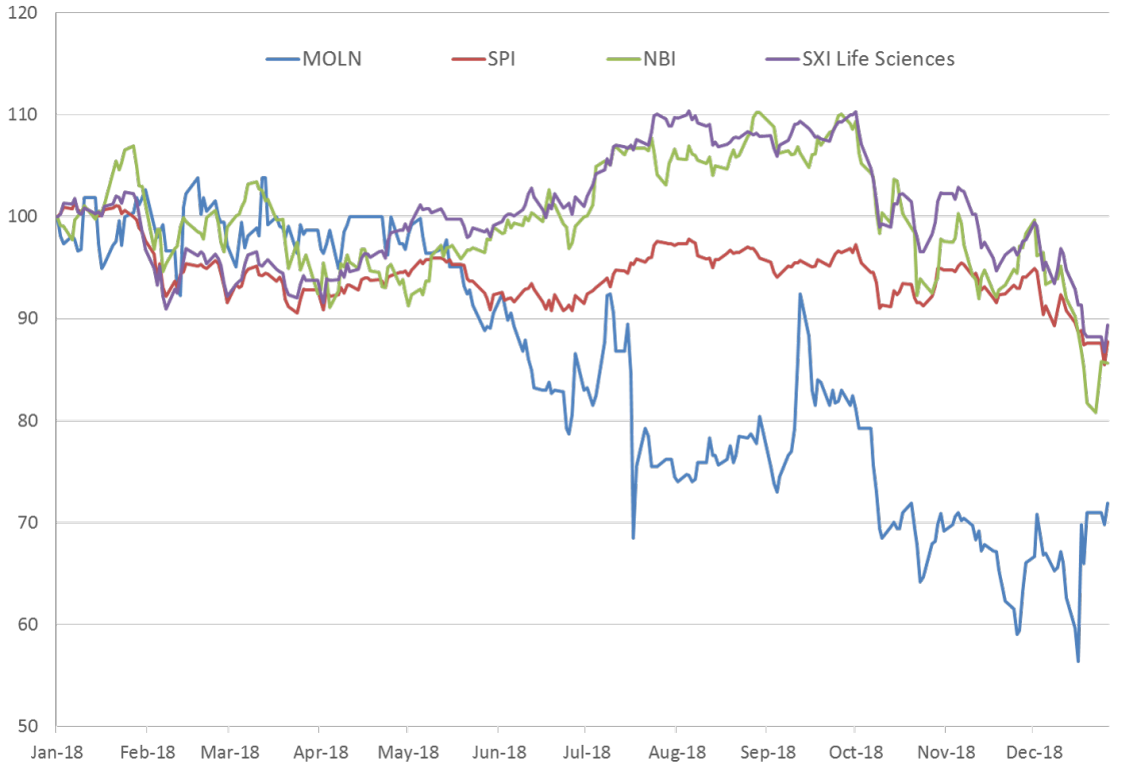
The Molecular Partners share price development started flat into 2018. The performance during the first quarter 2018 was flat and in line with both the domestic and international benchmark indices. The Molecular Partners share price could not, however, maintain its performance during the remainder of the year. The share retracted especially over the course of the second and third quarter 2018, while national and international benchmark indices recorded a positive momentum.

The Molecular Partners share closed the year at a price CHF 19.06, which implied a 28% decline over the course of 2018. The market capitalization at year-end 2018 stood at CHF ca. 405 million. This share price decline occurred against the backdrop of an 11% decline of the Nasdaq Biotech Index (NBI) and a 9% decrease of the Swiss Performance Index (SPI). The fourth quarter of 2018 in particular was marked by a sharp correction of equity markets and a risk-off mode, which especially hit the small and mid-cap companies in the tech and biotech sectors.

Moreover, the Swiss biotech sector was under specific pressure in the fourth quarter 2018, as all peers got punished from capital increases of several Swiss biotech companies in Q4 18 which clearly disappointed the market.

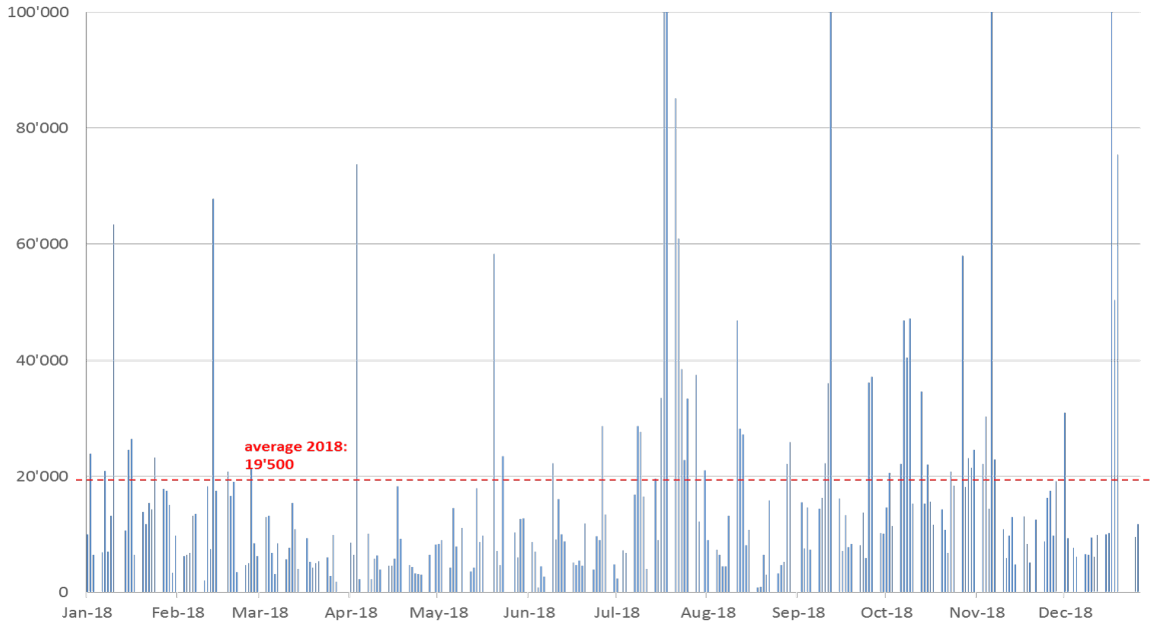
On December 19, 2018, Molecular Partners announced the signing of the collaboration agreement with Amgen. On the day preceding the announcement, the Molecular Partners share recorded its yearly low of CHF 14.94. The important milestone of the collaboration news triggered outperformance of the company's share price in the second half of December 2018, with a significant increase of 24% on December 19 alone and of more than 28% for the period since the announcement until the year-end 2018.

The following chart shows the stock price development in 2018 compared to NBI, Swiss Life Sciences as well as the SPI indices. Over the course of 2018 the negative share price performance of Molecular Partners lagged all relevant indices selected.

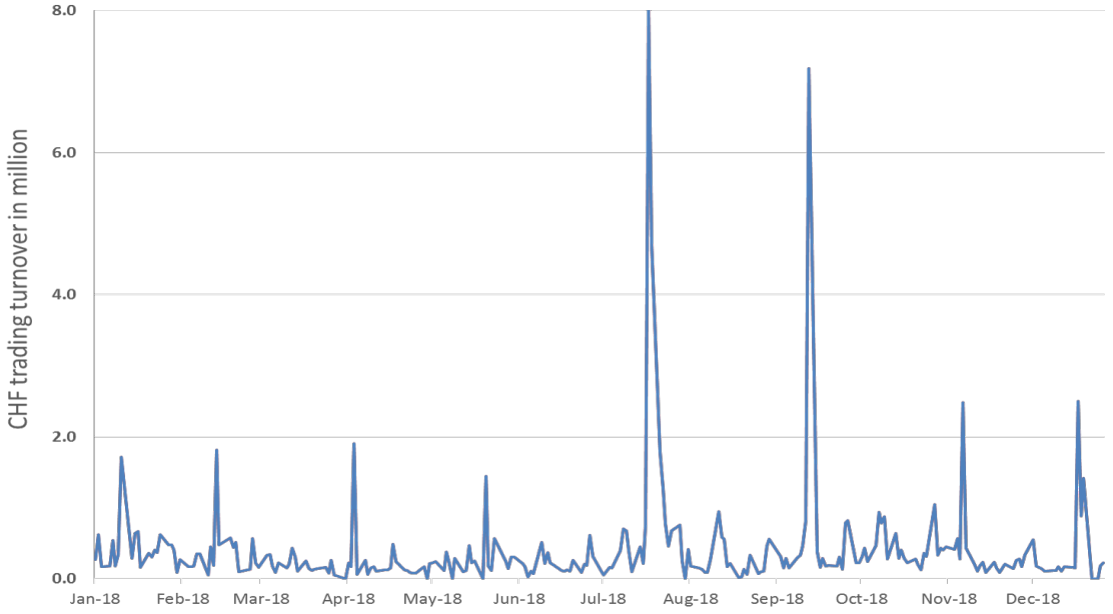


Volume development

The total volume of Molecular Partner shares traded on the SIX Swiss Exchange during 2018 was 4.71 million shares, almost 70% above the total volume traded in 2017 (2.82 million shares). This implies that about 22% of all shares outstanding and ca. 26% of the free float as per SIX Swiss Exchange definition changed hands.



The average daily trading volume in 2018 was 19,500 shares, implying a 74% increase year-over-year, and the average turnover was CHF 407,000. Twelve trading days with a daily turnover above CHF 1.0 million were recorded in 2018. On July 19, 2018, trading turnover was above CHF 8.0 million. The high trading volumes recorded that day as well as the subsequent three trading days reflected Allergan's publication of the topline data of abicipar. The second peak in trading volume and liquidity was recorded on Sepember 14, 2018, and reflects a larger trading transaction when one block of Molecular Partners shares was placed from one shareholder to another institution.

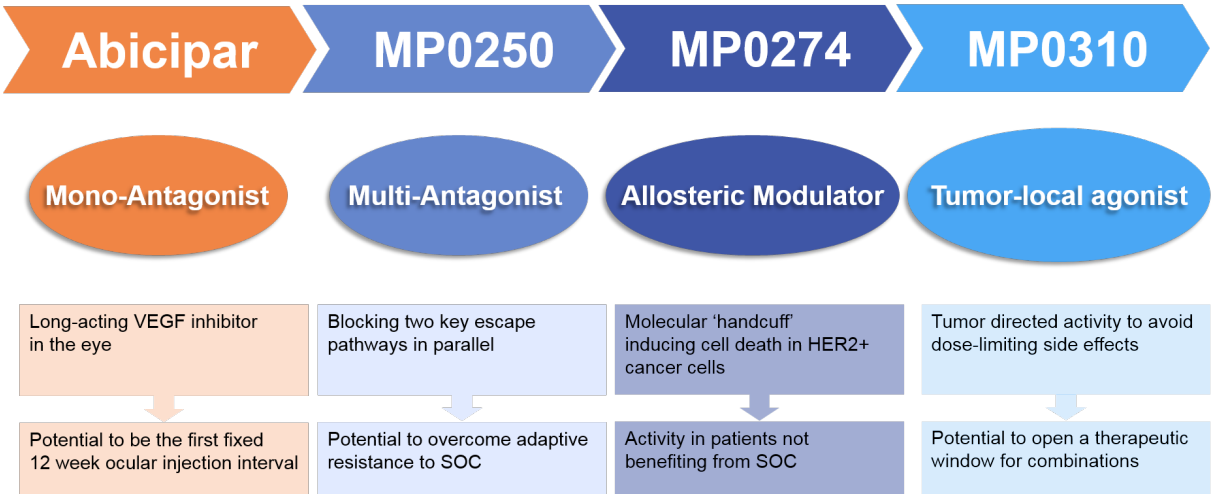


The DARPin® Difference: Offering Patients a New Dimension of Protein Therapeutics

Overview

In 2018, we at Molecular Partners have continued to make substantial progress in advancing our balanced and differentiated pipeline of innovative DARPin® therapies for the treatment of cancer and ophthalmological diseases. The year 2018 also represented our accelerated transformation from a platform company to a product company. We further reinforced our internal focus on oncology and were very encouraged to see the initial safety and efficacy results of MP0250 in our phase 2 multiple myeloma trial. We also made progress on our second phase 2 study with MP0250 as well as our phase 1 trial with MP0274. On the preclinical side, our immuno-oncology portfolio progressed considerably and for our first development candidate, MP0310, we closed a collaboration agreement with Amgen in December 2018 . All of this was possible thanks to our hardworking internal teams, and we continued to build strength by hiring additional talent across all levels. Our partner Allergan is progressing abicipar and has committed to further DARPin® candidate molecules in ophthalmology, again a success due to the combined efforts of teams on both sides of the Atlantic.

The development of our clinical product candidates addresses the increasing complexity of diseases which we can successfully address with our unique and powerful DARPin® technology.



Our strategy in research & development

Our goal is to leverage our proprietary DARPin® product engine to develop and deliver innovative therapies to patients suffering from severe diseases with significant unmet medical need. Our primary focus is oncology / immuno-oncology, where we are applying our expertise to develop product candidates that target known biological pathways in a novel way. Our long-term vision is to broaden the applicability of our DARPin® product engine to use new mechanisms of action across additional therapeutic areas.

Key aspects of our strategy include the following:

- **Rapidly advance MP0250 and MP0274 through clinical development**. We are developing our lead product candidate, MP0250, for the treatment of patients with Multiple Myeloma (MM) and EGFR-mutated Non-small Cell Lung Cancer (NSCLC) who show resistance to current standard of care therapies. Subject to positive outcomes of our ongoing and complementary new clinical trials, we intend to initiate pivotal trials for one or both of these indications. Additionally, we are conducting a phase 1 clinical trial of MP0274, our second oncology product candidate, in patients with advanced HER2-positive solid tumors. Further, we are actively evaluating the potential of MP0250 for clinical development in additional indications.

- **Advance MP0310 and other potential immuno-oncology product candidates** into and through clinical development. Our lead immuno-oncology product candidate, MP0310, is being developed to locally activate immune cells in the tumor by binding to FAP on tumor stromal cells (localizer) and co-stimulating T cells via 4-1BB (immune modulator) for the treatment of FAP-positive cancers. We plan to initiate our first in-human trial of MP0310 in H2 2019 to establish safety and to locally activate immune cells in the tumor during treatment. If successful, Amgen, our partner for this DARPin® product candidate, plans to conduct a clinical trial testing MP0310 in combination with selected Amgen therapeutic candidates.

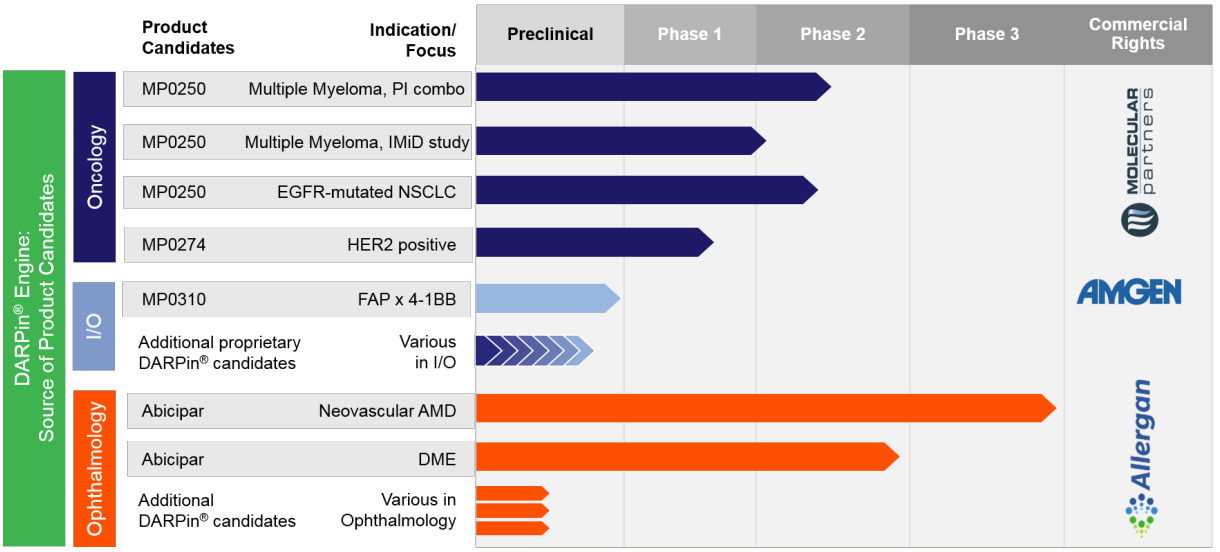
- **Plan to develop additional immuno-oncology product candidates** out of our modular IO toolbox that selectively activate immune cells in tumors to treat diseases with a high unmet medical need.

- **Further leverage our DARPin® product engine to expand our product pipeline**. We believe we have built a set of capabilities around our DARPin® product engine that enable us to utilize novel therapeutic concepts and to quickly identify and progress oncology and immuno-oncology DARPin® product candidates into clinical development. In oncology, we are focusing our drug discovery efforts on specific functional areas: product candidates that modulate the tumor micro-environment, product candidates that directly effect tumor cell killing, and product candidates that result in tumor-localized immune activation. In immuno-oncology, we are exploring the use of multi-DARPin® product candidates that bind to a tumor-associated antigen and targets on immune cells to produce localized, antigen-specific T cell-mediated killing of tumor cells. In pursuit of a sustainable and diversified portfolio, we plan to develop highly innovative and potentially transformational constructs directed against novel targets or biology.

- **Build a fully integrated biotechnology company** to unlock the complete potential of our DARPin® product engine. In order to achieve our goal of delivering new and innovative treatments to patients in areas of high unmet medical need, we aim at building a biopharmaceutical company with research, development and commercialization capabilities. We intend to independently develop and commercialize product candidates we believe have a clear clinical and regulatory approval pathway and that we believe we can commercialize successfully. We also plan to collaborate with larger biopharmaceutical companies on product candidates that have promising utility in disease areas or patient populations that are either more dispersed or require more significant upfront development and commercialization costs. Our agreements with Allergan regarding abicipar and with Amgen for MP0310 may result in future milestone and royalty payments, which could accelerate our internal development efforts. We believe this approach would allow us to maximize the potential of our DARPin® product engine and the respective DARPin® product candidates it generates.

Pipeline

Before elaborating in more detail on our individual DARPin® product candidates and our future research strategy, we highlight as an overview the current status of **Molecular Partners' product pipeline**.



AMD: age-related macular degeneration; DME: diabetic macular edema; NSCLC: non-small cell lung cancer

Oncology

Our proprietary oncology pipeline comprises innovative DARPin® candidates with novel modes of action, including multi-DARPin® compounds that target multiple oncologic pathways . Our approach enables new lines of attack against tumor cells, potentially offering a level of efficacy that exceeds those of conventional antibody and emerging immuno-oncology modalities, as well as a favorable safety and tolerability profile. This approach may facilitate therapeutic combinations with other anticancer agents.

Research strategy capitalizes on benefits of our DARPin® product engine

Our existing DARPin® product candidates in oncology leverage different biological pathways to attack cancer cells. We believe DARPin® product candidates open new avenues in cancer treatment and offer innovative modes of action that could better improve patient outcomes. Those benefits include:

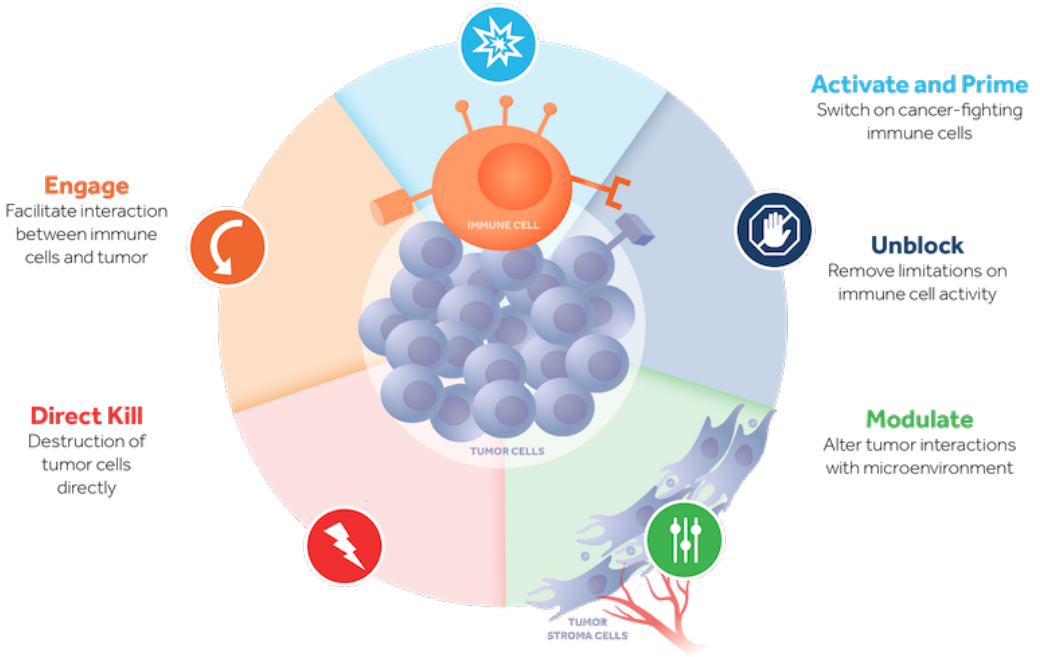
- **Targeting multiple escape pathways in parallel.** When cancer cells are attacked by conventional therapies, they often develop resistance by activating multiple escape pathways at once. To create an effective product, we believe that we must understand the dynamics of these escape pathways and then target the key pathways in parallel. We believe our multi-DARPin® product candidates are well suited for this approach because of their ability to bind to multiple targets and inhibit multiple escape pathways. MP0250 is our first example of a multi-DARPin® product candidate that targets two escape pathways in parallel, which we believe has the potential to modulate adaptive resistance and may permit standard-of-care drugs to regain efficacy after resistance occurs.

- **Finding new biology on known targets.** Using our multi-DARPin® approach, we are able to select mono-DARPin® proteins binding to known targets in novel ways. We can combine mono-DARPin® proteins to bind to different epitopes on the same target. MP0274, for example, is a biparatopic DARPin® protein that targets HER2 on two distinct epitopes with two DARPin® proteins connected by a short linker. We have observed that the ability to bind to multiple epitopes locks HER2 in an abnormal position, thereby inducing cellular apoptosis, an effect that has not yet been observed in antibody-based approaches.

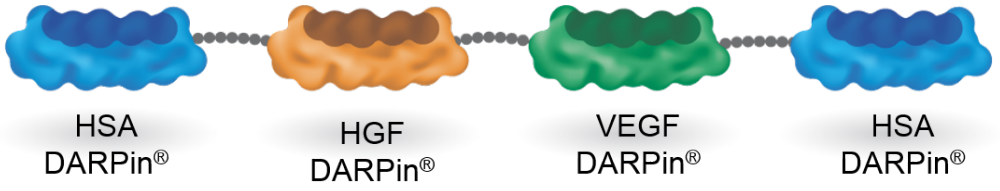
- **Engaging and activating immune cells.** Immuno-oncology utilizes a patient's immune response to fight tumors. In some cases, blocking negative checkpoint signals can produce a deep and durable tumor response. We believe that our DARPin® product engine is well-suited for the combined approaches of blocking negative checkpoint signals and engaging and activating immune cells. We have developed approaches that utilize DARPin® proteins to direct tumor-localized activation of immune cells, meaning the product candidate activates immune cells selectively within a tumor, potentially avoiding systemic adverse events. Further, we have designed certain multi-DARPin® product candidates that cluster and thereby more effectively locally activate immune cells. For example, MP0310 is designed to locally activate immune cells in the tumor by binding to FAP on tumor stromal cells (localizer) and co-stimulating T cells via 4-1BB (immune modulator).

- **Displaying a tailored pharmacokinetic profile.** We are able to tailor the half-life of our DARPin® product candidates to match the relevant target disease biology. Depending on the relevant therapeutic application we are targeting, we have multiple approaches to choose from, each of which leads to a different pharmacokinetic profile for our DARPin® product candidates. This allows us to equip each of our product candidates with the half-life that we believe is ideal for the specific therapeutic function.

The below chart illustrates our current and future research approaches in using DARPin® therapeutics for oncology as well as the positioning of our existing clinical product candidates.



MP0250: Proprietary multi-DARPin® blocking VEGF and HGF



MP0250 is a multi-DARPin® product candidate consisting of four domains that target both the vascular endothelial growth factor (VEGF) and the hepatocyte growth factor (HGF). It also binds to human serum albumin (HSA) to increase the compound's plasma half-life.

VEGF is an important mediator of angiogenesis, the process by which tumors grow new blood vessels to supply them with nutrients. HGF is a growth factor that promotes tumor proliferation and metastasis. MP0250 is designed to inhibit tumor growth and metastasis by blocking the binding of VEGF and HGF to their receptors. MP0250 may overcome adaptive treatment resistance by blocking HGF mediated escape pathways employed by certain tumors when exposed to standard therapies.

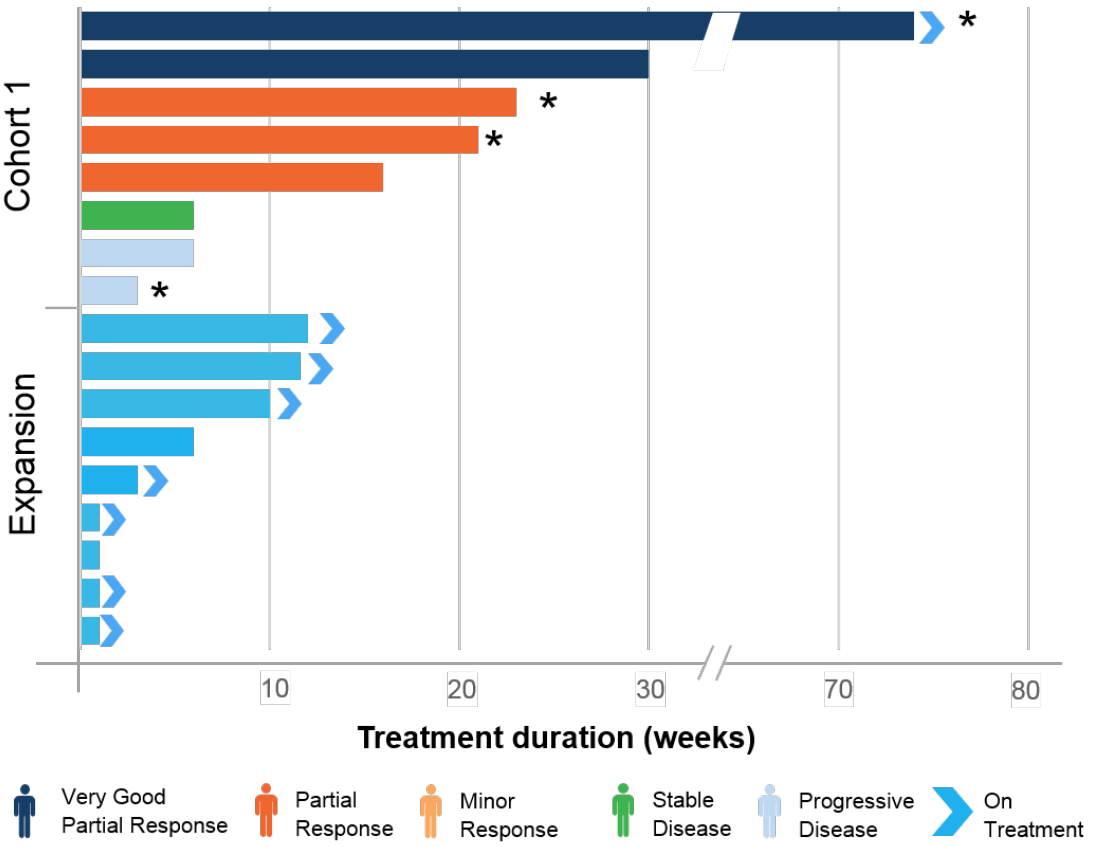
In preclinical models of solid and hematological tumors, MP0250 has demonstrated broad activity as a monotherapy and in combination with other anticancer agents. MP0250, with its novel, bi-specific mechanism of action, is expected to be suited for patients with tumors that did not respond to previous treatment, as well as for those who relapsed on treatment due to VEGF and/or HGF mediated escape mechanisms.

Multiple myeloma (MM): A clear clinical development path

We discussed potential development strategies for MP0250 at the company's R&D Day in New York in December 2018 and revealed plans to initiate a second phase 2 trial for MP0250 in MM. This complementary trial has been designed to validate the therapeutic hypothesis that MP0250 can overcome the adaptive resistance mechanism and potentially restore clinical sensitivity to standard of care treatments. Patients will be treated with MP0250 in combination with pomalidomide (Pomalyst®) and dexamethasone. These patients will be relapsed or refractory MM patients who have failed at least two lines of therapy including a proteasome inhibitor (PI) and an immunomodulatory drug (IMiD) with the most recent therapy being IMiD-based.

The design of the initial phase 2 trial for MP0250 in MM will be updated to recruit patients with a proteasome inhibitor (PI) based regimen as the most recent therapy. Those patients continue to be dosed with MP0250 in combination with Velcade® and dexamethasone. Together, the two trials will cover the two main backbones of MM therapy and offer patients the potential to extend treatment with their last-used drug. They will thus provide evaluation of MP0250 in strictly defined resistance settings, in which the direct impact of MP0250 will be observable.

Initial efficacy data shared early 2018 for the initial MM trial are promising. At the ASH conference in December 2018, we presented an update on the initial ongoing phase 2 trial evaluating MP0250 in combination with bortezomib (Velcade®) and dexamethasone in patients with multiple myeloma who had failed standard therapies. Additional early data from nine patients of the expansion part as per cut-off date of January 31, 2019, supported these data observed in the first patient cohort.



Data cut-off: 31 January 2019. dose level: 8mg/kg/3weeks; *: PI-based regimen

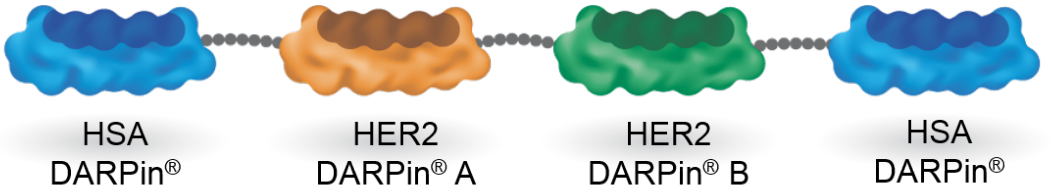
To underline what is possible with MP0250, one patient of the first patient cohort continues on the trial for more than 70 weeks. The asterisks in the chart denote those patients from the first patient cohort coming directly from a PI-based regimen. The blue arrows highlight those patients which continue on the trial.

MP0250 in Non-Small Cell Lung Cancer: Key data collection ongoing

Our phase 1b/2 clinical study of MP0250 in combination with osimertinib (Tagrisso®) in patients with EGFR-mutated Non-Small Cell Lung Cancer (NSCLC) who were pretreated with osimertinib started in 2018 in the U.S. That trial tests the hypothesis that MP0250 will overcome the adaptive resistance mechanism and ultimately render patients who have progressed on Tagrisso® again sensitive to Tagrisso®.

In April 2018, we signed an agreement with AstraZeneca ensuring the free supply of Tagrisso® for our proprietary trial without giving away commercial rights of MP0250. Patient recruitment is continuing for the first dose cohort as a total of seven patients have been recruited as of the beginning of February 2019 at the MP0250 dose of 8mg/kg, dosed every three weeks. As several patients are still on treatment, it is premature to present data on efficacy or toxicity at this point in time.

MP0274: Multi-DARPin® therapeutic with broad anti-HER activity

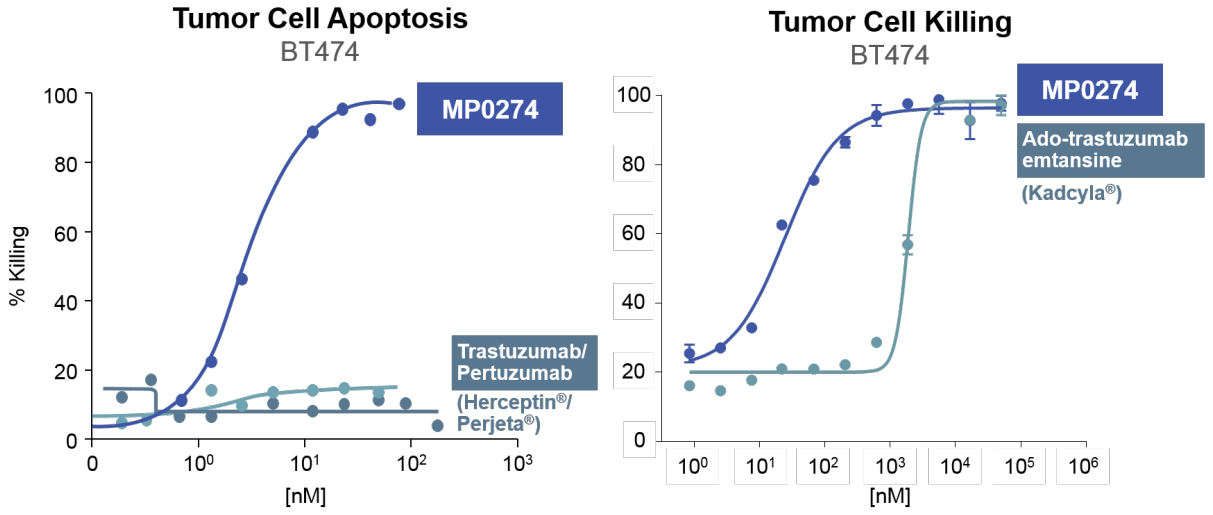


MP0274 is a multi-DARPin® therapeutic that binds two distinct epitopes of HER2, an oncogenic protein that signals tumor cell survival and proliferation. The biparatopic binding action of MP0274 "handcuffs" HER2 in an inactive or "locked" conformation, leading to potent inhibition of downstream HER2 mediated signaling including:

- Binding of HER2 to other receptors of the HER family (HER1, HER3), or heterodimerization
- Binding of HER2 to other HER2 receptors, or homodimerization

The inhibitory effects of MP0274 lead to apoptosis (programmed cell death) in susceptible tumor cells that over-express HER2. This method of action is unique to MP0274: Unlike the anti-HER2 monoclonal antibodies Herceptin® (trastuzumab) and Perjeta® (pertuzumab), which induce antibody-dependent cell-mediated cytotoxicity (ADCC), the apoptosis-triggering action of MP0274 is independent of the immune system and unlike Kadcyla® (adotrastuzumab emtansine), a HER2 directed antibody drug conjugate, does not incorporate a cytotoxic drug.

The novel mechanism of action of MP0274 may therefore help patients who do not adequately respond to current therapies.



Our phase 1 dose escalation trial of MP0274 in HER2-positive tumor patients that have progressed on standard of care (SOC) is ongoing. The recruitment of the first patient cohort has been completed. We expect initial safety and efficacy data in the course of 2019.

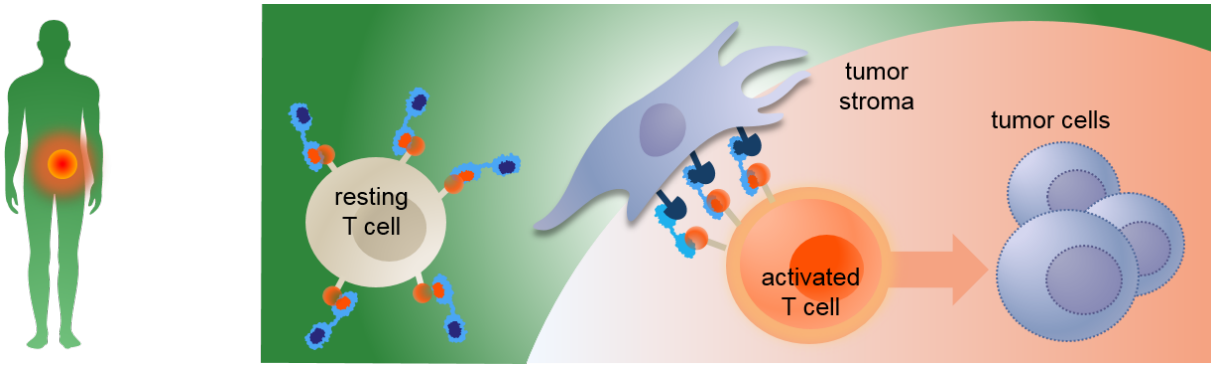
Immuno-oncology: A novel approach to anticancer treatment

Molecular Partners is taking a differentiated approach to immuno-oncology (IO) research and development, one that entails exploration of new treatment strategies. Our approach leverages the utility and flexibility of the DARPin® platform to facilitate rapid testing of different immuno-oncology combination therapies across multiple disease targets in a tumor-localized setting. DARPin®-mediated immuno-oncologic therapy may thus facilitate development of safer and more efficacious drugs compared to conventional mAb treatment.

Tumor-localized activation of the immune system

Current IO therapeutics such as mAbs that activate the immune system (agonists) throughout the body show systemic side effects that can limit the effective dosing.

Tumor-localized IO therapeutics, such as based on our novel multi-DARPin® approach, that activate immune cells preferentially within the tumor may both increase efficacy and reduce systemic toxicities.

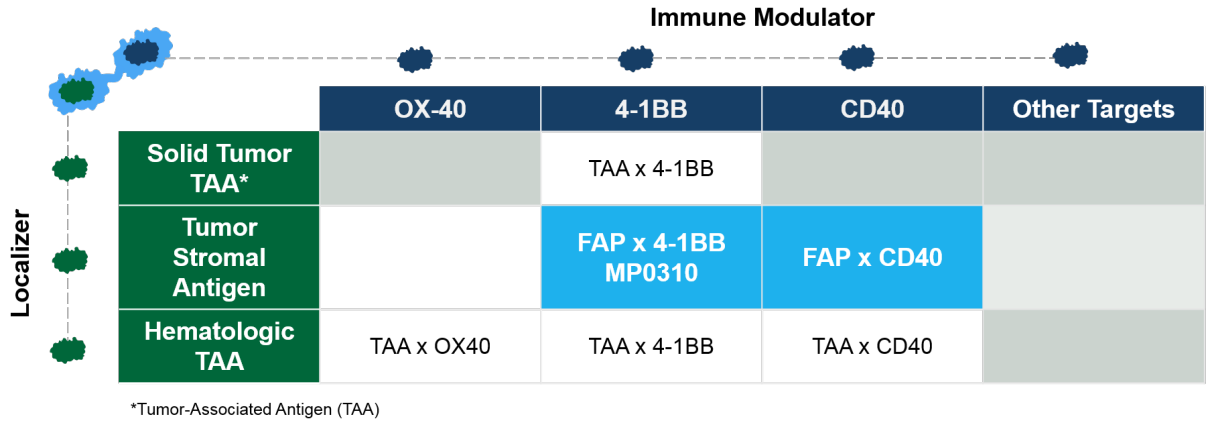


The above chart illustrates how the multi-DARPin® molecules in a first step bind to the receptors of the T cell. Clustering of those receptors, and as a consequence the activation of the T cell, is then done via binding to FAP.

Our DARPin® toolbox of potential drug candidates

Over the past years, we focused our immuno-oncology efforts on developing a modular "toolbox" of DARPin® molecules that locally activate immune cells in the tumor. Our IO product candidates utilize a combination of localizer DARPin® modules, which recognize antigens expressed primarily in tumor stroma, and immune modulator DARPin® modules, which activate immune cells. When both modules are engaged, immune cells are locally activated in the tumor environment.

The figure below shows several product candidates that are in either the discovery or preclinical phases and the molecules they are targeting to promote T cell and other immune cell activation.



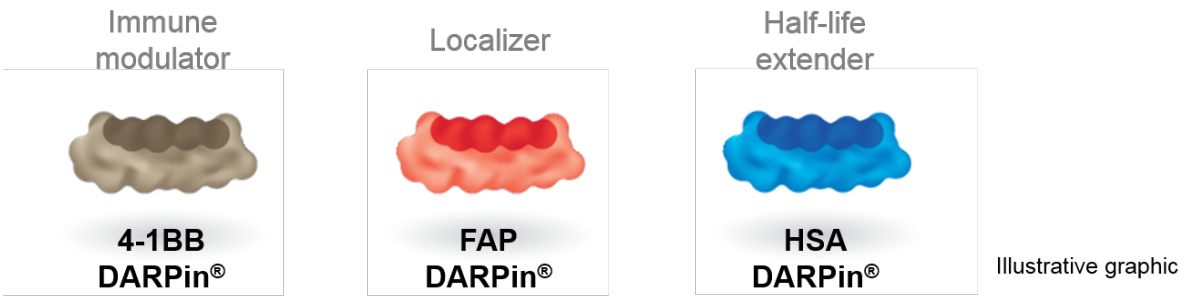
*Tumor-Associated Antigen (TAA)

In December 2018, we successfully closed a collaboration agreement with Amgen for the first molecule out of our DARPin® toolbox, MP0310, which we will highlight in more detail in the subsequent sections.

Moreover, we were proud to present in the course of 2018 preclinical data on a second multi-specific preclinical DARPin® molecule in immuno-oncology, FAP x CD40, at multiple scientific conferences. In 2019, the company plans to further advance DARPin® candidates arising from its immuno-oncology toolbox as well as to test additional differentiating therapeutic designs with its DARPin® approaches.

MP0310: Our first immuno-oncology product candidate

MP0310 is a FAP x 4-1BB x HSA multi-DARPin® therapeutic candidate designed to locally activate immune cells in the tumor by binding to FAP on tumor stromal cells (localizer) and co-stimulating T cells via 4-1BB (immune modulator).



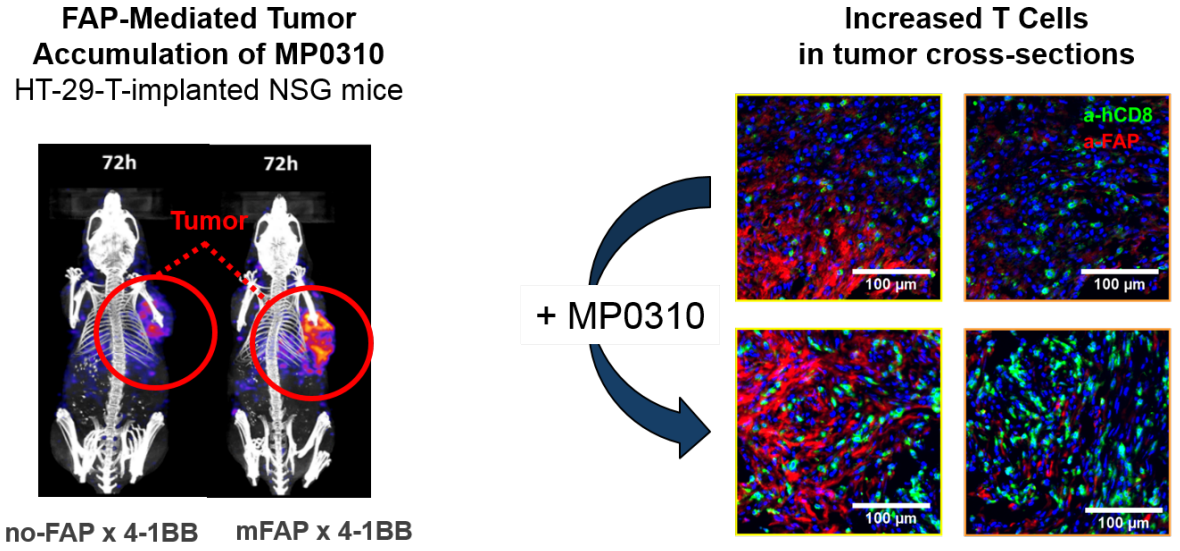
Illustrative graphic

In preclinical studies of MP0310, we observed lower systemic toxicity compared to other current therapies, suggesting that it would be well suited as a combination therapy with other drugs. We have closed a collaboration agreement with Amgen for MP0310 and togeter plan to initiate a first in-human trial with MP0310 in H2 2019, which will improve our understanding of the safety and initial activity of this product candidate.

Compared to clinically tested mAbs targeting CD137, such as urelumab or utomilumab, MP0310 is different in that it relies on binding to Fibroblast activation protein (FAP) expressed on the stroma of

many solid tumors, to become active. Thus MP0310, in contrast to antibodies directed against 4-1BB, is designed to preferentially co-stimulate immune cells in the tumor and as such result in less side effects.

MP0310 has shown expected effects on tumor growth reduction and on T cell activation in mice. We believe that these studies demonstrate the potential of our T cell co-stimulatory agonistic approach. In addition, MP0310 has been shown to locally activate immune cells in the tumor in preclinical models. MP0310 was shown to selectively accumulate in tumors relative to normal tissues. These results confirm the preclinical hypotheses and form the basis of further development of MP0310 together with Amgen.



Ophthalmology

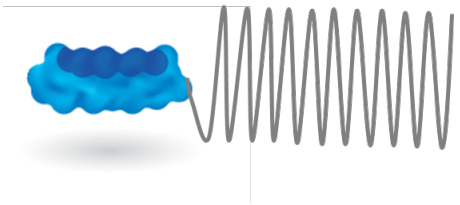
In advancing our ophthalmology programs, we and our strategic partner Allergan are exploring potential solutions to the persistent unmet medical needs among people living with retinal diseases. We therefore continue to focus on advancing the development of abicipar for the treatment of neovascular AMD and diabetic macular edema (DME), as well as on a partnered pipeline that includes novel approaches to the treatment of severe ocular diseases.

Neovascular AMD and DME are the leading causes of blindness in the western world. The incidence and prevalence of these ophthalmic conditions are growing, largely driven by an aging population. Whereas anti-VEGF therapies such as Lucentis® (ranibizumab) and Eylea® (aflibercept) remain the standard of care, these treatments can be particularly burdensome to patients because they must be injected into the eye on a monthly or bimonthly basis.

By contrast, our DARPin® molecules offer the potential benefits of less frequent injections at comparable vision gains than those attainable with standard therapies.

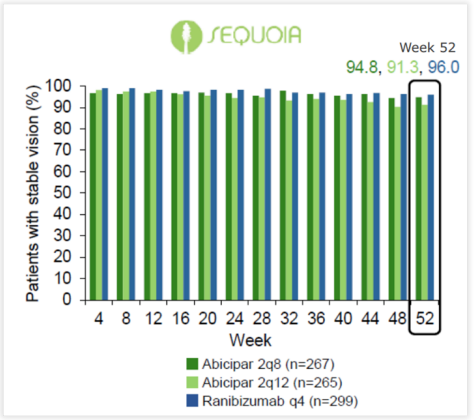
Abicipar

For abicipar, the first product of the DARPin® technology platform which had entered phase 3 of clinical development in 2015, together with our partner Allergan we achieved important milestones in 2018. The below illustration shows abicipar as a DARPin® module with its engineered PEGylated tail in order to ensure a longer duration of action in the treatment eye.

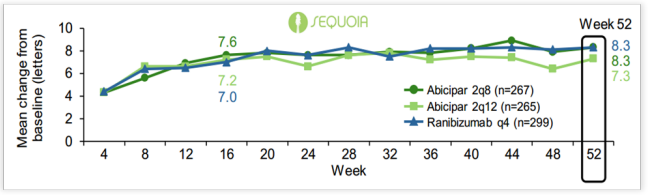


Phase 3 safety and efficacy data presented in 2018 showed that after one year of treatment patients given 6 to 8 injections of abicipar vs. 13 injections of ranibizumab had comparable efficacy in measures of stable vision (primary endpoint), visual acuity and retinal thickness (secondary endpoints). Initial vision gains for both abicipar treatment regimens of either 2 mg abicipar every 12 weeks (2q12) or every 8 weeks (2q8) were maintained throughout week 52. The anatomical data (OCT) on abicipar-treated patients showed reductions of central retinal thickness (CRT) in all arms in both studies in the same range as for ranibizumab. Based on the above we believe abicipar has the potential to become the first fixed 12-week anti-VEGF therapeutic.

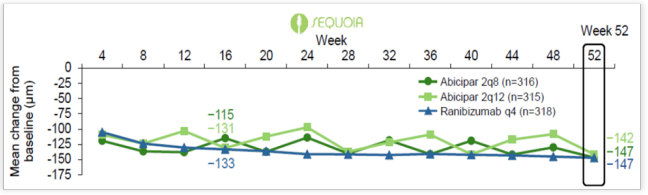
Phase 3 efficacy results (SEQUOIA study, 1-year data)



Primary Endpoint: STABLE VISION Abicipar Q8 and Q12 Non-Inferior to Ranibizumab Q4



Secondary Endpoint: Change in BCVA From Baseline Abicipar Q8 and Q12 in SEQUOIA Non-Inferior to Ranibizumab



Secondary Endpoint: Change in CRT similar across in all groups

Source: Allergan July, 2018 and October 2018

The overall incidence of treatment emergent adverse events was comparable among all three treatment groups. Abicipar-treated patients had a higher risk of developing intraocular inflammation (IOI) compared to ranibizumab-treated patients. The majority of IOI were mild to moderate and were treated with topical corticosteroids.

Allergan reiterated its plan to file abicipar with the Food and Drug Administration (FDA) in H1 2019. Additionally, Allergan expects to share results from the MAPLE trial, using a further optimized formulation of abicipar, in H1 2019 and plans the market launch of abicipar for 2020.

Partnering strategy

Molecular Partners has established multiple strategic partnerships to leverage the potential of the DARPin® platform and of DARPin® therapeutic candidates. These partnerships have allowed the company to broaden and accelerate clinical trials, providing a nearer horizon of access for patients in need of novel treatments. Partnerships have also provided significant funding sources to cross-finance the company's proprietary pipeline in oncology and immuno-oncology.

The company is proud to have the following **partnerships** in place:

- Allergan partnership to leverage the DARPin® candidates in ophthalmology
- Amgen partnership for the clinical development and commercialization of MP0310
- AstraZeneca suply agreement for Tagrisso® to test MP0250 combination with Tagrisso® in EGFR-mut NSCLC

Strategic collaboration with Allergan in ophthalmology

Molecular Partners and Allergan entered into a broad discovery alliance in ophthalmology in 2012 aiming to develop novel multi-DARPin® molecules for diseases with high unmet medical need. This alliance broadened the companies' initial collaboration on abicipar which was entered in 2011.

In late 2017, Allergan exercised two options to develop and commercialize DARPin® product candidates from its 2012 discovery alliance agreement with Molecular Partners. In February 2018, Allergan exercised one additional option to develop and commercialize DARPin® product candidates under the same agreement. Following these option exercises, Molecular Partners granted Allergan an exclusive license to the selected DARPin® molecules for use in ophthalmology.

The option exercises underline the value of the DARPin® platform to deliver potential patient benefit in ophthalmology. Under the discovery alliance, Molecular Partners is responsible for generating the DARPin® product candidates and Allergan will lead the development and will bear all related development costs. For the abicipar collaboration alone, $360 million milestone payments are open for both indications, wet AMD and DME. The majority of these milestone payments are due to the company upon market launch of abicipar in different territories. Moreover, Molecular Partners is eligible to collect double-digit royalties up to the mid-teens on future abicipar revenues.

Strategic collaboration with Amgen to develop MP0310

On December 19, 2018, the company announced a collaboration and license agreement with Amgen for the clinical development and commercialization of MP0310 (FAP x 4-1BB). Under the terms of the agreement, Amgen obtains exclusive global development and commercial rights for MP0310. Together with Amgen we evaluate MP0310 in combination with Amgen's oncology pipeline products, including its investigational BiTE® (bispecific T cell engager) molecules. Under the collaboration, our company retains certain rights to develop and commercialize our proprietary DARPin® pipeline products in combination with MP0310. Amgen has a rich pipeline of T cell engagers, and this collaboration agreement will allow us to test multiple combinations of MP0310 with other agents, leveraging the potential of M0310.

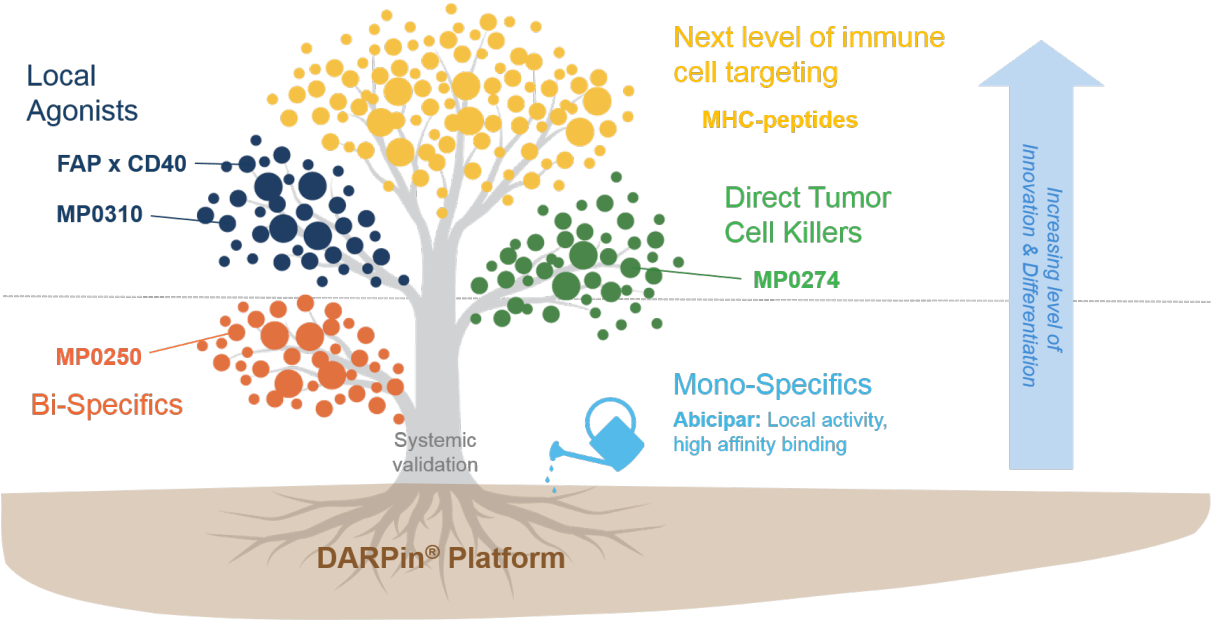
In January 2019, we collected the upfront payment of USD 50 million from Amgen corresponding to the collaboration agreement. The company is further eligible to receive up to USD 497 million in development, regulatory and commercial milestone payments, as well as double-digit, tiered royalties up to the high teens. We agreed with Amgen to share the clinical development costs in defined percentages for the first three indications subject to certain conditions. For all additional clinical trials, Amgen is responsible for all development costs.

R&D summary and outlook

A number of important R&D milestones for Molecular Partners are upcoming in 2019. We will initiate the second phase 2 trial of MP0250 in MM, and amend the existing trial, as detailed above, to evaluate MP0250 in two strictly defined resistance settings. We plan to report initial data from our trials on MP0250 in EGFR-mutated NSCLC and MP0274 in HER2-positive tumors in 2019. We also look forward to initiating the first-in-human trial of MP0310 with our partner Amgen in H2 2019.

In parallel to these activities, we continue our research activities to augment our DARPin® toolbox and enable new functionalities for future DARPin® therapeutic candidates. In this way, our DARPin® portfolio will evolve as the field of medicine changes, continuing to deliver groundbreaking novel therapeutics that should lead us towards our corporate purpose of moving the needle of medicine for patients in need.

The evolution of our individual product candidates with an increasing complexity of functions fulfilled, fully reflects the corporate development of Molecular Partners. Our company has started with abicipar in a known biology in ophthalmology. We subsequently moved into classic oncology to then further advance into IO where we strive to differentiate with our tumor local approach. Today we have reached a stage where we address innovative research themes which go beyond the space easily addressable by the antibodies.



"We are in urgent need of new medicines for all those with cancer – including many we know personally. This thought keeps me motivated to give my best."

Denis

Corporate Governance Report

The information published in this report follows the SIX Swiss Exchange (**SIX**) Directive on Information Relating to Corporate Governance dated March 20, 2018 (Directive on Corporate Governance, **DCG**).

1. Company Organization and Shareholders

1.1 Group Structure

Molecular Partners AG (the **Company**) is a listed company located at Wagistrasse 14, 8952 Schlieren, Switzerland. For information regarding place of listing, market capitalization, securities number and ISIN, please refer to pages 19f of the Annual Report.

The Company is the sole shareholder of the following non-listed subsidiary:

Company	Registered Office	Shares	Par Value
Molecular Partners Inc.	Cambridge, USA	10,000	USD 0.0001 per share

1.2 Significant Shareholders and Groups of Shareholders

As of December 31, 2018 the largest shareholders of the Company disclosed to the Company based on the most recent published shareholding notifications to the SIX Swiss Exchange are:

Shareholders	Shares held[1]	% of Voting Rights[2]
Hansjoerg Wyss	2,041,347	9.70%
Index Ventures Associates IV Limited	1,695,917	8.06%
Essex Woodlands Health Ventures VIII, LLC	1,620,247	7.70%
Andreas Plückthun	1,018,995	4.84%
Johnson & Johnson	880,203	4.18%
Pictet Asset Management (Direction de Fonds)	862,742	4.10%
Michael Tobias Stumpp[3]	703,910	3.34%
Patrick Amstutz[4]	661,900	3.15%
GAM Holding AG	642,242	3.05%
UBS Funds Management (Switzerland) AG	632,018	3.00%

1 This table presents the shares held by the shareholders listed therein. The options, performance share units (PSUs) and restricted share units (RSUs) held by such shareholders are not included in the table above. For an overview of the options, PSUs and RSUs held by members of the Board of Directors and Management Board, please refer to note 20 of the Company only Financial Statements on page 135 of this Annual Report.
2 Based on the share capital registered in the Commercial Register as of Dec. 31, 2018 (i.e. CHF 2,104,406.20, divided into 21,044,062 registered shares).
3 750,106 shares according to the Company share register as of Dec. 31, 2018 (corresponding to 3.56% of voting rights).
4 692,549 shares according to the Company share register as of Dec. 31, 2018 (corresponding to 3.29% of voting rights).

As of December 31, 2018, there were no published shareholder lock-up groups or other groups of shareholders in place. The individual disclosure notifications published on the reporting platform of the SIX Swiss Exchange Disclosure Office regarding the shareholdings in the Company can be accessed at https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

1.3 Cross-shareholdings

There are no cross-shareholdings of the Company that exceed 5% of the capital shareholdings or voting rights on both sides.

2. Capital Structure

2.1 Ordinary Share Capital

On December 31, 2018, the issued share capital of the Company amounted to CHF 2,122,859.30 divided into 21,228,593 fully paid up registered shares with a par value of CHF 0.10 per share.

The Company's share capital registered with the Commercial Register as of December 31, 2018, amounted to CHF 2,104,406.20, divided into 21,044,062 fully paid up registered shares with a par value of CHF 0.10 per share.[2]

2.2 Authorized Share Capital

As of December 31, 2018, the Company had an authorized share capital in the amount of up to CHF 565,986 through the issuance of up to 5,659,860 fully paid up shares with a par value of CHF 0.10 each, which is valid until April 18, 2020. This authorized capital of CHF 565,986 equates to approximately 27% of the existing share capital.

The Board of Directors is authorized to determine the issue price, the type of payment, the time of the issuance, the conditions for the exercise of the preemptive rights and the date from which the shares carry the right to dividends. The Board of Directors can issue new shares by means of an underwriting by a bank or another third party with a subsequent offer of these shares to the existing shareholders or third parties (if the preemptive rights of the existing shareholders have been denied or not been duly exercised). The Board of Directors is authorized to permit, to restrict or to deny the trade of preemptive rights. The Board of Directors may permit preemptive rights that have been granted but not exercised to expire or it may place these rights respectively the shares as to which preemptive rights have been granted but not exercised, at market conditions or use them for other purposes in the interest of the Company.

The Board of Directors is further authorized to restrict or deny the preemptive rights of shareholders and to allocate them to third parties (i) for the acquisition of companies, parts of companies or participations, for the acquisition of products, intellectual property or licenses, for investment projects or for the financing or refinancing of such transactions through a placement of shares, (ii) for the purpose of broadening the shareholder constituency or in connection with a listing of shares on domestic or foreign stock exchanges, (iii) if the issue price of the new shares is determined by reference to the market price, (iv) for purposes of granting an over-allotment option (Greenshoe) of up to 20% of the total number of shares in a placement or sale of shares to the respective initial purchasers or underwriters, (v) following a shareholder or a group of shareholders acting in concert having accumulated shareholdings in excess of 15% of the share capital registered in the commercial register without having submitted to the other shareholders a takeover offer recommended by the Board of Directors, or (vi) for the defense of an actual, threatened or potential takeover bid, in relation to which the Board of Directors has not recommended to the shareholders acceptance on the basis that the Board of Directors has not found the takeover bid to be financially fair to the shareholders.

[2] As a result of the exercise of 184,531 stock options exercised throughout the year 2018, the Company's share capital increased (out of conditional capital) by CHF 18,453,10 from CHF 2,104,406.20 to CHF 2,122,859.30. This capital increase was registered with the Commercial Register on February 20, 2019.

2.3 Conditional Share Capital

As of December 31, 2018, the conditional share capital actually available under Article 3b of the Article of Association amounted to CHF 241,185.70 divided into 2,411,857 registered shares with a par value of CHF 0.10 per share. This conditional share capital can be used for the direct or indirect issuance of shares, options or preemptive rights thereof granted to employees and members of the Board of Directors as well as to members of any advisory boards. For more details, please refer to Article 3b of the Company's Articles of Incorporation (the **Articles**)[3]. This conditional capital of CHF 241,185.70 equates to approximately 11% of the existing share capital.

In addition pursuant to Article 3c of the Articles, the share capital may be increased in an amount not to exceed CHF 400,000 through the issuance of up to 4,000,000 fully paid up shares with a par value of CHF 0.10 per share through the exercise or mandatory exercise of conversion, exchange, option, warrant or similar rights for the subscription of shares granted to shareholders or third parties alone or in connection with bonds, notes, options, warrants or other securities or contractual obligations by or of the Company. This conditional capital of CHF 400,000 equates to approximately 19% of the existing share capital.

2.4 Changes to Capital Structure

The changes in share capital during the last three financial years are as follows:

As of 31 Dec	Issued Ordinary Capital	Authorized Capital	Available Conditional Capital (Article 3b)[2]	Available Conditional Capital (Article 3c)
2018	CHF 2,122,859.30[1]	CHF 565,986	CHF 241,185.70	CHF 400,000
2017	CHF 2,104,406.20[3]	CHF 565,986	CHF 259,638.80	CHF 400,000
2016	CHF 2,072,434.50	CHF 565,986	CHF 291,610.50	CHF 400,000

1 For more details, please refer to Section 2.1 on page 39 above.
2 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf
3 As of December 31, 2017, the issued share capital of the Company amounted to CHF 2,104,406.20 whereas the registered share capital amounted to CHF 2,072,434.50. The capital increase was registered with the Commercial Register on January 30, 2018.

2.5 Participation Certificates and Profit-sharing Certificates

The Company has not issued participation certificates or profit-sharing certificates.

2.6 Convertible Bonds and Options

There are no outstanding convertible bonds on the Company's securities.

Details of the restricted share units (each a **RSU**) and performance share units (each a **PSU**) issued to members of the Board of Directors, the Management Board and other employees or consultants are set out in the Compensation Report of the Company on pages 65 and 135 of this Annual Report.

[3] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf

The table below shows the outstanding options granted to the Board of Directors, the Management Board, other employees and consultants as of December 31, 2018:

No. of options outstanding	Latest expiry date	Exercise price	Subscription ratio	Amount of share capital concerned (in CHF)
6,905	31.08.2019	CHF 1.15	1:1	691
351,917	30.09.2022	CHF 2.31	1:1	35,192
5,400	19.11.2023	CHF 6.05	1:1	540
21,682	10.07.2024	CHF 6.06	1:1	2,168
478,293	31.10.2024	CHF 6.94	1:1	47,829
864,197				**86,420**

The above number of outstanding options equates to approximately 4% of the existing share capital. Should all these options been exercised, the issued share capital would amount to CHF 2,209,279.

The number of outstanding options held by the individual members of the Board of Directors and the Management Board can be found in note 20 to the Company only Financial Statements on page 135 of this Annual Report.

3. Shareholders' Participation

3.1 Shareholders' Voting Rights

The Company has only one class of shares and each registered share grants one vote.

For practical reasons shareholders must be registered in the share register no later than six (6) business days before the general meeting of shareholders in order to be entitled to vote. The Board of Directors approves the deadline for the entry of shareholders in the share register when it approves the invitation to the Annual General Meeting. Except for the cases described under section 3.2 below, there are no voting rights restrictions limiting the Company's shareholder's rights.

3.2 Limitation on Transferability of Shares and Nominee Registration

Voting rights and appurtenant rights associated therewith may be exercised in relation to the Company by a shareholder, usufructuary of shares or nominee only to the extent that such person is recorded in the share register as a shareholder with voting rights. The Company's shares are freely transferable, but an acquirer of shares will only be recorded upon request in the share register as a shareholder with voting rights, if such acquirer expressly declares to have acquired the shares in his own name and for his own account.

Persons who do not declare to hold the shares for their own account (Nominees) may be recorded by the Company as shareholders with voting rights in the share register, if such Nominee has entered into an agreement regarding its position with the Company and is subject to a recognized banking or finance supervision.

After hearing the registered shareholder concerned, the Board of Directors may cancel the registration of such shareholder as a shareholder with voting rights in the share register with retroactive effect as of the date of registration, if such registration was made based on false or misleading information. The relevant shareholder shall be informed of the cancellation.

In special cases, the Board of Directors may grant exemptions from the rule concerning Nominees. In 2018, no such exemptions were granted.

The limitations on the transferability of shares may be removed by an amendment of the Company's Articles by a shareholders' resolution requiring the approval of at least two-thirds of the votes and the absolute majority of the par value of shares, each as represented at the general meeting of shareholders.

3.3 Shareholders' Dividend Rights

Since its inception, the Company has paid no dividends or other distributions and does not anticipate paying dividends or other distributions in the foreseeable future.

In order for the Company to declare and pay distributions, the distribution must be approved by shareholders holding an absolute majority of the shares represented at the general meeting of shareholders. The Board of Directors may propose distributions in the form of an ordinary dividend or in the form of a distribution of cash or property that is based upon a reduction of the Company's share capital recorded in the commercial register.

Ordinary dividends may be paid only if the Company has sufficient distributable profits from previous years or freely distributable reserves to allow the distribution of a dividend, in each case, as presented on the balance sheet in the Company only Financial Statements, prepared in accordance with with the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations).

A distribution of cash or property that is based upon a reduction of the Company's share capital requires a special audit report confirming that the claims of the Company's creditors remain fully covered by the Company's assets despite the reduction in the share capital recorded in the commercial register.

3.4 Shareholders' Participation Rights

A shareholder may be represented at the general meeting of shareholders only by the independent voting rights representative (unabhängiger Stimmrechtsvertreter) (by way of a written or electronic proxy), his legal representative or, by means of a written proxy, another shareholder with the right to vote. All shares held by one shareholder must be represented by only one representative.

One or more shareholders whose combined shareholdings represent an aggregate par value of at least CHF 1,000,000 or at least 10 percent of the share capital may request that an item be included on the agenda of a general meeting of shareholders. Such inclusion of an item on the agenda must be requested in writing at least 45 calendar days prior to the meeting and shall specify the agenda items and proposals of such shareholders.

The Articles do not contain provisions regarding the issuing of instructions to the independent voting rights representative (unabhängiger Stimmrechtsvertreter).

4. Board of Directors

4.1 Responsibilities, Organization and Working Methods

The Articles[4] provide that the Board of Directors shall consist of a minimum of 3 members and maximum of 11 members. As of December 31, 2018, the Board of Directors consisted of 7 members. Members (including the chairman of the Board of Directors (the **Chairman**)) are appointed to and removed from the Board of Directors exclusively by shareholders' resolution.

The essential roles and responsibilities of the Board of Directors, the Chairman, and the standing Committees of the Board are defined by the Company's Articles[5] and the Organizational Rules[6] (including Charters for the Nomination and Compensation Committee[7], the Audit and Finance Committee[8] and the Science Committee[9]). The allocation of tasks within the Board of Directors is determined annually, following the Annual General Meeting and in accordance with the Articles and the Organizational Rules.

The Board of Directors is entrusted with the ultimate direction of the Company's business and the supervision of the persons entrusted with the Company's management. The Board of Directors represents the Company towards third parties and manages all matters which have not been delegated to another body of the Company by law, the Articles or by other regulations.

The Board of Directors may elect from among its members a vice-chairman (the **Vice-Chairman**), and shall also appoint a secretary (the **Secretary**) who need not be a member of the Board of Directors. Should the Chairman be temporarily unable or unavailable to exercise his or her functions, his or her functions shall be assumed by the Vice-Chairman. Resolutions of the Board of Directors are passed by way of the majority of the votes cast. In the case of a tie, the acting Chairman has the deciding vote. Subject to the second succeeding sentence, to validly pass a resolution, a majority of the members of the Board of Directors must attend the meeting or be present by telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. The Chairman may seek a resolution in writing for urgent or routine matters, provided that no member of the Board of Directors requests oral deliberations. No quorum is required for confirmation resolutions and amendments of the Articles in connection with capital increases or measures related thereto pursuant to articles 651a, 652e, 652g and 653g of the Swiss Code of Obligations or approvals pursuant to articles 23 et seq. of the Swiss Federal Merger Act.

The Chairman or, should he or she be unable to do so, any other member of the Board of Directors shall convene meetings of the Board of Directors if and when the need arises or whenever a member indicating the reasons so requests in writing. Meetings may also be held by telephone or video conference. Notice of meetings shall be given at least 10 days prior to the meeting and the notice shall set forth the agenda. The items on the agenda of the meetings of the Board of Directors shall be determined by the Chairman. Each member may request an item to be put on the agenda.

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[4] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf

[5] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf

[6] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190205-organizational-rules.pdf

[7] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/charter-of-the-compensation-committee-20141003.pdf

[8] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/charter-of-the-audit-committee-20141003.pdf

[9] In February 2019, the Science Committee was renamed as "Research and Development Committee". http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190205-charter-research-and-development-committee.pdf

The Board of Directors meets at least on a quarterly basis. In 2018, the Board of Directors met three times in person, and in addition conducted seven meetings by telephone conference. The vast majority of the members was present at each Board meeting. Physical Board meetings lasted in average approximately four hours, telephone conference meetings for approximately one hour. The Board of Directors also held ad hoc meetings or telephone conferences to discuss specific issues, when the situation so required.

The Management Board presents reports and the Board of Directors then takes decisions on the relevant issues, except where the Board of Directors has delegated specific decisions to a Committee.[10] If the Management Board presents its report to a Committee, the Committee takes a preliminary decision, which is reported along with the details of the issue to the entire Board of Directors, which then takes the final decision.

In accordance with Swiss law, the Articles and the Company's Organizational Rules[11], the Board of Directors has delegated the Company's management to the chief executive officer of the Company (the **CEO**).

4.2 Information and Control Instruments Vis-à-vis the Management Board

The Board of Directors receives regular reports from the Management Board regarding the financial and business situation of the Company as required by the situation and at least on a quarterly basis. In addition, the Audit and Finance Committee receives, and the Board of Directors reviews and approves, semi-annual and annual financial results from the Management Board before they are released to the public.

A system of internal controls has been in place in 2018, designed to (i) safeguard the assets and income of the Company, (ii) assure the integrity of Company's financial statements and (iii) maintain compliance with the Company's ethical standards, policies, plans and procedures, and with laws and regulations. The design and implementation of this system of internal controls is assessed by the Audit and Finance Committee.

The Audit and Finance Committee receives and critically reviews the Company only and the IFRS consolidated financial statements as well as the reports prepared by the external auditor, which includes audit findings and recommendations, including any material audit adjustments, material changes of accounting policies, methods applied to account for unusual transactions, serious difficulties encountered in dealing with the Management Board during the performance of the audit, subsequent events, and recommendations for reviewing internal controls for the next financial year. The Audit and Finance Committee discusses these matters with the CFO and the CEO and, should the occasion warrant, with the external auditor.

The Chairman of the Audit and Finance Committee reports and updates the Board of Directors at the next board meeting on the Audit and Finance Committee's activities, decisions taken and considerations which led to such decisions. Important findings arising from the Audit and Finance Committee's activities, which are urgent and should be known by the Chairman of the Board of Directors immediately, are reported by the Chairman of the Audit and Finance Committee forthwith to the Chairman of the Board of Directors. Upon request of the Chairman of the Board of Directors, the Chairman of the Audit and Finance Committee shall report on any other issue.

4.3 Elections and Term of Office

The shareholders elect the members of the Board of Directors and the Chairman of the Board of Directors individually at a general meeting of shareholders for a maximum term of office of one year. Members of the Board of Directors may be re-elected at any time.

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[10] Please refer to Section 4.6 on page 48 of this Corporate Governance Report for more details on areas of responsibilities of each Board committee.

[11] For more details on the powers and duties of the CEO, please refer to Section 15 of the Organizational Rules available under the following link: http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190205-organizational-rules.pdf

4.4 Members

The following table sets forth the name, function and committee membership of each member of the Board of Directors as of December 31, 2018, followed by a short description of each member's nationality, birth year, business experience, education and activities.

As of December 31, 2018	Nationality	Function	Committee Membership(s)	First elected	End current period
William M. Burns	British	Chairman	Nomination and Compensation Committee (Chair), Audit and Finance Committee	2017	2019
Dr. Göran Ando	Swedish	Vice-Chairman	Nomination and Compensation Committee	2010	2019
Dr. Gwen Fyfe	U.S.	Member	Science Committee	2017	2019
Steven H. Holtzman	U.S.	Member	Audit and Finance Committee	2014	2019
Dr. William A. Lee	U.S.	Member	Nomination and Compensation Committee Science Committee (Chair)	2007	2019
Dr. Petri Vainio	Finnish	Member	Audit and Finance Committee (Chair)	2009	2019
Dr. Patrick Amstutz	Swiss	Member	-	2017	2019

As of December 31, 2018, all members of the Board of Directors are non-executive, except Patrick Amstutz, CEO. None of the members of the Board of Directors have any significant business connections with the Company or were a member of the Management Board of the Company, except for Patrick Amstutz who has been a member of the Management Board of the Company since its inception. The following changes occurred in the membership of the Board of Directors during 2018: Jörn Aldag, Andreas Plückthun and Jeff Buchalter did not stand for re-election at the 2018 annual general meeting and left the Board of Directors on 18 April 2018.

The business address for the Board of Directors is Wagistrasse 14, 8952 Schlieren, Switzerland.

From left to right: Petri Vainio, Gwen Fyfe, Göran Ando (Vice-Chairman), William A. Lee, William M. Burns (Chairman), Patrick Amstutz and Steven H. Holtzman

William M. Burns, British national, born in 1947

William "Bill" Burns is the Chairman of Molecular Partners. Mr. Burns worked for Roche in various positions for 28 years culminating in the position as CEO of Roche Pharmaceuticals (2001-2009) and board seats at Roche (2010-2014), Genentech (2004-2014) and Chugai Pharmaceutical (2002-2014). He was non-executive Director (2011-2014) and Chairman (2014-2016) of BioTie Therapies Corp. Since 2010, he has been Non-Executive Director of Shire Pharmaceuticals, and from 2016 Senior Independent Director. He stepped down from the Shire Board in April 2018. Since 2011, Mr. Burns has been a non-executive director of Vestergaard S.A. He became Chairman of Vestergaard in 2017. Mr. Burns has been Vice-Chairman of Mesoblast since 2016. He is a Trustee and Governor of the Welcome Trust Ltd. and a Trustee of the Institute of Cancer Research, London. He is also a member of the Novo Holdings Advisory Group and a member of the Scientific Advisory Board Member of the Center for Integrated Oncology of the University of Cologne/Bonn. Mr. Burns holds a bachelor's degree in economics from the University of Strathclyde, Glasgow.

Dr. Göran Ando, Swedish national, born in 1949

Dr. Göran Ando is the Vice-Chairman of Molecular Partners. He is the retired Chairman of the board of directors of Novo Nordisk A/S. He was CEO of Celltech Group plc, UK, until 2004. Dr. Ando joined Celltech from Pharmacia, now Pfizer, US, where he was Executive Vice President (EVP) and President of Research and Development (R&D) with additional responsibilities in manufacturing, information technology, business development and Mergers & Acquisitions (M&A) (1995-2003). He was Medical Director, moving to deputy R&D Director and then R&D Director of Glaxo Group, UK (1989-1995). Dr. Ando was also a member of the Glaxo Group Executive Committee. He is a specialist in general medicine and a founding fellow of the American College of Rheumatology in the U.S. Dr. Ando serves as Chairman of the board of directors of EyePoint Pharma, USA, and is a member of the board of directors of EUSA Pharma, UK, PAREXEL, U.S and Tessa Therapeutics, Singapore. Dr. Ando also serves as a Senior Advisor to EW Healthcare Partners and Advisor to the Board of EDBI, Singapore. Dr. Ando has been a member of the board of directors of Novo Holdings A/S, Denmark, from which he stepped down as of March 15, 2018. Dr. Ando qualified as a medical doctor at Linköping Medical University, Sweden, in 1973 and as a specialist in general medicine in 1978.

Dr. Gwen Fyfe, U.S. national, born in 1952

Dr. Gwen Fyfe has more than 20 years of drug development experience in oncology. She held various positions at Genentech from 1997-2009, including vice president, oncology development, playing an important role in the development of Genentech's approved oncology agents including Rituxan®, Herceptin®, Avastin® and Tarceva®. Since leaving Genentech in 2009, she has been a consultant for venture capital firms and for a variety of biotechnology companies. Dr. Fyfe is a recognized expert in the broader oncology community and has been an invited member of Institute of Medicine panels, National Cancer Institute working groups and grant committees and American Society of Clinical Oncologists oversight committees. Dr. Fyfe is a member of the board of directors of Array BioPharma Inc and Cascadian Therapeutics. She is a graduate of Washington University School of Medicine and a board certified pediatric oncologist.

Steven H. Holtzman, U.S. national, born in 1954

Steven H. Holtzman joined Decibel Therapeutics as president and chief executive officer in 2016. Decibel discovers and develops novel therapeutic approaches to treat hearing and balance disorders. Prior to Decibel, he served as executive vice president, corporate development at Biogen, Inc. At Biogen, Mr. Holtzman created and led the program leadership and management group through six new drug approvals. He also led the business development and M&A group through successful completion of numerous transactions. Prior to Biogen, Mr. Holtzman served as the founder, chief executive officer and chair of the board of directors of Infinity Pharmaceuticals, Inc., a cancer drug discovery and development company. He was also an early leader and the chief business officer of Millennium Pharmaceuticals (now Takeda Oncology), a pioneer in largescale genetics and genomics, and was a founder, member of the board and the executive vice president of DNX Corporation, the first transgenic animal company. Mr. Holtzman is a member of the board of directors of Decibel

Therapeutics. In the not-for-profit arena, Mr. Holtzman is currently a trustee of the Berklee College of Music and a Senior Fellow at the Belfer Center for Science and International Affairs at the Harvard University Kennedy School; previously he served as the vice chairman of the board of trustees of the Hastings Center for Ethics and the Life Sciences and, from 1996 to 2001, as a Presidential appointee to the U.S. National Bioethics Advisory Commission. Mr. Holtzman received his BA in philosophy from Michigan State University and his B Phil graduate degree in philosophy from Oxford University, which he attended as a Rhodes Scholar.

Dr. William A. Lee, U.S. national, born in 1955

Dr. William "Bill" Lee is Executive Vice President Research at Gilead Sciences. Dr. Lee joined Gilead as Director of Pharmaceutical Product Development in 1991. Prior to joining Gilead, he was Department Head of Drug Delivery and Formulation at California Biotechnology, Inc. (1986-1991) and a research scientist at Syntex Corporation (1985-1986). He received his PhD in Physical Organic Chemistry from the University of California at San Diego and did postdoctoral work at the Ecole Polytechnique Federal Lausanne (EPFL) and the University of California at Santa Barbara. Dr. Lee is a co-inventor of Cellcept, Viread and tenofovir alafenamide (Vemlidy; Genvoya; Descovy; Odefsey). He is a member of the real estate partnership Elevation 6000 LLC and a member of the board of directors of Amygdala Neurosciences, Inc.

Dr. Petri Vainio, Finnish national, born in 1959

Petri Vainio, MD, PhD, has spent his entire career as an investor and board member in rapidly growing healthcare companies. Dr. Vainio is a Managing Director and Chairman of the Executive Committee of EW Healthcare Partners. He has been a lead investor in numerous successful healthcare companies in all sectors, including pharmaceuticals, biotechnology, medical devices and healthcare services. Dr. Vainio has served on the board of directors of over 20 private and public healthcare companies and has helped these companies raise over USD 1 billion in private financings and create a combined enterprise value of over USD 60 billion. Dr. Vainio joined Essex Woodlands as Managing Director and opened their London office in 2004. In the past he sat on boards including those of Intuitive Surgical, and Theravance. He serves currently on the board of directors of EUSA Pharma (UK) Ltd. Prior to joining Essex Woodlands, Dr. Vainio spent more than 10 years as a General Partner of Sierra Ventures, one of Silicon Valley's leading venture capital firms with over USD 1 billion under management. While at Sierra, he was a General Partner of five successive funds and led their healthcare investment practice. Dr. Vainio holds a Doctor of Medicine and a Doctor of Philosophy degree in Biochemistry from the University of Helsinki and a Master in Business Administration degree from Stanford University.

Dr. Patrick Amstutz, Swiss national, born in 1975

Dr. Patrick Amstutz has been Chief Executive Officer of Molecular Partners since November 2016. From 2014 to 2016, he was Chief Operating Officer and from 2006 to 2014, Chief Business Officer. He co-founded Molecular Partners and has been a member of the Company's management team since its inception in 2004. As Chief Operating Officer and Chief Business Officer, Dr. Amstutz was responsible for business development, alliance management and research and development (R&D) operations. He has established a wide range of commercial collaborations and licensed several key technologies. Since 2017, Patrick Amstutz has been Vice-President of the Board of the Swiss Biotech Association. Dr. Amstutz holds a Master of Science from the ETH Zurich and a PhD in molecular biology from the University of Zurich.

As an executive of the Company (CEO), Patrick Amstutz is not member of any committees of the Board of Directors of the Company.

4.5 Rules Regarding Mandates in the Articles of Association

According to Article 33 of the Articles[12], the number of mandates in the Board of Directors of legal entities which are to register in the Swiss Commercial Register or a similar foreign register outside the group is limited for each member of the Board of Directors to 15 mandates. Mandates in different legal entities being part of the same group or for the same group are deemed to be one mandate. Mandates in associations, charitable organizations, family trusts and foundations relating to post-retirement benefits are not subject to the above limitations. No member of the Board of Directors shall hold more than 10 such mandates.

Apart from what has specifically been mentioned in section 4.4 above, none of the members of the Board of Directors holds any position of relevance under the aspect of corporate governance in any:

a. governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law;

b. permanent management and consultancy functions for important Swiss and foreign interest groups; or

c. official functions and political posts.

4.6 Board Committees

The Board of Directors has established an Audit and Finance Committee, a Nomination and Compensation Committee and a Science Committee. The duties and objectives of the board committees are set forth in the Articles, the charter of the Audit and Finance Committee[13], the charter of the Nomination and Compensation Committee[14] and the charter of the Science Committee.[15]

4.6.1 Audit and Finance Committee

The chairperson and the other members of the Audit and Finance Committee are appointed by the Board of Directors. The term of office of the members of the Audit and Finance Committee is one year. Re-election is possible.

The function of the Audit and Finance Committee is to make an independent assessment of the quality of the external auditors, the financial statements and the internal controls of the Company. In particular, the Audit and Finance Committee[16] (i) assesses the quality and effectiveness of the external audit, (ii) assesses the internal control system, including risk management and the efficiency and state of compliance and monitoring with applicable norms within the Company, (iii) critically reviews the Company's financial statements, discusses them with the CEO and the Company's Chief Financial Officer and, separately, with the external auditors and decides whether the year-end financial statements be recommended to the Board of Directors for presentation to the annual shareholders' meeting, (iv) assesses the performance and the fees charged by the external auditors, ascertains their independence and examines compatibility of the auditing responsibilities with any consulting mandates, (v) discusses with the management of the Company any legal matters that may have a material impact on the Company only or the consolidated financial statements and any material reports or inquiries from regulatory or governmental agencies which could materially impact the Company's contingent liabilities or risks and (vi) supports the Board of Directors with regard to

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[12] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf

[13] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/charter-of-the-audit-committee-20141003.pdf

[14] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/charter-of-the-compensation-committee-20141003.pdf

[15] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190205-charter-research-and-development-committee.pdf

[16] As a rule, the Audit and Finance Committee has the power to take decisions. The approval of the internal control system and the approval of the Company only and IFRS consolidated financial statements remains subject to the decision of the entire Board of Directors.

the financial planning as well as in establishing principles of accounting and financial control and review finance policy and operation in treasury controlling, insurance, taxes, investments and acquisitions.

The Audit and Finance Committee holds meetings as often as required, but in any event at least twice a year. In 2018, the Audit and Finance Committee held five meetings of approximately one hour each. The meetings are convened by the Chairperson of the Audit and Finance Committee on his or her own initiative or on the initiative of a member of the Audit and Finance Committee.

As of December 31, 2018, the Audit and Finance Committee consisted of Dr. Petri Vainio (chairperson), William M. Burns and Steven Holtzman.

4.6.2 Nomination and Compensation Committee

The Nomination and Compensation Committee supports the Board of Directors in establishing and reviewing the compensation strategy and guidelines as well as in preparing the compensation plans and proposals to the general meeting of shareholders regarding the compensation of the Board of Directors and the Management Board. The Nomination and Compensation Committee administers the compensation plans and submits proposals for performance metrics, target values and other compensation-related issues to the Board of Directors. Following a meeting of the Nomination and Compensation Committee, the chairperson of the Nomination and Compensation Committee reports and updates the Board of Directors at the next board meeting on the Nomination and Compensation Committee's activities, decisions taken and considerations which led to such decisions. Important findings arising from the Nomination and Compensation Committee's activities, which are urgent and should be known by the Chairman of the Board of Directors, must be reported immediately by the chairperson of the Nomination and Compensation Committee to the Chairman of the Board of Directors. Upon request of the Chairman, the chairperson of the Nomination and Compensation Committee shall report on any other issue. Please refer to page 58 of the Compensation Report for an overview of the tasks of the Nomination and Compensation Committee regarding compensation and the items which remain subject to the approval of the entire Board of Directors.

The members of the Nomination and Compensation Committee are appointed by the shareholders' meeting for a term of office extending until completion of the next ordinary shareholders' meeting. Re-election is possible. The Nomination and Compensation Committee consists of not less than two members. In case of vacancies on the Nomination and Compensation Committee, the Board of Directors appoints from among its members substitutes for a term of office extending until completion of the next ordinary shareholders' meeting.

The Nomination and Compensation Committee holds meetings as often as required, but in any event at least twice a year. In 2018, four meetings of the Nomination and Compensation Committee took place and lasted on average for one hour and a half. The meetings are convened by the chairperson of the Nomination and Compensation Committee on his or her own initiative or on the initiative of a member of the Nomination and Compensation Committee. The chairperson of the Nomination and Compensation Committee reports and updates the Board of Directors at the next board meeting on the recent Nomination and Compensation Committee's activities.

As of December 31, 2018, the Nomination and Compensation Committee consisted of William M. Burns (chairperson), Dr. William Lee and Dr. Göran Ando.

4.6.3 Science Committee

The Science Committee[17] provides (i) strategic advice and bring recommendations to Management and the Board of Directors regarding current and planned research and development programs, (ii) strategic advice to the Board of Directors regarding emerging science and technology issues and trends and (iii) a review of the effectiveness and competitiveness of the research and development function. The Science Committee is only acting in an advisory capacity.

The members of the Science Committee are elected by the Board of Directors for a term of office extending until completion of the next ordinary general meeting of shareholders. The Board of Directors may remove and replace individual members at any time. A majority of the members should have scientific background. The Science Committee shall consist of not less than two members of the Board of Directors. All members may be re-elected.

The Science Committee holds meetings as often as required, but in any event at least twice a year. In 2018, five meetings of the Science Committee took place and lasted in average for three hours. The meetings are convened by the chairperson of the Science Committee on his or her own initiative or on the initiative of a member of the Science Committee. The chairperson of the Science Committee reports and updates the Board of Directors at the next board meeting on the recent Science Committee's activities. The Science Committee invited from time to time internal experts or external consultant join part of the committee meeting.

As of December 31, 2018, the Science Committee consisted of Dr. William Lee (chairperson) and Dr. Gwen Fyfe.

4.7 Compensation of Board of Directors, Loan and Credit Facilities and Shareholdings

Information about compensation of the Board of Directors and loans, credit facilities and post-employment benefits can be found in the Compensation Report of the Company at page 65ff of this Annual Report. Information about shareholdings of the Board of Directors can be found in note 20 to the Company only financial statements of the Company on page 135 of this Annual Report.

5. Management Board

5.1 Responsibilities and Organization

In accordance with Swiss law, the Articles[18] and the Organizational Rules[19] and subject to those affairs that lie within the responsibility of the Board of Directors by law, the Articles and the Organizational Rules, the Board of Directors has delegated the executive management of the Company to the CEO, who is supported by the other members of the Management Board.

Under the control of the Board of Directors, the CEO, together with the other members of the Management Board, conducts the operational management of the Company pursuant to the Organizational Rules and reports to the Board of Directors on a regular basis.

5.2 Election

The members of the Management Board are appointed by the Board of Directors.

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[17] In February 2019, the Science Committee was renamed as "Research and Development Committee".

[18] http://investors.moleculARpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf

[19] http://investors.moleculARpartners.com/~/media/Files/M/Molecular-Partners/articles/20190205-organizational-rules.pdf

5.3 Members

The following table sets forth the name and principal position of each member of the Management Board as of December 31, 2018, followed by a short description of each member's nationality, birth year, business experience, education and activities.

Name	Appointed	Position
Dr. Patrick Amstutz	2016	Chief Executive Officer (from 2014 to 2016 Chief Operating Officer, from 2006 to 2014 Chief Business Officer)
Andreas Emmenegger	2007	Chief Financial Officer
Dr. Andreas Harstrick	2015	Chief Medical Officer
Dr. Michael Tobias Stumpp	2018	Chief Operating Officer (from 2006 to 2018 Chief Scientific Officer)
Dr. Pamela Trail	2018	Chief Scientific Officer

The business address for each member of the Management Board is Wagistrasse 14, 8952 Schlieren, Switzerland.

Dr. Patrick Amstutz, Swiss national, born in 1975

Dr. Patrick Amstutz has been Chief Executive Officer of Molecular Partners since November 2016. From 2014 to 2016, he was Chief Operating Officer and from 2006 to 2014, Chief Business Officer. He co-founded Molecular Partners and has been a member of the Company's management team since its inception in 2004. As Chief Operating Officer and Chief Business Officer, Dr. Amstutz was responsible for business development, alliance management and research and development (R&D) operations. He has established a wide range of commercial collaborations and licensed several key technologies. Since 2017, Patrick Amstutz has been Vice-President of the Board of the Swiss Biotech Association. Dr. Amstutz holds a Master of Science from the ETH Zurich and a PhD in molecular biology from the University of Zurich.

Andreas Emmenegger, Swiss national, born in 1966

Andreas Emmenegger is Chief Financial Officer (CFO) and Co-Entrepreneur of Molecular Partners since 2007. Prior to that, he was CFO of Glycart Biotechnology AG where he had a leading role in the CHF 235 million trade sale to F. Hoffmann-La Roche AG in 2005. Mr. Emmenegger was Head of Strategic Alliance Finance (Genentech) for Roche Headquarters, Basel, Switzerland. He has more than 20 years of experience as a CFO of several public and private multinational companies, of which 15 years are in the biotech industry. In these CFO roles, he raised overall around CHF 1 billion through public and private primary offerings as well through secondary transactions. He led the IPOs at the SIX Swiss Exchange of Molecular Partners in 2014 and of Interroll Holding AG in 1997. In addition, Mr. Emmenegger has more than 10 years of international industry experience in banking, capital markets, M&A and human resources. He is also a co-founder of Piqur Therapeutics AG, Switzerland, a venture-backed privately held biopharmaceutical company, and was a member of its board of directors from 2011 to 2018. Since 2016, he has been a member of the board of directors of the Luzerner Kantonalbank, Switzerland, a publicly listed bank. Mr. Emmenegger holds a degree in finance, economics and business administration as well as an Executive MBA degree from IESE Business School, Barcelona.

Dr. Andreas Harstrick, German national, born in 1961

Dr. Andreas Harstrick has been Chief Medical Officer since 2015. He received his MD degree from the University of Hannover in 1986. After spending 12 years in academic medicine at the University of Hannover and the West German Cancer Center in Essen, he moved to the pharmaceutical industry in 1998. He held the position of Senior Vice President (SVP) Oncology Development at Merck Serono from 1998 to 2008. In this function, he had the medical responsibility for all development compounds in oncology and had the medical oversight for the clinical development and registration program of Erbitux in all territories outside of North America. From 2008 to 2014, he was the SVP for Development and Medical Sciences at Imclone. In this function, he was responsible for the design and conduct of all Imclone clinical trials. His major achievements were the design and successful completion of the phase 3 programs for Ramucirumab and Necitumumab. In addition, he was member of the Imclone/Lilly oncology development board and leader of the Lilly Erbitux team.

Dr. Michael Tobias Stumpp, German national, born in 1972

Dr. Michael Tobias Stumpp is Chief Operating Officer of Molecular Partners. Dr. Stumpp is a co-founder of Molecular Partners and before assuming the role of the COO, he was Chief Scientific Officer of the company. Dr. Stumpp was part of the team working on designed repeat proteins as next-generation protein drugs at University of Zurich that also invented the DARPin® technology, for which he received his PhD from the University of Zürich. Since Molecular Partners' inception, he also oversaw the DARPin® pipeline. Dr. Stumpp started his scientific career at the ETH Zurich and then progressed to the Imperial College London and the Tokyo Institute of Technology. Dr. Stumpp has published his research in many international peer reviewed scientific journals and presented his findings at numerous congresses.

Dr. Pamela A. Trail, US national, born in 1955

Dr. Pamela Trail has served as Chief Scientific Officer of the company since June 2018 and oversees the internal research and development activities including the internal pipeline. Prior to joining Molecular Partners, Dr. Trail served as Vice President Oncology Strategy at Regeneron Pharmaceuticals from August 2010 to March 2017, Vice President Oncology Research at MedImmune from 2008 to 2010, Founder and Principal of AGL Biotechnology Consultants from 2007 to 2008 and as Chief Scientific Officer at Seattle Genetics from 2006 to 2007. Dr. Trail held various positions at Bayer Healthcare from 2000 to 2006, including Global Head of Oncology Research and Vice President of Protein Therapeutics Research. Before joining Bayer, Dr. Trail held various positions at Bristol-Myers Squibb Pharmaceuticals Research Institute from 1986 to 2000, including Director of Oncology Cell and Tumor Biology, Group Leader Drug Targeting Research, and Principal Investigator, Department of Experimental Therapeutics. Dr. Trail received her PhD in 1983 from the University of Connecticut and was a postdoctoral Research Fellow at the Memorial Sloan-Kettering Institute for Cancer Research from 1983 to 1986. Dr Trail has published more than 45 scientific papers and is an inventor on multiple US and European patents.

5.4 Rules Regarding Mandates in the Articles of Association

According to Article 33 of the Articles[20], the number of mandates of the members of the Management Board in legal entities which are to register in the Swiss Commercial Register or a similar foreign register outside the group is limited for each member of the Management Board to 5 mandates. Mandates in different legal entities being part of the same group or for the same group are deemed to be one mandate. Mandates in associations, charitable organizations, family trusts and foundations relating to post-retirement benefits are not subject to the above limitations. No member of the Management Board shall hold more than 10 such mandates.

[20] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf

Apart from what has specifically been mentioned in section 5.3 above, none of the members of the Management Board holds any position of relevance under the aspect of corporate governance in any:

a. governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law;

b. permanent management and consultancy functions for important Swiss and foreign interest groups; or

c. official functions and political posts.

5.5 Compensation of Management Board and Shareholdings

Information about compensation of the Management Board can be found in the Compensation Report of the Company on page 67 of this Annual Report. Information about shareholdings of the Management Board can be found in note 20 to the Company only financial statements of the Company on page 135 of this Annual Report.

5.6 Management Contracts

The Company may enter into employment agreements with the members of the Management Board for a fixed term or for an indefinite term. The duration of fixed term agreements may not exceed one year. A renewal of a fixed term agreement is permissible. Agreements for an indefinite term may have a termination notice period of a maximum of one year. Finally, the Company may enter into non-competition agreements with members of the Management Board for the period after the termination of the employment agreement. The duration of any such non-competition undertaking by a member of the Management Board must not exceed two years and the consideration paid for a non-competition undertaking must not exceed the sum of the total annual compensation of the respective member of the Management Board last paid. As of December 31, 2018, all five members of the Management Board held employment agreements with an indefinite term.

There are no management contracts between the Company and companies not belonging to Molecular Partners.

6. Employee Participation Programs

In order to align its employees' interests with those of the Company, the Company operates long and short term incentive plans, linked to the Company's shares. A more detailed description of these incentive plans can be found in the Compensation Report of the Company on page 63ff of this Annual Report.

7. Duty to Make a Public Tender Offer

The Company's Articles do not contain any provisions raising the threshold (opting-up) or waiving the duty (opting-out) to make a public tender offer pursuant to articles 125 and 135 of the Swiss Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA).

8. Clauses on Change of Control

The Company granted options to participating employees, members of the Board of Directors and the Management Board, consultants and advisors of the Company under several Employee Stock Option Plans (the **ESOPs**). The ESOPs contain change of control provisions. According to these provisions, there is an accelerated vesting in case of a change of control, i.e., all options vest immediately and fully upon completion of a change of control of the Company.

Under ESOP 2007 and ESOP 2009, a change of control is deemed to occur where (a) any person or group of persons directly or indirectly becomes the beneficial owner or has the right to acquire such beneficial ownership of voting securities representing fifty percent (50%) or more of the combined voting power of all outstanding voting securities of the Company, (b) the stockholders of the Company approve an agreement to merge or consolidate the Company with or into another corporation (and such other corporation also approves such agreement) as a result of which less than 50% of the outstanding voting securities of the surviving or resulting entity are or will be owned by the former stockholders of the Company, (c) the stockholders of the Company approve the sale of all or substantially all of the Company's business and/or assets to a person or entity which is not a wholly-owned subsidiary of the Company, or (d) the Board of Directors decides to list the Company on a stock exchange (the **Initial Public Offering** or **IPO**). As a consequence of (d), all options under ESOP 2007 and ESOP 2009 have fully vested as of the Company's IPO at the SIX Swiss Exchange on November 5, 2014.

Whereas vesting of options granted under ESOP 2014 is also subject to change of control acceleration, the Board of Directors amended ESOP 2014, effective from July 18, 2014, by removing the 100% accelerated vesting at an IPO (but the 100% accelerated vesting upon other forms of change of control remains in place). Any new option grants after that date were issued under this amended stock option plan and thus did not automatically vest upon the Company's IPO at the SIX Swiss Exchange on November 5, 2014.

As of 2015, the Company has two new long-term incentive plans (**LTIs**) in place. Under the Performance Share Plan, the Company may grant Performance Share Units (**PSUs**) to members of the executive management, other employees as well as selected consultants. In the event of a change of control of the Company, all PSUs, in respect of which the vesting date has not occurred by the date of the change of control, will vest immediately. Under the Restricted Share Plan, the Company may grant Restricted Share Units (**RSUs**) to members of the Board of Directors and selected consultants. In the event of a change of control of the Company, all RSUs, in respect of which the vesting date has not occurred by the date of the change of control, will vest immediately.

No other change of control provisions exist for the benefit of members of the Board of Directors or of the Management Board.

9. Auditors

9.1 Auditors

The Company's statutory auditor is KPMG AG, Badenerstrasse 172, 8036 Zurich, Switzerland.

The shareholders of the Company must appoint the auditors on an annual basis at the general shareholders' meeting.

9.2 Duration of the Mandate and Term of Office of the Auditors

KPMG AG assumed the auditing mandate of the Company in 2009. The auditor in charge and responsible for the mandate, Martin Rohrbach, began serving in this function in respect of the financial year ended December 31, 2016. The external auditor-in-charge is required by Swiss law to serve no longer than seven years. In 2018, we conducted an evaluation of our existing external auditor, KPMG AG (KPMG). Our evaluation included a tender process where we evaluated several firms and KPMG also submitted a proposal. As a result of the audit tender process, our Board of Directors decided to reappoint KPMG subject to the required shareholder approval at our 2019 Annual General Meeting.

9.3 Auditing and Additional Fees Paid to the Auditors

In CHF 1,000	2018	2017
Auditing fees	158	149
Other assurance related services[21]	822	17
Tax related services	17	—

9.4 Informational Instruments Relating to External Audits

The Audit and Finance Committee is responsible for reviewing the internal control of the accounts and finances of the Company via its supervisory role over the audit function (see section 4.2 above). The Audit and Finance Committee receives and critically reviews the Company only and IFRS consolidated financial statements as well as the reports prepared by the external auditor (see section 4.2 above). The Audit and Finance Committee discusses these with the CFO/CEO and, should the occasion warrant, with the external auditors.

The external auditors also provide timely reports to the Audit and Finance Committee on critical accounting policies and practices used, and on other material written communication with the Management Board. The Board of Directors may at any time request the auditors to conduct special audits, including interim audits, and to submit a respective report. In 2018, the Audit and Finance Committee held five meetings with the external auditors.

The Audit and Finance Committee also evaluates the independence and quality of the external auditors from a risk analysis perspective. With regard to selecting the external auditors, the Audit and Finance Committee will, from time to time[22], assess offers and presentations from several appropriate, independent external audit firms and will then make a proposal to the full Board of Directors, based on pre-defined service level and quality criteria, as to the external auditors to be recommended for election. The shareholders at the annual general meeting will give the final approval of the external auditors.

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[21] In 2018, Molecular Partners evaluated various financing options which required auditors' assurance related services

[22] See for 2018 section 9.2 above.

10. Information Policy

Molecular Partners, as a listed company, is committed to communicating in a timely and consistent way to shareholders, potential investors, financial analysts, customers, suppliers, the media and other interested parties. The Company is required to disseminate material information pertaining to its businesses in a manner that complies with its obligations under the rules of the stock exchanges where its shares are listed and traded. The Company publishes an annual report that provides audited financial statements in accordance with the International Financial Reporting Standards (IFRS), Swiss Law and the Company's Articles as well as information about the Company including the business results, strategy, products and services, corporate governance and executive remuneration. The Company also publishes its results on a semi-annual basis as press releases, distributed pursuant to the rules and regulations of SIX. The semi-annual results press releases contain unaudited financial information prepared in accordance with IFRS. Furthermore, for the sake of transparency and in addition to the annual and semi-annual reporting the Company may voluntarily publish unaudited financial information in the form of Quarterly Management Statements as of the end of the first quarter (Q1) and the end of the third quarter (Q3), respectively. Any such Quarterly Management Statements will be published as press releases, distributed pursuant to the rules and regulations of SIX. An archive containing Annual Reports, semi-annual results releases, any published Quarterly Management Statements and related presentations can be found in the Investors' section at investors.molecularpartners.com/investor-documents/annual-and-financial-reports and at investors.molecularpartners.com/investor-documents/presentations.

For the financial calendar and events, please refer to the following link: investors.molecularpartners.com/financial-calendar-and-events/2019.aspx.

To subscribe to important press releases, please register for email news releases at investors.molecularpartners.com/register-for-alerts.aspx.

Ad hoc notices can also be found in the news releases section at www.molecularpartners.com/news/.

Molecular Partners official means of communication is the Swiss Official Gazette of Commerce (www.shab.ch).

The invitation to the Company's Annual General Meeting may also be sent to registered shareholders by mail.

For investor relations related information or questions, the Company may be contacted at:

Mail: investors@molecularpartners.com or thomas.schneckenburger@molecularpartners.com
Phone: +41 44 755 7700
Molecular Partners AG, Wagistrasse 14, 8952 Schlieren, Switzerland

"Our team – and in the end our patients as well – benefit from our collaborative, inclusive and smart ways of working together."

Kristine

Compensation Report

This Compensation Report contains details of the compensation paid to members of the Board of Directors and the Management Board for the year 2018 in accordance with Section 5 of the Annex to the Directive on Corporate Governance (**DCG**) and the Ordinance Against Excessive Compensation in Public Companies (**Compensation Ordinance**).

1. Compensation Policy

Molecular Partners' success depends to a large extent on the quality and commitment of its employees. Its compensation policy is designed to attract, motivate and retain its employees. In addition, the awarding of performance-related and in particular, share-based compensation components is intended to promote an entrepreneurial mindset and approach.

2. Compensation Governance

2.1 Nomination and Compensation Committee

The Nomination and Compensation Committee supports the Board of Directors in establishing and reviewing the compensation strategy and guidelines. Further, the Nomination and Compensation Committee supports the Board of Directors in preparing the proposals to the general meeting of shareholders regarding the compensation of the Board of Directors and the Management Board.

For a more detailed description of the Nomination and Compensation Committee please refer to section 4.6.2 of the Corporate Governance Report on page 49.

2.2 The Role of the Board of Directors and the Nomination and Compensation Committee

The table below summarizes the role of the Board of Directors and the Nomination and Compensation Committee (NCC) regarding compensation matters:

Agenda Item	Proposed	Approved
Compensation report to the shareholders	NCC	Board of Directors
Compensation strategy, system and guidelines	NCC	Board of Directors
Adoption of compensation and benefit plans	NCC	Board of Directors
Definition of performance criteria (for cash bonus and PSUs) [1]	NCC	Board of Directors
Assessment of performance achievement and decision on vesting multiple for PSU plan	NCC	Board of Directors
Determination of the compensation of the Board of Directors (cash and RSUs[1])	NCC	Board of Directors[2]
Determination of the base compensation (cash) of the Management Board	NCC	Board of Directors[2]
Determination of the variable compensation (cash bonus and PSUs[1]) of the Management Board	NCC	Board of Directors[2]
Grant of PSUs and RSUs[1] other than to the Board of Directors and the Management Board	NCC	Board of Directors
Proposals to the shareholders' meeting for maximum compensation of Management Board and Board of Directors	NCC	Board of Directors
Proposals in other compensation related issues	NCC	Board of Directors

[1] PSU = performance share units, RSU = restricted share units, more details under section 3.2.3
[2] Final approval of the maximum compensation by shareholders

The Nomination and Compensation Committee informs the Board of Directors of its activities and its recommendations. As a rule, the CEO attends the meeting of the Nomination and Compensation Committee but may be required to leave the meeting for compensation and nomination matters as far as he or the Management Board is affected. As a rule, the Management Board attends the meeting of the Board of Directors, but the Board of Directors holds part of the Board meeting in absence of the Management Board in particular if the agenda topic relates to nomination or compensation matters which affects the Management Board.

In 2018, four meetings of the Nomination and Compensation Committee and the Board of Directors took place in February, March, June and November. Two meetings of the Nomination and Compensation Committee and the Board of Directors dealing with 2018 compensation and Compensation Report were held in February and March 2019. At these meetings, the Nomination and Compensation Committee and the Board of Directors discussed and approved the main following items:

February 2018:

- Assessment of achievement of corporate goals 2017
- Determination and review of corporate goals 2018
- Compensation of Board of Directors and Management Board for 2018

March 2018:

- Motions to the Annual General Meeting 2018 regarding compensation
- Compensation report 2017
- Long-term equity incentive plans 2018 and allocation of related PSUs/RSUs

June 2018:

- Interim review of achievement of corporate goals 2018
- Organization of Management Board (incl. appointment of new CSO)

November 2018

- Review of PSU plan 2019
- Benchmark of compensation of Directors and Management Board for 2019 (see section 2.3 below)

February 2019:

- Assessment of achievement of corporate goals 2018
- Determination and review of corporate goals 2019
- Compensation of Board of Directors and Management Board for 2019

March 2019:

- Motions to the Annual General Meeting 2019 regarding compensation
- Compensation report 2018
- Long-term equity incentive plans 2019 and allocation of related PSUs/RSUs

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

In summer 2017, a new compensation benchmarking study was performed by an external consultancy firm to assess market competitiveness of Molecular Partners' compensation levels for the Board of Directors (including the Chairman) and the Management Board. This compensation study has been used to benchmark the compensation 2018 of the Board of Directors (including Chairman) and Management Board. In this analysis, compensation data of 13 Swiss companies[23] (including biotechnology, medical technology and pharmaceutical companies) and 17 companies listed on the NASDAQ[24] were collected.

2.4 Rules in the Articles Regarding Compensation

The rules regarding (i) compensation of the Board of Directors and the Management Board (Articles 27 to 29), (ii) agreements regarding compensation of the Board of Directors and the Management Board (Article 30) and (iii) loans and credits, as well as post-retirement benefits (Articles 31 and 32) can be found in the Company's Articles of Association.[25]

A. Rules on Performance-Related Pay and Supplementary Amount

Article 27 of the Articles sets the principle on performance related pay, including the short-term variable compensation elements, the long-term compensation elements, the responsibilities for determining the performance metrics and target levels of the short- and long-term variable compensation elements.

According to Article 29 of the Articles, the Company shall be authorized to pay a supplementary amount of compensation ratified by the shareholders at a general meeting of shareholders to members of the executive management who joined or were promoted during a compensation period for which the maximum aggregate amount of compensation has already been approved, but is insufficient to cover compensation of such members of the executive management. The supplementary amount per compensation period per member shall not exceed 50% of the maximum aggregate amount of compensation of the executive management last approved.

B. Rules on Loans, Credit Facilities and Post-Employment Benefits

Please refer to section 4.3 below on page 68.

C. Rules on Vote on Pay at the General Meeting of Shareholders

The Compensation Ordinance requires a "say on pay" approval mechanism for the compensation of the Board of Directors and the Management Board pursuant to which the shareholders must vote separately on the compensation of the Board of Directors and the Management Board on an annual basis. In accordance therewith, Article 28 of the Articles provide that the shareholders' meeting must, each year, vote separately on the proposals by the Board of Directors regarding the maximum aggregate amounts of:

- the compensation of the Board of Directors for the next term of office (until the next annual general meeting);

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[23] Actelion, Straumann, Cosmo, Ypsomed, Tecan Group, Siegfried, Basilea, AC Immune, Bachem, Santhera, Newron Pharma, Cassiopea and Kuros.

[24] Galapagos, Intercept, Bluebird, Kite, Juno, Clovis, Morphosys, Xencor, AC Immune, Macrogenics, Epizyme, Ablynx, Merrimack, Argen-X, Immunogen, Opthotech and Pieris.

[25] http://investors.moleculartpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf

- the fixed compensation of the Management Board for the period of July 1 of the current year until June 30 of the following year; and
- the variable compensation elements of the Management Board for the current financial year.

The Board of Directors may submit for approval by the annual general meeting deviating, additional or conditional proposals relating to the maximum aggregate amount or maximum partial amounts for the same or different periods and/or specific compensation components and/or in relation to additional amounts for specific compensation components.

If the shareholders' meeting does not approve a proposal of the Board of Directors, the Board of Directors determines the maximum aggregate amount or maximum partial amounts taking into account all relevant factors and submits such amounts for approval to the same shareholders' meeting, to an extraordinary shareholders' meeting or to the next ordinary shareholders' meeting for retrospective approval.

Compensation may be paid out prior to approval by the general meeting of shareholders subject to subsequent approval.

3. Compensation Components

3.1 Principles

The compensation of the members of the *Board of Directors* consists of fixed compensation only. The total compensation takes into account the position and level of responsibility of the respective member of the Board of Directors (including Board and Committee chairmanship and membership).

The compensation of the members of the *Management Board* consists of fixed and variable compensation. Fixed compensation comprises the base salary and the corresponding pension contributions. Variable compensation comprises short-term and long-term variable compensation elements:

- The short-term variable compensation (cash bonus) is determined exclusively by the achievement of predefined annual corporate goals (see section 3.2.2 below).
- The long-term variable compensation (performance share units, PSUs) is determined based on (i) the achievement of annual corporate goals, (ii) the achievement of value driving milestones outside of such corporate goals and (iii) the development of the share price of the Company (see section 3.2.3 below).

In order to foster long-term shareholder alignment the majority of the variable compensation of the Management Board is linked to Molecular Partners' long-term incentive plans (LTI Plans; for further details, please refer to section 3.2.3 below). In summary, the compensation strategy aims at the following compensation split:

- Board of Directors: Approximately 30% fix cash fee (base fee), no short-term cash bonus and approximately 70% in form of RSUs under the LTI Plan (RSUs with 1 year vesting and 3 year blocking period);
- Management Board: Approximately 50% fix cash salary (base salary), 15% short-term cash bonus and 35% in the form of PSUs under the LTI Plan (PSUs with 3 year cliff-vesting).

The overall balance between the cash fee and the RSU component of the compensation of the Board of Directors and the fixed and variable components of the compensation of the Management Board reflects the Company's strong focus on entrepreneurial drive and ensures a high level of accountability as well as alignment with the long-term shareholder interest.

3.2 General Description of Compensation Components

Members of the Board of Directors are paid for their service over one year starting with their election at the ordinary shareholders' meeting and ending with the subsequent ordinary shareholders' meeting. Compensation of the members of the Board of Directors consists of a cash fee and RSUs. Actual expenses are borne by the Company.

Members of the Management Board are paid for their service over a 12-month period. Compensation of the members of the Management Board consists of fixed and variable compensation. The fixed compensation is paid in the form of a base compensation in cash. The variable compensation is paid in the form of a cash bonus and PSUs.

3.2.1 Base Cash Compensation

The base cash compensation for the non-executive members of the Board of Directors consists of a fixed annual fee. Such fixed annual fee is composed of a fixed fee for Board of Directors membership and additional fixed fee(s) for committee membership and/or chairperson, as applicable.

The base cash compensation of the Management Board consists of a fixed annual salary, which reflects the individual's responsibility, ability and experience. Except pension contributions, no other fixed compensation elements are granted to the Management Board.

3.2.2 Cash Bonus

Cash bonuses are awarded to reward employees and members of the Management Board. The cash bonus only depends on the level of achievement of Company predefined corporate goals during a one-year period (annual corporate goals). No other parameters are relevant for the calculation of the cash bonus. The corporate goals are the same for all employees, including the members of the Management Board (no individual goals).

At the beginning of each year, the Nomination and Compensation Committee proposes and the Board of Directors approves corporate goals for the calendar year. In February of the following year, the Nomination and Compensation Committee reviews the achievement of those predefined corporate goals set for the previous year and the Board of Directors approves such achievement.

The amount of the cash bonus in % of the base salary depends on the level of responsibility. The target bonus for the members of the Management Board are as follows:

Chief Executive Officer	50% of base salary
Other members of the Management Board (CFO, CSO, COO, CMO)	30% of base salary

The cash bonus can be between 0 **and a maximum (cap) of 120%** of the target bonus. If all corporate goals are met, 100% of the target bonus of the members of the Management Board is paid. If the corporate goals are overachieved, up to 120% of the target bonus of the members of the Management Board is paid. In any event, not more than 120% of the target bonus will be paid out.

The corporate goals for 2018 were divided into four categories with each category having a predetermined weighting:

- Goals regarding the strategy of Molecular Partners and its implementation;
- Goals regarding the value and balance of Molecular Partners' portfolio, in particular the advancement of the clinical programs (including predefined numbers of patients to be dosed), the development of the pre-clinical programs and the initiation of new research projects;
- Goals regarding financing (including partnering); and
- Goals regarding internal organization and advisory networks.

3.2.3 Long Term Incentive Plans (LTI Plans)

In 2014, the Board of Directors adopted a framework of Long Term Incentive Plans (LTI Plans). The LTI Plans 2018 were approved by the Board of Directors in March 2018. Under the LTI Plans members of the Board of Directors are eligible to be granted restricted share units (RSUs) and members of the Management Board as well as all employees are eligible to be granted performance share units (PSUs).

Restricted Share Units (RSUs)

RSUs are contingent rights to receive a certain number of shares at the end of a three-year blocking period. The number of shares to be received is not variable, i.e. the number of shares does not depend on the achievement of certain predefined performance metrics. In certain circumstances, including a change of control, a full or partial early vesting of the RSUs may occur.

Performance Share Units (PSUs)

PSUs are contingent rights to receive a variable number of shares at the end of a three-year cliff-vesting period (vesting date).

The number of the PSUs granted depends on the level of responsibility of the relevant participant. The number of the PSUs granted to the members of the Management Board are as follows:

Chief Executive Officer	100% of base salary
Other members of the Management Board (CFO, CSO, COO, CMO)	80% of base salary

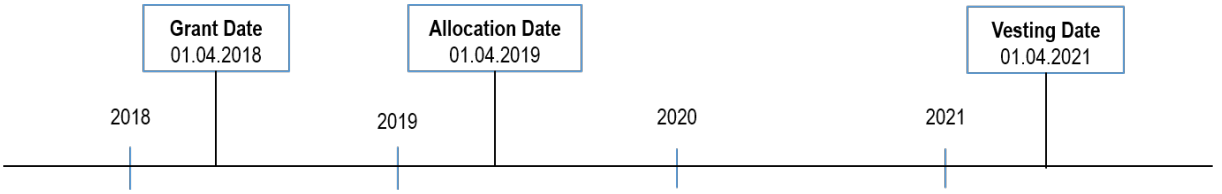
While the PSUs are designed to let the beneficiaries participate in the long-term share price development, the number of shares to be effectively earned in relation to a PSU depends on the following three factors, being evaluated after 12 months (the so-called allocation date) from the grant date:

- Achievement of the corporate goals for the year 2018: Can be between zero and up to a maximum of 80%. Please refer to section 3.2.2 for an overview of the corporate goals 2018.
- Achievement of value driving milestones outside of corporate goals 2018: Can be between zero and maximum 20%.
- Share price performance of Molecular Partners over 12 months since grant date: Can be between zero and maximum 20% (20% is reached if the share price has gone up at least 10%; 0% is reached if share price change is less/equal 0%; pro rata if share price has gone up between 0-10%). The relevant share price is the average of the last paid price of the trading days during the two months prior to the start and the end point, respectively.

Accordingly, the number of shares to be issued based on the PSUs at the end of the vesting period can be between zero and a maximum (cap) of 120% of the number of PSUs granted. Even after the determination of goal achievement (allocation date), participants may lose their entitlements in full or in part depending on certain conditions relating to their employment. In certain circumstances, including a change of control, a full or partial early vesting of the PSUs may occur.

At the beginning of each year, the Nomination and Compensation Committee proposes and the Board of Directors approves the three factors above for the calendar year. In February of the following year, the Nomination and Compensation Committee reviews the achievement of the corporate goals set for the previous year (i.e. the first factor above) and the Board of Directors approves such achievement. In March of the following year, the Nomination and Compensation Committee reviews the achievement of the two other factors and the Board of Directors approves such achievement.

From a time perspective the PSU plan 2018 can be summarized as follow:



RSUs and PSUs grants and adoption of LTI Plan for 2018:

- Existing employees received PSU grants on April 1, 2018 and the employees who joined Molecular Partners after April 1, 2018 received PSU grants depending on their entry date on July 1, 2018, October 1, 2018 or January 1, 2019.
- Members of the Management Board and the Board of Directors received their grants of PSUs and RSUs under the LTI Plan 2018 after the ordinary shareholders' meeting of 2018, i.e. after shareholders' approval of the variable compensation amounts for the year 2018.

3.2.4 Stock Options

The Company established three stock option plans in connection with two pre-IPO financing rounds that were closed in 2007 and in 2009: the Employee Stock Option Plan 2007 (the ESOP 2007) and the Employee Stock Option Plan 2009 (the ESOP 2009). In June 2014, the Board of Directors adopted an amended version of the ESOP 2009, the ESOP 2014, which did not anymore provide for accelerated vesting of options in case of an initial public offering of the Company. Options granted under the ESOP 2014 allow participating employees, members of the Board of Directors and members of the Management Board to purchase common shares at a strike price of 30% of the fair market value at grant date. All such option grants were made prior to the initial public offering of the Company in November 5, 2014. No more grants have been and will be made under these stock option plans.

As of December 31, 2018, 864,197 options were outstanding under all three option plans together. For additional information reference is made to note 18.2 of the IFRS financial statements on pages 102ff of this Annual Report.

3.3 Change of Control Clauses

Please refer to section 8 of the Corporate Governance Report of the Company on page 54 of this Annual Report.

4. Compensation for Financial Year under Review

4.1 Compensation to the Members of the Board of Directors

The tables below summarize the compensation of the members of the Board of Directors in 2018 and 2017:

Year 2018	Base compensation		RSUs		Total Compensation
in CHF 1'000	Base fee (cash gross)	Pension contributions	Number of RSUs	Value of RSUs	Total Compensation
William Burns Vice-Chairman/Chairman[1]	110	—	7,455	195	305
Jörn Aldag Former Chairman[2]	14	—	—	—	14
Dr. Göran Ando Member/Vice-Chairman[3]	23	—	2,867	75	98
Steven Holtzman Member	20	—	2,867	75	95
Dr. William A. Lee Member	31	—	2,867	75	106
Prof. Dr. Andreas Plückthun Member[4]	6	—	—	—	6
Dr. Petri Vainio Member	28	—	2,867	75	103
Jeff Buchalter Member[5]	6	—	—	—	6
Dr. Gwen Fyfe Member	21	—	2,867	75	96
Dr. Patrick Amstutz Member		—	—	—	—
Total	**259**	**—**	**21,790**	**570**	**829**

1 William Burns was elected as Chairman of the Board of Directors of Molecular Partners at the Annual General Meeting 2018, on April 18, 2018. Previous to this, he was elected as member of the Board of Directors and Vice-Chairman at an Extraordinary General Meeting on October 31, 2017.
2 Jörn Aldag remained Chairman and member of the Board of Directors of Molecular Partners until the Annual General Meeting 2018, on April 18, 2018.
3 Dr. Göran Ando was elected as Vice-Chairman of the Board of Directors of Molecular Partners by the Board of Directors on March 14, 2018.
4 Prof. Dr. Andreas Plückthun did not stand for re-election at the Annual General Meeting 2018, on April 18, 2018.
5 Jeff Buchalter did not stand for re-election at the Annual General Meeting 2018, on April 18, 2018.

Year 2017	Base compensation		RSUs		Total Compensation
	Base fee (cash gross)	Pension contributions	Number of RSUs	Value of RSUs	Total Compensation
in CHF 1'000					
Jörn Aldag Chairman	47	—	5,768	150	197
Dr. Göran Ando Member	16	—	2,884	75	91
Steven Holtzman Member	16	—	2,884	75	91
Dr. William A. Lee Member	21	—	2,884	75	96
Prof. Dr. Andreas Plückthun Member	16	—	2,884	75	91
Dr. Petri Vainio Member	31	—	2,884	75	106
Jeff Buchalter Member	21	—	2,884	75	96
Dr. Gwen Fyfe Member	10	—	2,884	75	85
William Burns Vice-Chairman	3	—	1,445	38	41
Dr. Christian Zahnd Member[1]	—	—	—	—	—
Dr. Patrick Amstutz Member[2]	—	—	—	—	—
Total	**181**	**0**	**27,401**	**713**	**894**

1 Christian Zahnd remained a member of the Board of Directors of Molecular Partners until the Annual General Meeting 2017, on May 11, 2017. He has never been compensated for his position as member of the Board of Directors. For his compensation as former member of the Management Board, please refer to section 4.2 below.

2 Patrick Amstutz is not compensated for his position as member of the Board of Directors. For his compensation as CEO of the Company, please refer to section 4.2 below.

The total compensation paid to the Board of Directors in 2018 decreased compared to 2017 due to the reduction of the numbers of directors. Besides the Chairman's compensation, the individual compensation to the members of the Board of Directors has remained largely unchanged in 2018 compared to 2017. Bill Burns, as new Chairman, brings a vast experience in all steps of the drug development, as well as marketing and commercialization, which is critical expertise for Molecular Partners in its current development phase. Bill Burns also supports as a mentor the first time CEO and the Management Board. In addition, the Chairman's fee includes Bill Burns' participation to the Nomination and Compensation Committee (as Committee Chair), to the Audit and Finance Committee (as member) and to the Science Committee (as guest).

In 2018, the portion of compensation delivered in the form of RSUs (based on the fair value of the RSUs at grant) amounted to 69% (2017: 80%) of the total compensation paid to the members of the Board of Directors.

The compensation paid out to the Board of Directors in 2018 and 2017 did not exceed the respective budgets approved by the annual general meetings for the year 2018 and 2017.

Compensation Paid to Former Members of the Board of Directors

In 2018 and 2017, no compensation was paid to former members of the Board of Directors.

4.2 Compensation to the Management Board in 2018 and 2017

The tables below summarize the compensation of the members of the Management Board in 2018 and 2017:

Year 2018	**Fixed compensation**		**Variable compensation**			**Total Compensation**
in CHF 1'000	Base salary (cash gross)	Pension contributions	Bonus (cash gross)	Number of PSUs	Value of PSUs	Total Compensation
Total Management	1,609	158	466	45,042	1,244	3,477
Patrick Amstutz (CEO)	346	53	164	12,003	346	909

Year 2017	**Fixed compensation**		**Variable compensation**			**Total Compensation**
in CHF 1'000	Base salary (cash gross)	Pension contributions	Bonus (cash gross)	Number of PSUs	Value of PSUs	Total Compensation
Total Management	1,268	143	370	38,457	1,088	2,869
Patrick Amstutz (CEO)	344	53	142	12220	346	885

The aggregate compensation paid to the Management Board has increased due to the appointment of an additional member of the Management Board in June 2018 (see following paragraph). The individual base salaries of the other members of the Management Board remained unchanged in 2018 compared to 2017.

Pamela Trail was appointed Chief Scientific Officer of the Company and member of the Management Board on June 21, 2018, i.e. after the Annual General Meeting held on April 18, 2018 which approved the fixed compensation budget of the Management Board for the period from July 1, 2018 through June 30, 2019, and the variable compensation budget of the Management Board for the year ended December 31, 2018. As a result, for the year ended December 31, 2018, TCHF 237 of Pamela Trail's fixed compensation was paid out of the supplementary amount pursuant to Article 29 of the Company's articles of association. Furthermore, out of TCHF 1,609 indicated as base salary in the 2018 table above, TCHF 127 relate to fees paid to Ms. Trail in connection with services rendered by her in her capacity as Chief Scientific Officer under a consultancy agreement prior to her current employment agreement taking effect on August 20, 2018. Prior to her appointment to the Management Board as Chief Scientific Officer, Ms. Trail rendered services to the Company under a consultancy agreement. See note 22 ("Related Party Transactions") of the IFRS consolidated Financial Statements on page 109 for further information.

As described above in relation with the supplementary amount pursuant to Article 29 of the Company's articles of association, the fixed compensation paid out to the Management Board in 2018 did exceed the fixed compensation budget approved by the annual general meeting 2018. The variable compensation paid out to the Management Board in 2018 did not exceed the variable compensation budget approved by the annual general meeting 2018. The compensation paid out to the Management Board in 2017 did not exceed the budget approved by the annual general meeting 2017.

For the entire Management Board, the variable compensation (cash bonus and PSUs based on the fair value of the PSUs at grant date; excluding social security and pension contributions) represented 49% of the total compensation in 2018 (2017: 51%).

Compensation Paid to Former Members of the Management Board

In 2018 no compensation was paid to former members of the Management Board.

In 2017, the compensation shown in the table below was paid to Christian Zahnd. He resigned for health reasons from his position as CEO on November 7, 2016, but remained a member of the Board of Directors of Molecular Partners until the Annual General Meeting 2017, on May 11, 2017. Christian Zahnd passed away on November 11, 2017.[26]

Year 2017	**Fixed compensation**		**Variable compensation**			**Total Compensation**
in CHF 1'000	Base salary[1] (cash gross)	Pension contributions	Pension contributions	Number of PSUs	Value of PSUs	Total Compensation
Dr. Christian Zahnd	379	32	64	—	—	475

[1] The amount below is composed of ordinary salary, compensation for outstanding vacation and payments under Molecular Partners' health insurance policy.

4.3 Loans, Credit Lines, Post-retirement Benefits to Board of Directors, Management Board and Related Persons

In accordance with the Compensation Ordinance, the Articles[27] provide that loans and credit lines to members of the Board of Directors and the Management Board may solely be granted at standard market rates and that the aggregate amount of loans and credit lines to the member of the Board of Directors or the Management Board may not exceed double the total annual compensation of the respective member last paid or payable for the first time. In addition, the Articles[28] provide that the Company may grant to members of the Board of Directors and the Management Board post-retirement benefits beyond the occupational benefit scheme only if such post-retirement benefits do not exceed 100% of the total annual compensation of the respective member last paid.

As of December 31, 2018 and 2017, the Company has not granted any loans, credit lines or post-retirement benefits beyond the occupational benefit schemes to members of the Board of Directors or the Management Board. Furthermore, the Company has not paid any compensation to nor granted any loans or credit lines to former members of the Board of Directors or related persons other than at market conditions.

5. Share Ownership Information

Shares and options owned by the members of the Board of Directors and the Management Board are disclosed in note 20 of the Company only Financial Statements on page 135 of this Annual Report.

[26] Christian Zahnd's death led to the early vesting of the PSU 2015 (in full) and the PSU 2016 (pro rata temporis) according to the PSU plans 2015 and 2016. In addition, options from the ESOP 2009 and ESOP 2014 vested according to the applicable option plans.

[27] See Article 31 of the Articles

(http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf)

[28] See Article 32 of the Articles

(http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf)

Report of the Statutory Auditor

To the General Meeting of Molecular Partners AG, Schlieren

Report on the Audit of Compensation Report

We have audited the accompanying compensation report dated March 13, 2019 of Molecular Partners AG for the year ended December 31, 2018. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in section 4 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration 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 remuneration 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 remuneration 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 remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration 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 remuneration report for the year ended December 31, 2018 of Molecular Partners AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Martin Rohrbach
Licensed Audit Expert
Auditor in Charge

Judith Herold
Licensed Audit Expert

Zurich, March 13, 2019

IFRS Consolidated Financial Statements

Consolidated statement of financial position as of December 31,		2018	2017
in CHF thousands	Note		
Assets			
Property, plant and equipment	6	1,455	1,871
Intangible assets	7	382	27
Total non-current assets		**1,837**	**1,898**
Short-term time deposits	11	—	9,745
Prepaid expenses and accrued income	9	2,746	349
Trade and other receivables	10	51,615	1,115
Cash and cash equivalents	11	98,958	131,316
Total current assets		**153,319**	**142,525**
Total assets		**155,156**	**144,423**
Shareholders' equity and liabilities			
Share capital	12	2,123	2,104
Additional paid-in capital		179,438	175,349
Cumulative losses		(89,857)	(60,724)
Total shareholders' equity		**91,704**	**116,729**
Contract liability	15	20,876	—
Deferred revenues	15	—	9,539
Employee benefits	18	5,711	4,014
Total non-current liabilities		**26,587**	**13,553**
Trade and other payables	13	2,645	1,291
Accrued expenses	14	6,386	3,971
Contract liability	15	27,834	—
Deferred revenues	15	—	8,879
Total current liabilities		**36,865**	**14,141**
Total liabilities		**63,452**	**27,694**
Total shareholders' equity and liabilities		**155,156**	**144,423**

See accompanying notes, which form an integral part of these consolidated financial statements.

The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information has not been restated.

The financial statements for December 31, 2018 are the first financial statements presented on a consolidated basis.

Consolidated statement of comprehensive loss for the year ended December 31,		2018	2017
in CHF thousands	Note		
Revenues			
Revenues from research and development collaborations		10,355	19,816
Other revenues		—	200
Total revenues	5	**10,355**	**20,016**
Operating expenses			
Research and development expenses	16	(38,203)	(37,453)
General and administrative expenses	16	(9,562)	(8,407)
Total operating expenses		**(47,765)**	**(45,860)**
Operating result		**(37,410)**	**(25,844)**
Financial income	19	804	611
Financial expenses		(430)	(197)
Net financial result		**374**	**414**
Result before income taxes		**(37,036)**	**(25,430)**
Income taxes	20	—	—
Net result, attributable to shareholders		**(37,036)**	**(25,430)**
Other comprehensive result			
Items that will not be reclassified to profit or loss			
Remeasurement of net pension liabilities, net of tax	18	(1,075)	1,970
Other comprehensive result, net of tax		**(1,075)**	**1,970**
Total comprehensive result, attributable to shareholders		**(38,111)**	**(23,460)**
Basic and diluted net result per share	21	(1.75)	(1.22)

See accompanying notes, which form an integral part of these consolidated financial statements.

The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information has not been restated.

The financial statements for December 31, 2018 are the first financial statements presented on a consolidated basis.

Consolidated cash flow statement for the year ended December 31,		2018	2017
in CHF thousands			
	Note		
Net result		(37,036)	(25,430)
Adjustments for:			
Depreciation and amortization	6 / 7	924	1,145
Share-based compensation costs	18	3,716	3,594
Change in employee benefits	18	622	262
Deferred revenues recognized in profit or loss	15	—	(18,876)
Contract liability recognized in profit or loss	5	(10,355)	—
Financial income	19	(804)	(611)
Financial expenses		430	197
Changes in working capital:			
Change in prepaid expenses and accrued income		(2,435)	174
Change in trade and other receivables		(50,830)	(317)
Change in trade and other payables		1,389	(118)
Change in contract liability		49,625	—
Change in accrued expenses		2,415	95
Exchange gain/(loss) on working capital positions		(33)	(51)
Other financial income/(expense)		(102)	(86)
Net cash from (used in) operating activities		**(42,474)**	**(40,022)**
Proceeds from investments in short term time deposits		39,973	40,181
Investments in short term time deposits		(30,228)	(19,435)
Acquisition of property, plant and equipment	6	(456)	(481)
Acquisition of intangible assets	7	(411)	(19)
Net proceeds from disposal of property, plant and equipment	6	4	—
Interest received		731	618
Net cash from (used in) investing activities		**9,613**	**20,864**
Exercise of stock options, net of transaction costs	12	392	799
Net cash from (used in) financing activities		**392**	**799**
Exchange gain/(loss) on cash positions		111	(60)
Net decrease in cash and cash equivalents		**(32,358)**	**(18,419)**
Cash and cash equivalents at January 1	11	131,316	149,735
Cash and cash equivalents at December 31		**98,958**	**131,316**

See accompanying notes, which form an integral part of these consolidated financial statements.

The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information has not been restated.

The financial statements for December 31, 2018 are the first financial statements presented on a consolidated basis.

Consolidated statement of changes in equity

in CHF thousands	Share capital	Additional paid-in capital	Treasury shares	Cumulative losses	Total shareholders equity
At January 1, 2017	**2,072**	**171,140**	**(152)**	**(37,265)**	**135,795**
Net result				(25,430)	(25,430)
Remeasurement of net pension liabilities [1]				1,971	1,971
Total comprehensive income	**—**	**—**	**—**	**(23,459)**	**(23,459)**
Share-based compensation costs [1]	—	3,594	—	—	3,594
Exercise of stock options, net of transaction costs [2]	32	615	152	—	799
At December 31, 2017	**2,104**	**175,349**	**—**	**(60,724)**	**116,729**
Cumulative effect of change in accounting principles, net of tax [3]				8,978	8,978
At January 1, 2018	**2,104**	**175,349**	**—**	**(51,746)**	**125,707**
Net result	—	—	—	(37,036)	(37,036)
Remeasurement of net pension liabilities [1]	—	—	—	(1,075)	(1,075)
Total comprehensive income	**—**	**—**	**—**	**(38,111)**	**(38,111)**
Share-based compensation costs [1]	—	3,716	—	—	3,716
Exercise of stock options, net of transaction costs [2]	19	373	—	—	392
At December 31, 2018	**2,123**	**179,438**	**—**	**(89,857)**	**91,704**

(1) See note 18
(2) See note 12
(3) See note 4

See accompanying notes, which form an integral part of these consolidated financial statements.

The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information has not been restated.

The financial statements for December 31, 2018 are the first financial statements presented on a consolidated basis.

Notes to the IFRS Consolidated Financial Statements

1. General Information

Molecular Partners AG ("Company'") and its subsidiary (collectively "Molecular Partners", "Group") is a clinical stage biopharmaceutical company applying its pioneering DARPin® product engine to treat serious diseases, with an initial focus on oncology, immuno-oncology and ophthalmology. The Company was founded on November 22, 2004, and is domiciled at Wagistrasse 14, 8952 Schlieren, Canton of Zurich, Switzerland. It is subject to the provisions of the articles of association and to article 620 et seq. of the Swiss Code of Obligations, which describe the legal requirements for limited companies ("Aktiengesellschaften").

Molecular Partners Inc. is a wholly owned subsidiary of Molecular Partners AG. Molecular Partners Inc. was incorporated in the United States in the State of Delaware on October 8, 2018. Molecular Partners Inc. had no operations and no result of operations to report as of December 31, 2018. Molecular Partners Inc. will be based in Cambridge, Massachusetts.

These audited consolidated financial statements as at and for the twelve-month period ended December 31, 2018 comprise Molecular Partners AG and Molecular Partners Inc.

These are the first consolidated financial statements of the Company, which is a result of the incorporation of its sole wholly owned subsidiary Molecular Partners Inc. The inclusion of the subsidiary had no material impact on the consolidated financial statements as of December 31, 2018, and therefore the comparison period for the consolidated financial statements as of December 31, 2018 are presented by the standalone financial statements as of December 31, 2017.

The Company's shares are listed on the SIX Swiss Exchange (Ticker: MOLN) since November 5, 2014.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of Molecular Partners for the years ended December 31, 2018 and the Molecular Partners AG standalone financial statements for the year ended December 31, 2017 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the IASB. The accounting policies set forth below have been consistently applied to all years presented, except for changes related to the application of IFRS 9 and IFRS 15, which are described later in note 2. Unless stated otherwise, all financial statements are presented in thousands of Swiss Francs ("TCHF").

The consolidated financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4 "Critical accounting estimates and judgments".

The consolidated financial statements as of and for the period ended December 31, 2018 were approved for issuance by the Company's Board of Directors on March 13, 2019.

Due to rounding, the numbers presented in the financial statements might not precisely equal the accompanying notes.

Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated.

New or Revised IFRS Standards and Interpretations

The following new or revised standards that became effective on January 1, 2018 did not have a material effect on these consolidated financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Group adopted IFRS 9, Financial Instruments and IFRS 15, Revenues from Contracts with Customers, as per January 1, 2018. Changes to significant accounting policies and related impacts are described later in this note.

The following new or revised standards have been published but are not yet effective and have not been early adopted by the Group:

- IFRS 16 Leases. The Group will apply this standard from its effective date, January 1, 2019.
- Other interpretations and amendments not material or relevant to the Group.

The Group does not expect any significant impacts on its consolidated financial statements from the adoption of the new or revised standards listed above, with the exception of IFRS 16. IFRS 16 Leases will replace IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The estimated main effect on the Group is that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for almost all leases and will therefore increase total assets and total liabilities by approximately CHF 3.5 million. The Group has identified real estate leases for office space and animal facilities as the most significant lease classes. Under the new standard there is expected to be an insignificant increase on the operating result due to the replacement of the operating lease expenses with amortization of the lease assets. This increase would be partially or entirely offset by higher interest expense resulting in an insignificant impact on net result. Management is currently finalizing the assessment of the precise impact of this new standard.

The Group will apply this new standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption.

Segment Reporting

The Group operates in one segment, focusing on the discovery, development and prospective commercialization of a new class of biopharmaceutical products. The executive management, acting together as the chief operating decision makers, assess the financial performance and allocate resources on an aggregated level, and monitor the Group's operating expenses. Accounting policies

applied are the same for both internal and external reporting purposes. The Group derives its research and collaboration revenues from research and development collaborations with third parties.

Foreign Currency Translation

The consolidated financial statements are presented in thousands of CHF. The presentation currency of the Group is the functional currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

• monetary assets and monetary liabilities are translated at the closing rate at the date of the respective balance sheet;

• non monetary assets and liabilities are initially recognized at the effective exchange rate at the date of the recognition and are not subsequently revalued

• income and expenses for each statement of profit or loss and comprehensive income or loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates at the dates of the transactions); and

• all resulting exchange differences are recognized in other comprehensive income.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Depreciation is calculated on a straight-line basis over the expected useful lives of the individual assets or asset categories. The applicable estimated useful lives are as follows:

Laboratory equipment:	5 years
Office equipment:	3 years
IT hardware:	2 years

Leasehold improvements are depreciated over the shorter of their estimated useful life and the lease term. Subsequent costs are included in each asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down to its recoverable amount, if the asset' carrying amount exceeds its estimated recoverable amount.

Cost and accumulated depreciation related to assets retired or otherwise disposed are derecognized at the time of retirement or disposal and any resulting gain or loss is included in profit or loss in the period of retirement or disposal.

Intangible assets

Intangible assets currently solely comprise of IT software. They are stated at historical cost less accumulated amortization and any impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Amortization is calculated on a straight-line basis over the expected useful lives of the individual assets or asset categories. The applicable estimated useful life of intangible assets is determined to be two years.

Leases

Leases of assets under which Molecular Partners essentially assumes all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized as assets and liabilities at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. The assets acquired under these contracts are depreciated over the shorter of the estimated useful life of the asset and the lease term. No such finance lease contracts existed during the reporting period.

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases, and payments made are charged to profit or loss on a straight-line basis. Except for facility lease contracts, no such operating lease contracts existed during the reporting period.

Impairment of non-financial assets

Non-financial assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds their recoverable amount. An impairment loss is recognized for this difference. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Financial assets at amortized costs

The implementation of IFRS 9 Financial instruments resulted in changes to the classification and measurement of financial assets previously reported under IAS 39.

Classification
Cash and cash equivalents / short term deposits / trade and other receivables (except for VAT and withholding taxes) (and when applicable accrued interest income) are all considered held-to-collect items and are labeled under financial assets measured at amortized costs, with the following definition / accounting policy:

Financial assets measured at amortized costs are assets if both of the following conditions are met: (1) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities longer than 12 months after the balance sheet date. These are classified as non-current assets. Interest income on the short term deposit is accounted for on the statement of comprehensive loss as financial income.

Measurement
Initially, financial assets, except for trade receivables, are measured at their fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset; for the Group these are considered to be immaterial. Trade receivables are initially measured at their transaction price.

Subsequent measurement for the financial assets mentioned above which are classified as measured at amortized cost, is based on the effective interest method, reduced by any impairment loss.

For financial assets measured at amortized cost, a loss allowance for expected credit losses on the financial assets shall be recognized. Measurement of any impairment loss is now based on the 'expected credit loss' (ECL) model, which is based on a predictive model. The loss allowance for a financial instrument shall be measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group shall measure the loss allowance / impairment loss for that financial instrument at an amount equal to 12-month expected credit losses. Historically the Group applied the incurred loss model. This change had no impact on the reported financial statements. Please also see further below in this note where the implementation of IFRS 9 Financial Instruments is presented.

For trade receivables, the Group applies a simplified approach which requires expected credit losses to be recognized from initial recognition (measuring the loss allowance at an amount equal to lifetime expected credit losses). This takes into consideration past history, combined with predictive information which takes into consideration the specific circumstances of the customer (e.g. credit rating etc.), and other relevant factors such as the economic environment.

Other financial assets at amortized costs
Other receivables generally arise from transactions outside the usual operating activities of the Group

Financial liabilities at amortized costs

Trade payables and non-employee related accrued expense will be measured at amortized costs and classified as financial liabilities.

Cash and Cash Equivalents

Cash includes cash at banks. The Group considers all short-term, highly liquid investments convertible into known amounts of cash with maturities of three months or less from the date of acquisition to be cash equivalents. The cash flow statement is based on cash and cash equivalents.

Share Capital / Additional Paid-in Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds. The Company has not paid any dividends since its inception and does not anticipate paying dividends in the foreseeable future.

Treasury Shares

The amount of the consideration paid for the acquisition of treasury shares, which includes directly attributable costs, is recognized as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in additional paid-in capital.

Income Taxes

Income taxes include current and deferred taxes. Current income taxes are recognized on taxable profits at applicable tax rates.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets are recognized if it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group reassesses unrecognized deferred tax assets and the carrying amount of recognized deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized.

The amount of deferred tax liabilities and deferred tax assets reflects the tax consequences on the balance sheet date of the Group's expectation of recovery or settlement of the carrying amounts of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the statement of financial position. They are offset against each other if they relate to the same taxable entity and tax authority.

The Company did not have to pay income taxes in the presented reporting periods for 2018 and 2017. The Company's accumulated taxable losses may be used as tax loss carry forwards to offset future taxable income over a period of seven years in Switzerland. No deferred tax assets have been established for these losses, because the Company does not have a history of sustainable taxable profits, increasing research costs are expected to be incurred in the foreseeable future and future revenues are highly volatile and uncertain. No deferred tax assets were recognized on deductible temporary differences on pension liabilities for the same reasons.

Molecular Partners Inc. had no taxable income to report in 2018.

Employee Benefits

Postretirement benefits (pension plans)
The Company provides retirement, death and disability benefits to its employees in line with local customs and requirements through two separate plans, which are both accounted for as defined benefit plans.

The first plan is the compulsory defined benefit plan which is funded through employer (60%) and employee (40%) contributions to VSAO, a Switzerland based plan. This Company-wide plan has been in place since inception of the Company and all employees of the Company are eligible to its benefits. On retirement, the plan participant will receive his or her accumulated savings, which consist of all contributions paid in by the employer and the employee (net of any withdrawals) and the interest granted on those savings at the discretion of the pension foundation.

At that time, the plan participant has the right to choose between a lump-sum payment and an annuity, or a combination thereof. The annuity is calculated using a fixed conversion rate determined by the pension foundation. The VSAO's plan assets are pooled and the Company's share is calculated based on its share of retirement savings. Additional funding requirements may be determined by the pension foundation in case of a severe underfunding. Should the Company withdraw from the plan, the withdrawal may qualify as a partial liquidation under Swiss law.

The second plan is a voluntary complementary defined management benefit scheme established as of January 1, 2014, in which only employees with an annual base salary exceeding CHF 150,000 are eligible to participate. 22 of the 24 eligible employees participated in this plan as of December 31, 2018. This plan is set up as a collective foundation with Swiss Life, a Switzerland-based insurance company, for which contributions are 30% funded by the employee and 70% funded by the Company. The purpose of this voluntary plan is to allow higher savings opportunity in a tax effective manner and risk benefits for senior management. In addition, plan participants are entitled to a lump sum payment of five times their annual base salary in case of death. This is a fully insured Swiss pension plan that covers certain risks, including invalidity and death.

The VSAO pension plan accounts for over 90% of both the Company's defined benefit obligation and plan assets. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. As of December 31, 2018, the Company had pension liabilities in the amount of TCHF 5,482 (see note 18.1). They are determined on an actuarial basis using a number of assumptions, such as the discount rate and expected salary increases applied to determine the defined benefit obligation and an estimate of the fair value of plan assets, attributable to the Company (the main plan being a multi-employer pension plan). In determining the appropriate discount rate, for example, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. In determining the fair value of plan assets, the Company adds to the participants' savings a share of the pension plan's technical and fluctuation reserves. Additional information is disclosed in note 18.1.

Current and past service costs as well as the net interest on the defined benefit obligation are recognized in profit or loss in the period in which they are incurred, and are presented as part of personnel expenses. Remeasurements of the defined benefit pension plans are recognized in other comprehensive income.

Share-based compensation
The Company operates share-based compensation plans that qualify as equity-settled plans. The fair value of the employee services received in exchange for the grant of equity instruments is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted, which is determined at grant date. The fair values are determined by management with the assistance of an independent valuation expert. At each reporting date, estimates of the number of equity instruments that are expected to vest are revised. The impact of the revision of the previous estimates, if any, is recognized as part of share-based compensation (non-cash effective) with a corresponding adjustment to equity. When the vested equity instruments are exercised, any proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid-in capital.

Bonus plan
The Company recognizes an accrual where contractually obliged or where there is a past practice that has created a constructive obligation. Bonuses are based on a formula that takes into consideration the achievement of the Company's goals.

The Group is in the process of setting up employee benefits that are specific for the US entity.

Revenue recognition

Revenues include fees (upfront and milestone payments) received in connection with out-licensing of products and in connection with R&D collaborations. These revenues are non-refundable and are recognized as per the nature of each individual agreement. Typically, these agreements include future performance obligations such as maintenance of patents, research and development support and services, memberships in joint steering committees and other involvement in the collaborations. For the implementation of IFRS 15, Revenues from Contracts with Customers, as per January 1, 2018, please refer to the end of this note.

Research and Development Expenses

Research and development expenses as disclosed in note 16 consist primarily of compensation and other expenses related to:

- research and development personnel;
- preclinical studies and clinical trials of the Company's product candidates, including the costs of manufacturing the product candidates;
- research and services performed under collaboration agreements;
- research and development services outsourced to research institutions; and
- attributable facility expenses, including depreciation of equipment and amortization.

Internal development costs are capitalized as intangible assets only when there is an identifiable asset that can be completed that will generate probable future economic benefits, and when the cost of such an asset can be measured reliably. The Company does not currently have any such internal development costs that qualify for capitalization as intangible assets.

In addition to its internal research and development activities, the Company is also party to in-licensing and similar arrangements with its partners. The Company may also acquire in-process research and development assets, either through business combinations or through purchases of specific assets. Intangible assets are initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Intangible assets are amortized over their useful lives on a straight-line basis beginning from the point when they are available for use. The estimated useful life of intangible assets is regularly reviewed. The Company does not currently have any such externally acquired in-process research and development assets.

The Company charges all research and development expenses, including internal patent filing and patent maintenance costs, to profit or loss when incurred, as the criteria for recognition as an asset are not currently met.

Changes in significant accounting policies

IFRS 15 Revenue from Contracts with Customers.
The Group adopted IFRS 15 on January 1, 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It has replaced IAS 18 Revenue and related interpretations. The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying the standard recognized at the date of the initial application (i.e. January 1, 2018). Accordingly, the information presented for 2017 has not been restated - i.e. it is presented, as previously reported, under IAS 18 and related interpretations.

As a guiding principle of IFRS 15, revenues from research and development collaboration agreements are recognized when earned based upon the performance requirements of the respective agreements. For revenue arrangements with separately identifiable components (separate performance obligations under IFRS 15), the revenue recognition criteria are applied to each component. The transaction price is determined as the consideration expected to be received from the arrangement and is allocated amongst the separate components based on their relative stand-alone selling prices. The corresponding amount of transaction price allocated to each component is recognized over the relevant pattern, either over time for upfront payments or at a point in time for milestone payment and development option payments. Payments received in excess of revenue recognized are recorded as contract liability.

Revenues include fees such as upfront payments received in connection with out-licensing of products and in connection with discovery alliances, as well as fees for maintenance of patents, R&D support and services, participation in Joint Steering Committees and other involvement in collaboration agreements. In exchange for these non-refundable upfront fees, the Group does not transfer a good or a service to the customer, rather the upfront fee consists of an advance payment for future services and/or the right to access the underlying intellectual property of the Group.

Consequently, the related revenues are recognized generally pro rata over time until such performance obligation is satisfied, as inputs are expensed evenly throughout the performance period. In considering the gradual recognition of the upfront payment the Group applies an input based approach, related to the consistent use of funds and resources it will take the Group to satisfy the performance obligation.

Revenues also include fees such as milestone and development option payments received in connection with out-licensing of products and in connection with discovery alliances. Upon meeting the set milestone or upon a development option being exercised, the Group obtains a right to payment (non-refundable) and the customer has typically acquired the right to use the underlying intellectual property, without any remaining performance obligations from the Group. Consequently, the related revenues are recognized at a point in time, either when the milestone is met or the option is exercised by the customer.

The effect of initially applying IFRS 15 is mainly attributed to the following items that are explained in the below tables:

- earlier recognition of revenue from milestones achieved before January 1, 2018
- earlier recognition of revenue from development options exercised before January 1, 2018
- later recognition of revenue from development options exercised after January 1, 2018

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various services are set out below. Under IFRS 15, revenue is recognized when a customer obtains control of the services. Determining the timing of the transfer of control - at a point in time or over time - requires judgment.

Type of payments received	Timing of revenue recognition	Nature of change in accounting policy
Revenue recognition of upfront payments	Upfront payments received in connection with out-licensing arrangements are typically non-refundable fees for which the Group does not transfer a good or a service to the customer, rather the upfront payments consists of an advance payment for future services and/or an acquisition of the right to access the underlying intellectual property of the Group. Consequently, the related revenue is recognized generally pro rata until such performance obligation is satisfied, for example the period over which the Group would be required to deliver research and development activities.	No change as a result of the transition to IFRS 15
Revenue recognition of milestone payments	Milestone payments received in connection with out-licensing arrangements are typically non-refundable fees entitling the Group to a right to payment upon such milestone being met. At that time, the customer has typically acquired the right to use the underlying intellectual property, without any remaining performance obligation from the Group. Considering the uncertainty surrounding the outcome of such development activities, the revenue is consequently recognized at a point in time, when the milestone is reached. At this stage it is highly probable that a reversal of the cumulative revenue will not occur.	Under IAS18 these milestones were recognized over time considering the probability of achieving the next milestone as well as the date of its achievement.
Revenue recognition of payments received for development options exercises	Development option payments received in connection with out-licensing arrangements are typically non-refundable fees entitling the Group to a right to payment upon such option being exercised. At that time, the customer has typically acquired the right to use the underlying intellectual property, without any remaining performance obligations from the Group. Considering the fact that the exercise of any option is outside the control of the Group, revenue is recognized at a point in time at the effective exercise of the option. At this stage it is highly probable that a reversal of the cumulative revenue will not occur.	Under IAS 18 these development option exercise fees were recognized over time depending on the assessment of timing to completion.

The following table summarizes the impact, net of tax, of the transition to IFRS 15 on cumulative losses as at January 1, 2018. This overview reflects the impact of the recognition at a point-in-time, whereby the actual date of the performance obligation, for milestones and development option fees, is satisfied / completed, is taken into consideration and this resulted in an earlier or later recognition of revenue as compared to the previously applied IAS 18 standard.

in CHF thousands	Impact of adopting IFRS 15 at January 1, 2018
Cumulative losses at December 31, 2017 as reported	**(60,724)**
Milestones achieved before January 1, 2018	6,244
Development options exercised before January 1, 2018	7,494
Development options exercised after January 1, 2018	(4,759)
Total impact on cumulative losses	**8,979**
Adjusted cumulative losses as per January 1, 2018	**(51,745)**

The following tables summarize the impacts of adopting IFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive loss for the year ended December 31, 2018. There was no impact on the Group's consolidated statement of cash flows for the 12 month period ended December 31, 2018, other than offsetting entries on Net result and Deferred revenues recognized in income, not affecting the total net cash used in operating activities.

as of December 31, 2018 In CHF thousands	As reported	Adjustments	Amounts without adoption of IFRS 15
Total non-current assets	1,837	—	1,837
Total current assets	153,319	—	153,319
Total assets	**155,156**	**—**	**155,156**
Share capital	2,123	—	2,123
Additional paid in capital	179,438	—	179,438
Treasury shares	—	—	—
Cumulative losses	(89,857)	(9,539)	(99,396)
Total shareholders' equity	**91,704**	**(9,539)**	**82,165**
Contract liability	20,876	(20,876)	—
Deferred revenue	—	22,882	22,882
Employee benefits	5,711	—	5,711
Total non-current liabilities	**26,587**	**2,006**	**28,593**
Trade and other payables	2,645	—	2,645
Accrued expenses	6,386	—	6,386
Contract liability	27,834	(27,834)	—
Deferred revenue	—	35,367	35,367
Total current liabilities	**36,865**	**7,533**	**44,398**
Total liabilities	**63,452**	**9,539**	**72,991**
Total shareholders' equity and liabilities	155,156	—	155,156

For the 12 months ended December 31, 2018 In CHF thousands	As reported	Adjustments	Amounts without adoption of IFRS 15
Research and collaboration revenues	10,355	(560)	9,795
Other revenues	—	226	226
Total revenues	**10,355**	**(334)**	**10,021**
Total operating expenses	(47,765)	(226)	(47,991)
Operating result	**(37,410)**	**(560)**	**(37,970)**
Net finance result	374	—	374
Result before income taxes	**(37,036)**	**(560)**	**(37,596)**
Income taxes	—	—	—
Net result, attributable to shareholders	**(37,036)**	**(560)**	**(37,596)**
Other comprehensive result, net of tax	(1,075)	—	(1,075)
Total comprehensive result, attributable to shareholders	**(38,111)**	**(560)**	**(38,671)**
Basic and diluted net result per share	(1.75)	(0.03)	(1.78)

IFRS 9 Financial Instruments
The group adopted IFRS 9 on January 1, 2018. IFRS 9 sets out requirements for recognizing and measuring financial assets and financial liabilities; this standard replaces IAS 39 Financial Instruments: Recognition and Measurement

At the transition date cash and cash equivalents and short-term deposits are considered low risk and were held at well-respected Swiss banks with credit ratings of A (Credit Suisse / UBS) and AAA (ZKB). The analysis performed included assessing the cumulative default rates by credit rating category and applying these rates to the cash and short-term deposit balances at reporting dates. The calculated loss allowance based on the ECL is considered immaterial.

Trade and other receivables are with long term partners who have no default history. Considering the very small amount of trade and other receivables at transition date, an impairment is considered to be immaterial. The Group does not have any outstanding loans and holds no derivatives.

The below table describes the impact of the implementation of IFRS 9 on the classification and the carrying amounts as per the date of implementation.

Financial Assets			in CHF thousands	
As per January 1, 2018	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	131,316	131,316
Short-term time deposits	Loans and receivables	Amortized cost	9,745	9,745
Trade and other receivables	Loans and receivables	Amortized cost	219	219
Accrued income	Loans and receivables	Amortized cost	38	38

No significant change has been introduced by IFRS 9 in relation to the classification and measurement of financial liabilities. Trade payables and contract liabilities will continue to be measured at amortized cost, and classified as financial liabilities. As a result - the introduction of IFRS 9 has therefore not had a significant impact on financial liabilities.

Financial Liabilities			in CHF thousands	
As per January 1, 2018	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Trade payables	Liabilities at amortized costs	Liabilities at amortized costs	716	716
Accrued project costs and royalties	Liabilities at amortized costs	Liabilities at amortized costs	1,211	1,211
Other non-employee related accrued expenses	Liabilities at amortized costs	Liabilities at amortized costs	273	273

The Group considered the relevant guidance on the implementation of IFRS 9 and its possible impact on the Group's consolidated financial statements and concluded that the impact is immaterial. The change in approach to measurement from the incurred model to expected loss model resulted in no material effects. The Group has decided to use the exemption not to restate comparative information for prior period (relevant for change in classification and measurement requirements).

3. Financial Risk Management

Financial Risk Factors

The Group is subject to risks common to companies in the biotechnology industry, including, but not limited to, uncertainties regarding the effectiveness and safety of new drugs, new and unproven technologies, development process and outcome of clinical trials, rigorous governmental regulation and uncertainty regarding regulatory approvals, long product development cycles, continuing capital requirements to fund research and development, history of operating losses and uncertainty of future profitability, uncertainty regarding commercial success and acceptance, third party reimbursements, uncertainties regarding patents and legally protected products or technologies, uncertainty regarding third party intellectual property rights, dependence on third parties, dependence on publicly available scientific findings and research data, lack of experience with production facilities, dependence on third party manufacturers and service providers, competition, concentration of operations, product liability, dependence on important employees, environment, health, data protection and safety, lack of experience in marketing and sales, litigation, currency fluctuation risks and other financial risks, volatility of market value, as well as limited liquidity and shares eligible for future sale.

The Group is developing several products currently not generating constant revenue streams which results in volatile cash flow from operating activities. Currently, the Group's revenues stem mainly from irregular and difficult to predict income from product out-licensing, milestone payments and fees from R&D collaboration agreements. This will likely remain the same at least until the first product reaches the market on the Group's own or through a partner. This results in a lack of regular positive operating cash flow, which may expose the Group to financing risks in the medium-term. See note 4, "Critical accounting estimates and judgments." Furthermore, management has taken actions to manage financial risks, such as foreign exchange risk and liquidity risk.

Molecular Partners conducts research and development activities primarily in Switzerland, the European Union and the United States. As a result, the Group is exposed to a variety of financial risks, such as foreign exchange rate risk, credit risk, liquidity risk, cash-flow and interest rate risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. Further details are disclosed under note 24.

Capital Management

The Group is not regulated and not subject to specific capital requirements. The amount of equity depends on the Group's funding needs and statutory capital requirements. The Group monitors capital periodically on an interim and annual basis. From time to time, the Group may take appropriate measures or propose capital increases to its shareholders to ensure the necessary capital remains intact. The Group did not have any short-term or long-term debt outstanding as of December 31, 2018 and 2017.

4. Critical Accounting Estimates and Judgments

The Group's accounts are prepared on a going concern basis. The preparation of the consolidated financial statements in conformity with IFRS requires that management and the Board of Directors make estimates and assumptions which affect the amounts of the assets and liabilities, contingent liabilities, as well as the income and expenses reported in the consolidated financial statements. These estimates take into consideration historic experience as well as developments in the economic circumstances and are further based on management's best knowledge of current events and actions that the Group may undertake in the future. These estimates are subject to risks and uncertainties. The actual results can deviate from these estimates. The estimates and assumptions identified by the Group, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in a future period or have a significant effect on reported results, are discussed below:

- Revenue: Fluctuation in revenues is common to biopharmaceutical companies focused on research and development as the revenues are often linked to up-front fees, milestones or license payments as well

as income for delivery of drug substance, which occur sporadically. Depending on the complexity of the relevant agreements, judgment (for instance related to the time over which upfront payments are recognized) is required to reflect the substance of the arrangement in the recognition of revenues. More information on revenue recognition is provided in the respective accounting policy. Additional information related to the Group's significant revenue agreements is disclosed in note 5.

5. Revenues and entity-wide disclosures

Revenues in the table below are attributable to individual countries and are based on the location of the Group's alliance partner, while the non-current assets are based on the location of the Company. All operating costs are incurred in Switzerland. The Group's non-current assets are all located in Switzerland.

Revenues by country

in CHF thousands, for the years ended December 31	**2018**	**2017**
Revenues Switzerland	—	109
Revenues USA	10,355	19,907
Total revenues	**10,355**	**20,016**

Analysis of revenue by major alliance partner

in CHF thousands, for the years ended December 31	**2018**	**2017**
Allergan Inc., USA	9,440	19,907
Amgen Inc., USA	915	—
Other	—	109
Total revenues	**10,355**	**20,016**

License and Collaboration Agreement with Amgen

In December 2018, the Group entered into a License and Collaboration Agreement with Amgen for the clinical development and commercialization of MP0310. Under the terms of the agreement, the Group granted to Amgen an exclusive worldwide, royalty-bearing, sublicensable license under the Group's patents and know-how relating to MP0310 to develop and commercialize MP0310. The parties will jointly evaluate MP0310 in combination with Amgen`s oncology pipeline products, including its investigational BiTE® (bispecific T-cell engager) molecules. Under the collaboration, Molecular Partners retains certain rights to develop and commercialize its proprietary DARPin® pipeline products in combination with MP0310.

Under the agreement the Group will receive a non-refundable upfront payment of $50 million that is due as per the date of signing and with a 40 day payment term. The Group will have the lead on performing certain clinical development, manufacturing and regulatory activities in the first clinical phase and the Group assigned the full $50 million upfront as the transaction price to this performance obligation, based on the Group's development plan and the contractual agreement. The Group has considered if the contract contains a significant financing component and has concluded this was not the case. The Group will recognize the related revenue pro-rata over time, starting from the date of signing, and over the time period the Group assigned to satisfy the performance obligation. This time period is subject to the assessment of the management of the Group. In considering the gradual recognition of the upfront payment the Group applied an input based approach, related to the consistent use of funds and resources it will take the Group to satisfy the performance obligation. Please see also note 15.

In addition the Group is eligible to receive up to $497 million in development, regulatory and commercial milestone payments, as well as double-digit, tiered royalties up to the high teens. The Group considers these various milestones to be variable consideration as they are contingent upon achieving uncertain, future

development stages and net sales. For this reason the Group considers the achievement of the various milestones as binary events that will be recognized into revenue upon occurrence. Furthermore, the parties will share the clinical development costs in defined percentages for the first three indications subject to certain conditions. For all additional clinical trials, Amgen is responsible for all development costs.

Abicipar Agreement with Allergan

In May 2011, the Company entered into a license and collaboration agreement with Allergan. Under the agreement, the Company granted Allergan an exclusive, worldwide, royalty-bearing, sublicensable license under our patents and know-how relating to abicipar and other backup compounds to make, use, sell, offer for sale, and import products containing abicipar and its corresponding backups for ophthalmic indications. Allergan is responsible, at its expense, for developing and commercializing abicipar, and must use commercially reasonable efforts to develop, seek regulatory approval for, and commercialize abicipar in certain key countries, including the United States, several major European markets and Japan. Allergan paid the Company an upfront license fee of $45 million in May 2011 and a regulatory milestone fee of $15 million upon the initiation of its Phase 3 clinical trials for wet AMD in July 2015. The Group is also eligible to receive up to an additional $210 million upon the achievement of certain development and regulatory milestone events and $150 million upon the achievement of certain sales milestone events. In addition, the Group will receive a tiered royalty percentage ranging from the low to mid teens on worldwide annual net sales of abicipar.

Discovery Alliance Agreement with Allergan

In August 2012, the Company strategically expanded its existing relationship with Allergan by entering into an exclusive discovery alliance agreement under which the parties will collaborate to design and develop DARPin® products against selected targets that are implicated in causing diseases of the eye. The Company received an upfront payment of $40 million and a further $1.5 million upfront payment in connection with a 2014 amendment to the agreement, and Allergan agreed to pay us an option exercise fee of $10 million upon its exercise of each of the three options. In July 2015, Allergan agreed to make an accelerated payment of $30 million for the exercise of the three options. In February 2018 Allergan exercised its last of the three options resulting in a recognized revenue of CHF 9.4 million; following this recognition the contract liability as per January 1, 2018 is fully reversed.The Group is also eligible to receive additional success-based payments, including up to $960 million in development, regulatory and sales milestones, and tiered royalties ranging from a mid-single digit to low double digit percentage for future product sales by Allergan.

6. Property, Plant and Equipment

in CHF thousands	Lab equipment	Office equipment	IT hardware	Leasehold improvements	Total
2018					
Cost					
At January 1, 2018	6,244	564	860	308	7,976
Additions	357	50	40	9	456
Disposals	(48)	(11)	(61)	—	(120)
At December 31, 2018	**6,553**	**603**	**839**	**317**	**8,312**
Accumulated depreciation					
At January 1, 2018	(4,835)	(442)	(685)	(143)	(6,105)
Depreciation charge for the year	(592)	(73)	(154)	(49)	(868)
Disposals	48	7	61	—	116
At December 31, 2018	**(5,379)**	**(508)**	**(778)**	**(192)**	**(6,857)**
Carrying amount at December 31, 2018	**1,174**	**95**	**61**	**125**	**1,455**

in CHF thousands	Lab equipment	Office equipment	IT hardware	Leasehold improvements	Total
2017					
Cost					
At January 1, 2017	5,975	519	812	295	7,601
Additions	292	45	131	13	481
Disposals	(23)	—	(83)	—	(106)
At December 31, 2017	**6,244**	**564**	**860**	**308**	**7,976**
Accumulated depreciation					
At January 1, 2017	(4,062)	(373)	(557)	(113)	(5,105)
Depreciation charge for the year	(796)	(69)	(211)	(30)	(1,106)
Disposals	23	—	83	—	106
At December 31, 2017	**(4,835)**	**(442)**	**(685)**	**(143)**	**(6,105)**
Carrying amount at December 31, 2017	**1,409**	**122**	**175**	**165**	**1,871**

7. Intangible assets

in CHF thousands	IT software
2018	
Cost	
At January 1, 2018	227
Additions	411
Disposals	—
At December 31, 2018	**638**
Accumulated depreciation	
At January 1, 2018	(200)
Amortization charge for the year	(56)
Disposals	—
At December 31, 2018	**(256)**
Carrying amount at December 31, 2018	**382**

in CHF thousands	IT software
2017	
Cost	
At January 1, 2017	208
Additions	19
Disposals	—
At December 31, 2017	**227**
Accumulated depreciation	
At January 1, 2017	(161)
Amortization charge for the year	(39)
Disposals	—
At December 31, 2017	**(200)**
Carrying amount at December 31, 2017	**27**

8. Financial instruments

in CHF thousands	Financial assets measured at amortized costs
2018	
Cash and cash equivalents	98,958
Trade and other receivables	49,393
Balance at December 31	**148,351**

in CHF thousands	Loans and receivables
2017	
Cash and cash equivalents	131,316
Trade and other receivables	219
Accrued income	38
Short-term time deposits	9,745
Balance at December 31	**141,318**

The implementation of IFRS 9 Financial Instruments as per January 1, 2018 has resulted in a new classification of the various financial assets. There were no material allowances determined. The introduction of the new categories has not resulted in a change to the carrying amounts. For further reference please see note 2.

The above mentioned amounts were neither past due nor impaired at the end of the respective reporting period and were of highly rated quality.

in CHF thousands	Financial liabilities at amortized cost
2018	
Trade payables	2,108
Accrued project costs and royalties	2,982
Other non-employee related accrued expenses	384
Balance at December 31	**5,474**

2017	
Trade payables	716
Accrued project costs and royalties	1,211
Other non-employee related accrued expenses	273
Balance at December 31	**2,200**

The implementation of IFRS 9 Financial Instruments has neither resulted in a different categorization nor in a change in carrying amount, for the financial liabilities.

9. Prepaid Expenses and Accrued Income

in CHF thousands	2018	2017
Prepayments	2,746	311
Accrued income	—	38
Balance at December 31	**2,746**	**349**

10. Trade and Other Receivables

in CHF thousands	2018	2017
Trade receivables	49,323	168
Value added tax	835	680
Withholding tax	256	216
Other receivables	1,201	51
Balance at December 31	**51,615**	**1,115**

Trade receivables at December 31, 2018 include an amount of TCHF 49,290 in relation to the signed collaboration agreement with Amgen Inc. This collaboration was entered into on December 18, 2018 and the upfront amount of USD 50 million had a payment term of 40 days. No provision for impairment loss was considered necessary as of December 31, 2018 and 2017.

Trade receivables are denominated in the following currencies:

in CHF thousands	2018	2017
CHF	29	29
USD	49,294	139
Balance at December 31	**49,323**	**168**

11. Cash, Cash equivalents and Short-term time deposits

in CHF thousands	2018	2017
Cash at bank in CHF	33,574	61,498
Cash at bank in EUR	15,207	23,262
Cash at bank in USD	50,177	46,556
Total cash at bank at December 31	98,958	131,316
Short-term time deposits in USD	—	9,745
Total short-term time deposits at December 31	—	9,745

The short-term time deposits in USD at December 31, 2017 contain one position with a major Swiss bank. Please also refer to note 24.

12. Shareholders' Equity

Classes of Share Capital

Ordinary share capital
As of December 31, 2018, the Company's share capital consisted of 21,228,593 fully paid registered shares with a par value of CHF 0.10 each. As of December 31, 2017, the Company's share capital consisted of 21,044,062 fully paid registered shares with a par value of CHF 0.10 each. 184,531 new registered shares were issued in 2018 as a result of the option exercises and the vesting of performance share units (PSU and RSU 2015). The corresponding capital increase was registered with the commercial register on February 20, 2019.

Authorized share capital
The Board of Directors is authorized to increase the share capital at any time until April 18, 2020 by a maximum amount of CHF 565,986 by issuing a maximum of 5,659,860 fully paid up shares with a par value of CHF 0.10 each. An increase of the share capital in partial amounts is permissible.

The Board of Directors is authorized to determine the issue price, type of payment, time of the issuance, conditions for the exercise of the preemptive rights and the date from which the shares carry the right to dividends. The Board of Directors can issue new shares by means of an underwriting arrangement by a bank or another third party with a subsequent offer of these shares to the existing shareholders or third parties (if the preemptive rights of the existing shareholders have been denied or not been duly exercised). The Board of Directors is authorized to permit, to restrict or to deny the trade of preemptive rights. The Board of Directors may permit preemptive rights that have been granted but not exercised to expire or it may place these rights respectively the shares as to which preemptive rights have been granted but not exercised, at market conditions or use them for other purposes in the interest of the Group.

The Board of Directors is further authorized to restrict or deny the preemptive rights of shareholders and to allocate them to third parties: (a) for the acquisition of companies, parts of companies or participations, for the acquisition of products, intellectual property or licenses, for investment projects or for the financing or refinancing of such transactions through a placement of shares, (b) for the purpose of broadening the shareholder constituency or in connection with a listing of shares on domestic or foreign stock exchanges, (c) if the issue price of the new shares is determined by reference to the market price, (d) for purposes of granting an over-allotment option (Greenshoe) of up to 20% of the total number of shares in a placement or sale of shares to the respective initial purchasers or underwriters, (e) following a shareholder or a group of shareholders acting in concert having accumulated shareholdings in excess of 15% of the share capital registered with the commercial register of the Canton of Zurich, without having submitted to the other shareholders a take-over offer recommended by the Board of Directors, or (f) for the defense of an actual, threatened or potential takeover bid, in relation to which the Board of Directors has not recommended to the shareholders acceptance on the basis that the Board of Directors has not found the takeover bid to be financially fair to the shareholders.

Conditional share capital
As of December 31, 2018 the Company's share capital was allowed to be increased by an amount not to exceed CHF 241,186 through the issuance of up to 2,411,857 fully paid up shares with a par value of CHF 0.10 per share through the direct or indirect issuance of shares, options or preemptive rights granted to employees, members of the Board of Directors or members of any advisory boards. During 2018, the share capital was increased out of conditional capital. As a result, the available conditional capital was reduced by CHF 18,453, from CHF 259,639 to CHF 241,186.

In addition, the share capital may be increased by an amount not to exceed CHF 400,000 through the issuance of up to 4,000,000 fully paid up shares with a par value of CHF 0.10 per share through the exercise or mandatory exercise of conversion, exchange, option, warrant or similar rights for the subscription of shares granted to shareholders or third parties alone or in connection with bonds, notes, options, warrants or other securities or contractual obligations by or of the Company.

Treasury shares
As of December 31, 2018 and December 31, 2017, the Company held no treasury shares. During the year ended December 31, 2017, the number of treasury shares was reduced by 7,532 to service the exercise of share options by current and former employees.

The following table summarizes the movements of treasury shares in 2017:

2017		
Treasury shares	**No. of shares**	**in thousand**
At January 1, 2017	7,532	152
Additions	—	—
Exercise of options	(7,532)	(152)
At December 31, 2017	**—**	**—**

In 2018, the cash proceeds from the exercise of share options and the vesting of performance share units ("PSUs") amounted to TCHF 395 and was all serviced from the issuance of new shares (conditional share capital).

In 2017, the cash proceeds from the exercise of share options and the early vesting of performance share units ("PSUs") amounted to TCHF 807, of which TCHF 18 was serviced from treasury shares and TCHF 789 was serviced from the issuance of new shares (conditional share capital).

Significant Shareholders

At the reporting date, the largest shareholders in the Company disclosed to the Company based on the published notifications to SIX, as applicable, are:

Shareholders with over 3% of share capital registered with the Commercial Register	2018	2017
Hansjoerg Wyss	9.70%	9.85%
Index Ventures Associates IV Limited	8.06%	8.18%
Essex Woodlands Health Health Ventures VIII, LLC	7.70%	7.82%
Andreas Plückthun	4.84%	4.92%
Mark N. Lampert (Biotechnology Value Funds)	<3.0 %	4.34%
Johnson & Johnson	4.18%	4.25%
Pictet Asset Management (Direction de Fonds)	4.10%	3.11%
Michael Tobias Stumpp	3.34%	3.40%
Patrick Amstutz	3.15%	3.19%
GAM Holding AG	3.05%	<3.0 %
UBS Funds Management (Switzerland) AG	3.00%	<3.0 %
Patrik Forrer	2.99%	3.14%
Endeavour Partners GP Limited	2.94%	4.10%

The percentages above are based on (i) the number of shares held by such shareholders, excluding any options, PSUs and RSUs held by such shareholders and (ii) for the year ended December 31, 2018, 21,044,062 common shares, which is the share capital registered with the commercial registry on December 31, 2018 (December 31, 2017, 20,724,345 common shares).

13. Trade and Other Payables

in CHF thousands	2018	2017
Trade payables	2,108	716
Social security	537	575
Balance at December 31	**2,645**	**1,291**

Trade payables are denominated in the following currencies:

in CHF thousands	2018	2017
CHF	313	216
EUR	208	182
USD	360	37
GBP	1,227	281
Balance at December 31	**2,108**	**716**

14. Accrued Expenses

in CHF thousands	2018	2017
Accrued project costs and royalties	2,982	1,211
Accrued payroll and bonuses	3,020	2,487
Other	384	273
Balance at December 31	**6,386**	**3,971**

15. Contract liability / Deferred revenues

The Group expects the contract liabilities / deferred revenues to be recognized as follows:

in CHF thousands	Contract liability
Expected revenue recognition in year one after balance sheet date	27,834
Expected revenue recognition in year two after balance sheet date	20,876
Expected revenue recognition in year three after balance sheet date	—
Expected revenue recognition in year four after balance sheet date	—
Expected revenue recognition in year five and later after balance sheet date	—
Balance at December 31, 2018	**48,710**

in CHF thousands	Deferred revenues
Expected revenue recognition in year one after balance sheet date	8,879
Expected revenue recognition in year two after balance sheet date	7,533
Expected revenue recognition in year three after balance sheet date	1,337
Expected revenue recognition in year four after balance sheet date	669
Expected revenue recognition in year five and later after balance sheet date	—
Balance at December 31, 2017	**18,418**

The implementation of IFRS 15 has resulted in a change in terminology; prior to the implementation these amounts as presented above were labeled deferred revenues and post implementation the Group presents these amounts under contract liabilities.

See note 2 for further information related to the implementation of IFRS 15 as per January 1, 2018.

16. Additional Information on the Nature of Expenses

Research and development expenses

in CHF thousands	2018	2017
Personnel expenses[1][3]	(19,323)	(16,324)
Research consumables and external research and development expenses	(13,500)	(17,762)
Royalties and license fees	(2,102)	(60)
Facility expenses	(1,450)	(1,388)
Depreciation and amortization	(824)	(1,019)
Other research and development expenses	(804)	(557)
Intellectual property	(200)	(343)
Total year ended December 31	**(38,203)**	**(37,453)**

General and administrative expenses

in CHF thousands	2018	2017
Personnel expenses[2][3]	(5,745)	(5,580)
Other administrative expenses	(3,541)	(2,529)
Facility expenses	(176)	(172)
Depreciation and amortization	(100)	(126)
Total year ended December 31	**(9,562)**	**(8,407)**
Total operating expenses	**(47,765)**	**(45,860)**

(1) Research and development non-cash effective pension and share based compensation costs were TCHF 2,282 in 2018 and TCHF 1,855 in 2017.
(2) General and administrative non-cash effective pension and share based compensation costs were TCHF 2,009 in 2018 and TCHF 1,942 in 2017.
(3) See note 18 for further detail on the personnel expenses

17. Royalties and License Fees

The Group holds an exclusive perpetual license from the University of Zurich on patent applications and patents relating to the DARPin® base technology. Under this license agreement, the Group is required to pay the University of Zurich flat royalties of a low single digit percentage on net sales of licensed products, which vary based on the field in which the licensed product is commercialized. In addition, the Group is obligated to pay the University of Zurich a percentage of license fee revenues it receives from sublicensing its rights to third parties in five tiers, ranging from the low single digits to the low teens, depending on the total amount of payments received for the particular sublicense granted. In the 12 month period ended December 31, 2018 the Group accounted for a royalty fee payable to the University of Zurich for a total of TCHF 2,102, following the upfront amount from the license and collaboration agreement with Amgen Inc.

Finally, the Group is also obligated to pay the University of Zurich a percentage of the royalty payments it receives from sublicensees in three tiers based on their net sales of licensed products and the applicable field in which the licensed product is sold, ranging from the low single digits to the mid teens. The Group has the right to terminate the license at any time with six months' prior written notice. The minimum amount the Group is required to pay is CHF 50,000 per annum. Royalties to the University of Zurich are due annually based on a full calendar year and payable until the end of February in the following calendar year.

18. Personnel Expenses

in CHF thousands	2018	2017
Salaries	(16,391)	(14,161)
Share-based compensation (non-cash effective)	(3,716)	(3,594)
Pension costs	(1,896)	(1,364)
Social security costs	(1,571)	(1,828)
Other personnel expenses	(1,494)	(958)
Total year ended December 31	**(25,068)**	**(21,905)**

Full-time equivalents and head count	**2018**	**2017**
Average number of full-time equivalents	113.5	104.0
Full-time equivalents at year end	117.7	107.8
Headcount at year end	129.0	119

18.1 Pension Costs and Liabilities

in CHF thousands	2018	2017
Defined benefit pension plans		
Actuarial assumptions		
Discount rate at January 1	0.70%	0.60%
Discount rate at December 31	0.90%	0.70%
Future salary increases at December 31	2.00%	2.00%
Mortality tables	BVG2015 GT	BVG2015 GT
Date of last actuarial valuation	31.12.2018	31.12.2017
Reconciliation of the amount recognized in the statement of financial position		
Defined benefit obligation at December 31	36,609	25,824
Fair value of plan assets at December 31	31,127	21,992
Net defined benefit liability at December 31	**5,482**	**3,832**
Components of defined benefit cost in profit or loss		
Current service cost (employer)	1,890	1,890
Past service cost	(36)	(573)
Interest expense on defined benefit obligation	219	152
Interest (income) on plan assets	(190)	(116)
Administrative cost excl. cost for managing plan assets	13	12
Defined benefit cost recognized in profit or loss	**1,896**	**1,364**
thereof service cost and administrative cost	1,867	1,328
thereof net interest expense on the net defined benefit liability	29	35
Reconciliation of net defined benefit liability		

in CHF thousands	2018	2017
Net defined benefit liability at January 1	3,832	5,599
Defined benefit cost recognized in profit or loss [1]	1,895	1,364
Defined benefit cost recognized in OCI	1,075	(1,970)
Contributions by the employer[1]	(1,320)	(1,160)
Net defined benefit liability at December 31 [2]	**5,482**	**3,832**
Reconciliation of defined benefit obligation		
Defined benefit obligation at January 1	25,824	23,526
Interest expenses on defined benefit obligation	219	152
Current service cost (employer)	1,890	1,890
Contributions by plan participants	826	734
Benefits (paid)//deposited	1,189	842
Past service cost	(36)	(573)
Administrative cost (excl. cost for managing plan assets)	13	12
Actuarial (gain)/loss on defined benefit obligation	6,684	(759)
Defined benefit obligation at December 31	**36,609**	**25,824**
Reconciliation of amount recognized in OCI		
Actuarial (gain) / loss on changes in financial assumptions	(805)	(510)
Actuarial (gain) / loss on changes in demographic assumptions	(395)	—
Actuarial (gain) / loss arising from experience adjustments	7,884	(248)
Actuarial (gain)/loss on defined benefit obligation	**6,684**	**(758)**
Return on plan assets excluding interest income	(5,609)	(1,212)
Defined benefit cost recognized in OCI	**1,075**	**(1,970)**
Reconciliation of fair value of plan assets		
Fair value of plan assets at January 1	21,992	17,927
Interest income on plan assets	190	116
Contributions by the employer	1,320	1,160
Contributions by plan participants	826	734
Benefits (paid)/deposited	1,189	42
Return on plan assets excl. interest income	5,609	1,212
Fair value of plan assets at December 31	**31,127**	**21,992**
Best estimate of contributions of next year		
Contributions by the employer	1,380	1,171
Plan asset classes		
Cash and cash equivalents	6,424	4,726
Equity instruments	12,636	8,573
Debt instruments (e.g. bonds)	4,760	3,246
Real estate funds	4,227	3,011
Others	417	244
Total plan assets at fair value (quoted market price)	**28,464**	**19,800**
Others	2,663	2,192
Total plan assets at fair value (non-quoted market price)	**2,663**	**2,192**
Total plan assets at fair value at December 31	**31,127**	**21,992**

in CHF thousands	2018	2017
Total plan assets at fair value at December 31	**31,127**	**21,992**
thereof entity's own transferable financial instruments	—	—
thereof property occupied or other assets used by the entity	—	—
Sensitivity[3]		
Defined benefit obligation at December 31 with discount rate -0.25%	38,432	27,145
Defined benefit obligation at December 31 with discount rate +0.25%	34,931	24,611
Defined benefit obligation at December 31 with salary increases -0.25%	36,281	25,528
Defined benefit obligation at December 31 with salary increases +0.25%	36,938	26,116
Defined benefit obligation at December 31 with life expectancy +1 year	36,144	25,491
Defined benefit obligation at December 31 with life expectancy -1 year	37,074	26,159
Maturity profile of defined benefit obligation		
Weighted average duration of defined obligation in years at December 31	19.0	19.4

(1) The sum of these two positions represent the non-cash effective pension costs recognized in the income statement, of which CHF 477,000 are research and development costs (2017: CHF 168,000) and CHF 98,000 are general and administrative costs (2017: CHF 35,000).
(2) Included in liabilities for employee benefits.
(3) For the most important parameters which influence the pension obligation of the the Company a sensitivity analysis was performed. The discount rate and the assumption for salary increases were modified by a certain percentage value. Sensitivity on mortality was calculated by changing the mortality with a constant factor for all age groups. With this procedure we could change the longevity for most of the age categories by one year longer or shorter than the baseline value.

18.2 Share-based Compensation

18.2.1 Employee Share Option Plans ("ESOP")

- ESOP 2007 established in July 2007
- ESOP 2009 established in December 2009
- ESOP 2014 established in July 2014

An ESOP is an incentive tool that fosters the entrepreneurial spirit and performance by way of financial participation in the Group's long term success. It gives employees, members of the Board of Directors and selected advisors a beneficial opportunity to purchase shares of the Company. Each option entitles its holder to purchase one share of the Company at a pre-defined exercise price. The number of options granted to each participant was determined by the Board of Directors based on a participant's position and level of responsibility. The options generally vest quarterly over four years, with cliff vesting of 25% after one year. At the end of the option term, unexercised options expire without value. The expenses are recognized pro rata as per the graded vesting schedule starting generally from grant date until vesting date.

As of December 31, 2018, an aggregate of 864,197 options were outstanding under the ESOP 2007, ESOP 2009 and ESOP 2014. All these options are fully vested at the reporting date.

As of December 31, 2017, an aggregate of 954,360 options were outstanding under the ESOP 2007, ESOP 2009 and ESOP 2014. While all options under ESOP 2007 and ESOP 2009 were fully vested at the reporting date, 102,300 options out of 469,841 options under ESOP 2014 were unvested as of December 31, 2017. ESOP 2014 contains a 100% accelerated vesting upon change of control of the Group.

Since the initial public offering of the Company on the SIX Swiss Exchange on November 5, 2014, no more option grants have been made under any of these three share option plans.

18.2.2 Long Term Incentive (“LTI”) Plans: Restricted Share Units ("RSU") and Performance Share Units ("PSU")

- LTI plans 2015 established in March 2015
- LTI plans 2016 established in March 2016
- LTI plans 2017 established in March 2017
- LTI plans 2018 established in March 2018

Under the LTI plans, members of the Board of Directors are eligible to be granted RSUs, whereas members of the Management Board and other employees are eligible to be granted performance share units PSUs.

RSUs are contingent rights to receive a certain number of shares of the Company at the end of a three-year blocking period. The number of RSUs per plan participant is a function of the approved CHF amount per position divided by the fair value of each RSU as at the grant date. In certain circumstances, including a change of control, a full or partial accelerated vesting of the RSUs may occur. RSUs vest over a one-year period from date of grant.

PSUs are contingent rights to receive a variable number of shares of the Company at the end of a three-year cliff-vesting period. The number of PSUs per plan participant is a function of the approved CHF amount per position divided by the fair value of each PSU as of the grant date. While the PSUs are designed to let the beneficiaries participate in the long-term share price development, the number of shares to be earned in relation to a PSU also depends on the achievement of certain corporate goals for the respective year. Accordingly, the number of shares to be issued based on the PSUs can be between zero and 120% of the number of PSUs granted. Even after the determination of goal achievement, participants may lose their entitlements in full or in part depending on certain conditions relating to their employment. In certain circumstances, including a change of control, a full or partial accelerated vesting of the PSUs may occur.

The LTI plans are rolled out annually, which allows the Board of Directors to review and adjust the terms and targets on an annual basis. Employees generally receive the grants on April 1 of each calendar year. Members of the Management Board and the Board of Directors receive the annual grants after the approval of the ordinary shareholders' meeting.

As of December 31, 2018, 251,555 PSUs and 68,911 RSUs were outstanding.

As of December 31, 2017, 237,878 PSUs and 67,253 RSUs were outstanding.

18.2.3 Conditions attached to and Measurement of Fair Values of Equity-settled Share-based Payment Arrangements

The following table provides the conditions as well as the inputs used in the measurement of the fair values at grant dates:

RSU/PSU, conditions and assumptions	2018	2017
Nature of arrangement	Grant of PSU/ RSU	Grant of PSU/ RSU
Grant dates	Jan 1 - Oct 1	Jan 1 - Oct 31
Number of rights granted	143,355	142,281
Weighted average exercise price (CHF)	0.10	0.10
Share price (CHF)	21.60 - 26.50	20.70 - 32.30
Full contractual life (years)	2.25 - 3.00	2.25 - 3.00
Vesting period (years)	2.25 - 3.00	2.25 - 3.00
Settlement	Common Shares	Common Shares
Expected volatility	38.28 - 40.58	40.41 - 41.69
Risk-free interest rate p. a. (%)	(-0.52) - (-0.75)	(-0.49) - (-0.73)
Expected dividend (CHF)	—	—
Weighted average fair value of rights granted (CHF)	27.97	25.82
Latest expiry date	Sep 30, 2021	Oct 30, 2020
Valuation model	Monte Carlo	Monte Carlo

Additional comments:

- Interest rate: The Group applied the CHF LIBOR interest rates for the predetermined time to conversion for each PSU and RSU.
- Expected volatility: Historical share prices of the Company have been used.

The movements in the number of all issued RSUs, PSUs and share options are as follows:

Share Option / PSU / RSU movements	Total (numbers)	Weighted average exercise price (CHF)	Options (numbers)	Weighted average exercise price (CHF)	PSU/RSU (numbers)	Weighted average exercise price (CHF)
Balance outstanding at December 31, 2016	**1,487,352**	**3.75**	**1,270,502**	**4.37**	**216,850**	**0.10**
Granted	142,281	0.10	—	—	142,281	0.10
(Performance adjustment)	(31,283)	0.10	—	—	(31,283)	0.10
(Forfeited)	(11,610)	4.57	(7,589)	6.94	(4,021)	0.10
(Expired)	—	—	—	—	—	—
(Exercised)[1]	(327,249)	2.47	(308,553)	2.61	(18,696)	0.10
Balance outstanding at December 31, 2017	**1,259,491**	**3.75**	**954,360**	**4.92**	**305,131**	**0.10**
Granted	143,355	0.10	—	—	143,355	0.10
(Performance adjustment)	(9,437)	0.10	—	—	(9,437)	0.10
(Forfeited)	(24,215)	0.13	(112)	6.94	(24,103)	0.10
(Expired)	—	—	—	—	—	—
(Exercised)[1]	(184,531)	2.11	(90,051)	4.23	(94,480)	0.10
Balance outstanding at December 31, 2018	**1,184,663**	**3.66**	**864,197**	**4.98**	**320,466**	**0.10**

(1) The weighted average share price at the dates of the exercise during the year ended 2018 amounted to CHF 24.37 (2017: CHF 26.47).

The following table applies to all share options, PSUs and RSUs outstanding at December 31, 2018:

Exercise price CHF	Options / PSU/RSU (number)	Remaining life (years)	Exercisable options
Options			
1.15	6,905	0.4	6,905
2.31	351,917	1.4	351,917
6.05	5,400	4.3	5,400
6.06	21,682	5.3	21,682
6.94	478,293	5.7	478,293
PSU/RSU			
0.10	320,466	1.5	—
Total	**1,184,663**		**864,197**

The following table applies to all share options, PSUs and RSUs outstanding at December 31, 2017:

Exercise price CHF	Options / PSU/RSU (number)	Remaining life (years)	Exercisable options
Options			
1.15	9,580	1.4	9,580
2.31	399,657	2.0	399,657
6.05	8,100	5.3	8,100
6.06	21,682	6.2	21,682
6.94	515,341	6.7	413,041
PSU/RSU			
0.10	305,131	1.2	—
Total	**1,259,491**		**852,060**

The non-cash costs for share-based payments recognized in the statement of comprehensive loss can be attributed to the Group's two functions as follows:

in CHF thousands	2018	2017
Research and development	1,805	1,907
General and administrative	1,911	1,687
Total year ended December 31	**3,716**	**3,594**

19. Financial Income and Financial Expense

Financial Income

in CHF thousands	2018	2017
Interest income on financial assets held at amortized costs	693	610
Foreign exchange gain	111	1
Total year ended December 31	**804**	**611**

Financial Expense

in CHF thousands	2018	2017
Foreign exchange loss	(328)	(111)
Other financial expenses	(102)	(86)
Total year ended December 31	**(430)**	**(197)**

20. Taxes

Income Taxes

The Group did not have to pay or accrue any income taxes in the reporting periods. In 2018 and 2017, the Company generated a taxable loss in Switzerland which is part of the Company's cumulative tax loss carry forward. Any future taxable income will be subject to Swiss federal, cantonal and communal income taxes. The Company's applicable income tax rate is 21% (2017: 21%).

Molecular Partners Inc., which is incorporated in the United States in the State of Delaware, is subject to statutory U.S. Federal corporate income taxes and state income taxes for Massachusetts. As there were no operations in this entity during 2018 there were no income taxes recorded.

Deferred Taxes

Net operating losses for tax purposes amounted to TCHF 23,767 in 2018 and TCHF 21,766 in 2017. The total tax losses of TCHF 65,823 may be used as tax loss carry forwards to offset future taxable income over a period of seven years, with the loss of TCHF 4,314 to expire in the year 2021. No deferred tax assets have been recognized for these tax loss carry forwards, because it is not probable that such loss carry forwards can be utilized in the foreseeable future. In addition, no deferred tax assets were recognized on the temporary difference on pension liabilities for the same reason.

The following table shows the expiry of tax loss carry forwards for which no deferred tax asset was recognized:

in CHF thousands	2018	2017
2021	(4,314)	(4,314)
2022	—	—
2023	(15,976)	(15,976)
2024	(21,766)	(21,766)
2025	(23,767)	—
Thereafter	—	—
Total tax loss carry forwards as at December 31	**(65,823)**	**(42,056)**

21. Earnings per Share

Basic net result per share is calculated by dividing the net result attributable to the shareholders of the Company by the weighted average number of shares issued and outstanding during the reporting period, excluding any shares held as treasury shares. Diluted net profit per share additionally takes into account the potential conversion of all dilutive potential ordinary shares.

	2018	2017
Weighted average number of shares used in computing basic and diluted profit / (loss) per share	21,168,159	20,861,797

22. Related Party Disclosures

Compensation costs of key management, which includes executive management and the Board of Directors, are as follows:

in CHF thousands	2018	2017
Short-term employee benefits	2,334	1,785
Post-employment benefits	158	143
Share-based compensation	2,155	1,740
Total year ended December 31	**4,647**	**3,668**

Prior to her appointment to the Management Board as Chief Scientific Officer in June 2018, Ms. Trail rendered services to the Company under a consultancy agreement. The consultancy fees paid to Ms. Trail prior to her appointment as Chief Scientific Officer amounted to TCHF 173.

In addition, the amount indicated as short-term employee benefits above, includes TCHF 127 for fees paid to Ms. Trail in connection with services rendered by her, under the consultancy agreement and in her capacity as Chief Scientific Officer, prior to her current employment agreement taking effect on August 20, 2018.

23. Commitments

Operating Lease Commitments

As of December 31, 2018, the Group had four lease contracts in place for its facilities in Schlieren, Switzerland:

- Wagistrasse 14, Schlieren, Switzerland (base agreement for 4th and 5th floor plus two supplements for facility expansions): expires on December 31, 2021.
- Wagistrasse 14, Schlieren, Switzerland (cellar): can be terminated anytime with six months' notice.
- Wagistrasse 14, Schlieren, Switzerland (parking lots): can be terminated anytime with six months' notice.
- Wagistrasse 13a, Schlieren, Switzerland (animal facility): expires on April 30, 2020.

The following obligations under operating leases existed as of the balance sheet date (all related to facility lease contracts):

in CHF thousands	2018	2017
Within 1 year	1,266	1,266
Due within 2 to 5 years	2,289	3,523
Balance at December 31	**3,555**	**4,789**

Leasing costs charged to profit or loss amounted to TCHF 1,273 (2017: TCHF 1,260). These costs all relate to the costs of leasing business premises.

Finance Lease Commitments

The Group does not have any finance lease commitments.

Capital Commitments

As of December 31, 2018 and 2017, the Group did not have any capital commitments.

24. Financial Risk Management

Foreign Exchange Risk

In order to reduce its foreign exchange exposure, Molecular Partners may enter into currency contracts with selected high-quality financial institutions to hedge against foreign currency exchange rate risks. The Group's primary exposure to financial risk is due to fluctuation of exchange rates between CHF, EUR, GBP and USD.

The Group's hedging policy is (1) to maximize natural hedging by matching expected future cash flows in the different currencies and (2) to consider hedging some of the remaining expected net currency exposure as the need arises (i.e. hedge budgeted currency rates). However, due to market volatilities and uncertainties in the cash flows, a 100% hedging of the currency exposure is impossible. Molecular Partners does not engage in speculative transactions.

During 2018 and 2017, the Group did not enter into any forward currency transactions. No forward currency transactions were outstanding as of December 31, 2018 and 2017.

The following table demonstrates the sensitivity to a reasonably possible change in the USD and EUR exchange rates, with all other variables held constant, of the Group's result before taxes. There is no direct impact on the Group's equity.

in % and CHF thousands	Incr./Decr. interest rate	Effect on result before tax (in TCHF)
USD Positions		
2018	+10%	5,018
	-10%	(5,018)
2017	+10%	5,630
	-10%	(5,630)
EUR Positions		
2018	+10%	1,521
	-10%	(1,521)
2017	+10%	2,326
	-10%	(2,326)

Interest Rate Risk

Molecular Partners earns or pays interest on cash and cash equivalents, and its profit and loss may be influenced by changes in market interest rates. The Group could invest its cash balances into a variety of current and deposit accounts in three different Swiss banks to limit negative interest. In addition, the Group could invest a portion of its cash into risk free money market investments in line with its treasury guidelines.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Group's results before tax. There is no direct impact on the Group's equity.

in % and CHF thousands	Incr./Decr. interest rate	Effect on result before tax (in TCHF)
CHF Positions		
2018	+0.5%	168
	-0.5%	(168)
2017	+0.5%	307
	-0.5%	(307)
USD Positions		
2018	+0.5%	251
	-0.5%	(251)
2017	+0.5%	282
	-0.5%	(282)
EUR Positions		
2018	+0.5%	76
	-0.5%	(76)
2017	+0.5%	116
	-0.5%	(116)

Credit Risk

The maximum credit risk on financial instruments corresponds to the carrying amounts of the Group's cash and cash equivalents and receivables. The Group has not entered into any guarantees or similar obligations that would increase the risk over and above the carrying amounts.

The cash and cash equivalents and short-term deposits are considered low risk and were held at well-respected Swiss banks with Standard & Poor's credit ratings of A (Credit Suisse / UBS) and AAA (ZKB) and therefore any impact resulting from the expected credit loss model is considered immaterial. Analysis performed included assessing the cumulative default rates by credit rating category and applying these rates to the cash and short-term deposit balances at reporting dates. The calculated loss allowance based on the ECL is considered immaterial.

The Group enters into agreements with partners that have appropriate credit history and a commitment to ethical business practices.

The maximum credit risk as of the balance sheet date was as follows:

Credit risk in CHF thousands	**2018**	**2017**
Cash and cash equivalents	98,958	131,316
Trade and other receivables	49,393	765
Accrued income	—	38
Short-term time deposits	—	9,745
Total credit risk as at December 31	**148,351**	**141,864**

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's liquidity risk is considered low by management due to the financial assets at reporting date, giving the Group a secure source of funding for its research and development activities.

25. Events After the Balance Sheet Date

On January 22, 2019 the Group collected the USD 50 million non-refundable upfront from the license and collaboration agreement with Amgen.

No other events occurred between the balance sheet date and the date on which these consolidated financial statements were approved by the Board of Directors that would require adjustment to the consolidated financial statements or disclosure under this heading.

Statutory Auditor's Report

To the General Meeting of Molecular Partners AG, Schlieren

Report on the Audit of the Consolidated Financial Statements (IFRS)

Opinion

We have audited the consolidated financial statements of Molecular Partners AG and its subsidary (the Group), which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 71 to 111) give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, 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

Revenue recognition: Upfront payment in connection with the 2018 license and collaboration agreement with Amgen

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.

Revenue recognition: Upfront payment in connection with the 2018 license and collaboration agreement with Amgen

Key Audit Matter

The Group entered into a license and collaboration agreement with Amgen Inc. As part of the agreement, Molecular Partners is entitled to receive an upfront payment of $50 Mio. In connection with the upfront payment, determining the related performance obligation as well as the measurement and the recognition of revenue to be recognized over the period of satisfying the performance obligation is complex and is subject to significant judgement. In 2018, the revenue recognized related to the upfront payment amounted to CHF 914,797.

The contractual upfront payment reflects the consideration for the right to access the underlying intellectual property of Molecular Partners, including transferring the related technology and certain future research and development services.

Management determined its performance obligation by considering the contractual terms, the underlying technology, and the research and development services to be provided.

Management has assessed the estimated duration of its performance obligation based on its development plan and the contractual agreement. Management determined it will satisfy its performance obligation related to the upfront payment pro rata over the estimated duration using an input based approach.

Our response

Our audit procedures included, amongst others, assessing the revenue recognition policy applied by management for this license and collaboration agreement in accordance with IFRS. More specifically,

- We obtained and read the license and collaboration agreement with Amgen Inc.
- We obtained the Group's documented accounting analysis and independently assessed the consistency with the terms of the underlying contractual agreement. Using the support of our own accounting specialists, we assessed the Group's identified performance obligation and the policy applied to measure and recognize revenue.
- We obtained audit evidence of the Group's method for measuring progress of the satisfaction of the performance obligation. We challenged management's assessment of the method of pro-rata recognition by obtaining and considering the consistency of the Group's development plan and other items including the underlying collaboration budget with the Group's assertion that the relevant collaboration costs will be incurred pro-rata over the time of satisfaction of the identified performance obligations. We also made inquiries of the Group's management to corroborate the assertions made in the accounting analysis, the development plan and the collaboration budget.
- We obtained confirmation from Amgen Inc. on the outstanding trade receivable balance as of December 31, 2018 and performed subsequent cash receipt testing after the balance sheet date.
- We recalculated the portion of the contractual revenue recognized for 2018 and assessed the related foreign exchange valuation of the contract liability.
- We evaluated the adequacy of the Group's disclosures in relation to the license and collaboration agreement.

For further information on Revenue recognition: upfront payment in connection with the 2018 license and collaboration agreement with Amgen refer to the following:

- Note 2 Summary of Significant Accounting Policies: Changes in significant accounting policies, page 82
- Note 4 Critical Accounting Estimates and Judgements
- Note 5 Revenues and entity-wide disclosures
- Note 15 Contract Liability / Deferred 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 compensation 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.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 financial statements according to the instructions of the Board of Directors.

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

KPMG AG

Martin Rohrbach
Licensed Audit Expert
Auditor in Charge

Judith Herold
Licensed Audit Expert

Zurich, March 13, 2019

Company only Financial Statements

Balance sheet as of December 31,		**2018**	**2017**
in CHF thousands	note		
Assets			
Cash and cash equivalents	3	98,958	131,316
Trade accounts receivable		49,323	168
Other short-term receivables	4	2,274	947
Prepaid expenses and accrued income	5	2,746	349
Short-term time deposits	3	—	9,745
Total current assets		**153,301**	**142,525**
Property, plant and equipment	6	1,455	1,871
Intangible assets	7	382	27
Investments	1	0	—
Total non-current assets		**1,837**	**1,898**
Total assets		**155,138**	**144,423**
Shareholders' equity and liabilities			
Trade accounts payable		2,089	716
Other short-term payables	8	537	575
Accrued expenses	9	6,386	3,971
Contract liability	10	27,834	—
Deferred revenues	10	—	8,879
Total current liabilities		**36,846**	**14,141**
Contract liability	10	20,876	—
Deferred revenues	10	—	9,539
Long-term provisions		229	181
Total non-current liabilities		**21,105**	**9,720**
Total liabilities		**57,951**	**23,861**
Share capital	11	2,123	2,104
Reserve from capital contributions		160,887	160,514
Cumulative losses:			
- Loss carried forward		(42,056)	(20,290)
- Net result for the year		(23,767)	(21,766)
Total cumulative losses		(65,823)	(42,056)
Total shareholders' equity		**97,187**	**120,562**
Total liabilities and shareholders' equity		**155,138**	**144,423**

See accompanying notes, which form an integral part of these financial statements.

Income statement for the year ended December 31,			
		2018	**2017**
in CHF thousands	note		
Revenues			
Revenues from research and development collaborations		10,355	19,816
Other revenues		—	200
Total revenues	12	**10,355**	**20,016**
Operating expenses:			
Research and development expenses	13	(35,921)	(35,598)
General and administrative expenses	14	(7,553)	(6,598)
Total operating expenses		**(43,474)**	**(42,196)**
Operating result		**(33,119)**	**(22,180)**
Financial income	15	804	611
Financial expenses	15	(431)	(197)
Extraordinary income	2	8,979	—
Result before taxes		**(23,767)**	**(21,766)**
Income taxes		—	—
Net result		**(23,767)**	**(21,766)**

See accompanying notes, which form an integral part of these financial statements.

Cash flow statement for the year ended December 31,		2018	2017
in CHF thousands	note		
Net result		(23,767)	(21,766)
Adjustments for:			
Depreciation and amortization		924	1,145
Non-cash personnel expenses		47	191
Deferred revenues recognized in profit and loss	10	—	(18,876)
Contract liabilities recognized in profit and loss	12	(10,355)	—
Transition effect resulting from implementation of the new revenue recognition policy	2	(8,979)	—
Financial income	15	(804)	(611)
Financial expenses	15	431	197
Changes in working capital:			
Change in prepaid expenses and accrued income		(2,435)	174
Change in trade and other receivables		(50,811)	(317)
Change in trade and other payables		1,370	(118)
Change in contract liability		49,625	—
Change in accrued expenses		2,415	95
Exchange gain/(loss) on working capital positions		(33)	(51)
Other financial income/(expense)		(102)	(86)
Net cash from (used in) operating activities		**(42,474)**	**(40,023)**
Proceeds from investments in short term time deposits		39,973	40,181
Investments in short term time deposits		(30,228)	(19,435)
Acquisition of property, plant and equipment		(456)	(481)
Acquisition of intangible assets		(411)	(19)
Net proceeds from disposal of property, plant and equipment		4	—
Interest received		731	618
Net cash from (used in) investing activities		**9,613**	**20,864**
Exercise of stock options, net of transaction costs	11	392	800
Net cash from (used in) financing activities		**392**	**800**
Exchange gain/(loss) on cash positions		111	(60)
Net increase (decrease) in cash and cash equivalents		**(32,358)**	**(18,419)**
Cash and cash equivalents at January 1		131,316	149,735
Cash and cash equivalents at December 31	3	**98,958**	**131,316**

See accompanying notes, which form an integral part of these financial statements.

Notes to the Company only Financial Statements

1. General Information

Molecular Partners AG (the Company or Molecular Partners) is a biopharmaceutical company focusing on the discovery, development and commercialization of DARPin®, a novel class of therapeutic proteins. DARPin® combine the specificity and selectivity of monoclonal antibodies with many properties of small molecules, enabling new therapeutic approaches. The Company was founded on November 22, 2004 and is domiciled in Schlieren, Canton of Zurich, Switzerland. It is subject to the provisions of the articles of incorporation and to article 620 et seq. of the Swiss Code of Obligations, which describe the legal requirements for limited companies ("Aktiengesellschaften").

Investments
The Company has one wholly owned subsidiary, Molecular Partners Inc. This entity is incorporated on October 8, 2018 under the laws of the state of Delaware, USA and has its offices at 245 Main Street, Cambridge MA 02142, USA. The Company made a capital contribution of USD 1 for 10,000 shares with a par value of USD 0.001. All shares are hold by Molecular Partners AG. The investment value of the Company in Molecular Partners Inc. therefore is $1. The US entity did not have any operations during 2018.

The Company's shares have been listed on the SIX Swiss Exchange (Ticker: MOLN) since November 5, 2014.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of Molecular Partners for the year ended December 31, 2018 have been prepared in accordance with the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Unless stated otherwise, the financial statements are presented in thousands of Swiss Francs (TCHF).

Significant accounting policies that are not prescribed by law are described below.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Depreciation is calculated on a straight-line basis over the expected useful lives of the individual assets or asset categories. The applicable estimated useful lives are as follows:

Laboratory equipment:	5 years
Office equipment:	3 years
IT hardware:	2 years

Leasehold improvements are depreciated over the shorter of their estimated useful life and the lease term. Subsequent costs are included in each asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down to its recoverable amount, if the asset' carrying amount exceeds its estimated recoverable amount.

Cost and accumulated depreciation related to assets retired or otherwise disposed are derecognized at the time of retirement or disposal and any resulting gain or loss is included in profit or loss in the period of retirement or disposal.

Intangible Assets

Intangible assets currently solely comprise of IT software. They are stated at historical cost less accumulated amortization and any impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Amortization is calculated on a straight-line basis over the expected useful lives of the individual assets or asset categories. The applicable estimated useful life of intangible assets is determined to be two years.

Investments

Investments in subsidiary companies are stated at cost less impairment provision, which is recognized as an expense in the period, in which the impairment is identified.

Revenue Recognition

For its IFRS Financial Statements, the Company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying the Standard recognized at the date of the initial application (i.e. January 1, 2018). In the context of reassessing the open arrangements in accordance with IFRS 15, Molecular Partners' management decided to change effective January 1, 2018 the statutory accounting policies for revenue recognition to align the statutory accounting policy for revenue recognition under Swiss Law to be consistent with its revenue accounting policies in accordance with IFRS 15. This is considered to enhance transparency. The transition effect resulting from the adoption of the new accounting policies is recognized as extraordinary income in the statutory 2018 profit and loss statement.

As a guiding principle of the new revenue accounting policy, revenues from research and development collaboration agreements are recognized when earned based upon the performance requirements of the respective agreements. For revenue arrangements with separately identifiable components (separate performance obligations), the revenue recognition criteria are applied to each component. The transaction price is determined as the consideration expected to be received from the arrangement and is allocated amongst the separate components based on their relative stand-alone selling prices. The corresponding amount of transaction price allocated to each component is recognized over the relevant pattern, either over time for upfront payments or at a point in time for milestone payment and development option payments. Payments received in excess of amounts earned are recorded as contract liability.

Revenues include fees such as upfront payments received in connection with out-licensing of products and in connection with discovery alliances, as well as fees for maintenance of patents, R&D support and services, participation in Joint Steering Committees and other involvement in the collaboration. In exchange for these non-refundable upfront fees, the Company does not transfer a good or a service to the customer, rather the upfront fee consists of an advance payment for future services and/or the right to access the underlying intellectual property of the Company. Consequently, the related revenues are recognized over time pro rata over the duration of such performance obligations. In considering the gradual recognition of the upfront payment the

Company applies an input based approach, related to the consistent use of funds and resources it will take the Company to satisfy the performance obligation.

Revenues also include fees such as milestone and development option payments received in connection with out-licensing of products and in connection with discovery alliances. Upon meeting the set milestone or upon a development option being exercised, the Company obtains a right to payment (non-refundable) and the customer has typically acquired the right to use the underlying intellectual property, without any remaining performance obligations from the Company. Consequently, the related revenues are recognized at a point in time, either when the milestone is met or the option is exercised by the customer.

The effect of initially applying the new revenue recognition policy is mainly attributed to the following items that are explained in the below tables:

- earlier recognition of revenue from milestones achieved before January 1, 2018
- earlier recognition of revenue from development options exercised before January 1, 2018
- later recognition of revenue from development options exercised after January 1, 2018

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company's various services are set out below. Under the new revenue recognition policy, revenue is recognized when a customer obtains control of the services. Determining the timing of the transfer of control - at a point in time or over time - requires judgment.

Type of payments received	Timing of revenue recognition	Nature of change in accounting policy
Revenue recognition of upfront payments	Upfront payments received in connection with out-licensing arrangements are typically non-refundable fees for which the Company does not transfer a good or a service to the customer, rather the upfront payments consists of an advance payment for future services and/or an acquisition of the right to access the underlying intellectual property of the Company. Consequently, the related revenue is recognized pro rata over the duration of such performance obligations, for example the period over which the company would be required to deliver research and development activities.	No change as a result of the transition
Revenue recognition of milestone payments	Milestone payments received in connection with out-licensing arrangements are typically non-refundable fees entitling the Company to a right to payment upon such milestone being met. At that time, the customer has typically acquired to right to use the underlying intellectual property, without any remaining performance obligation from the Company. Considering the uncertainty surrounding the outcome of such development activities, the revenue is consequently recognized at a point in time, when the milestone is reached. At this stage it is highly probable that a reversal of the cumulative revenue will not occur.	Under the previous accounting policy these milestones were recognized over time considering the probability of achieving the next milestone as well as the date of its achievement.
Revenue recognition of payments received for development options exercises	Development option payments received in connection with out-licensing arrangements are typically non-refundable fees entitling the Company to a right to payment upon such option being exercised. At that time, the customer has typically acquired the right to use the underlying intellectual property, without any remaining performance obligations from the Company. Considering the fact that the exercise of any option is outside the control of the Company, revenue is recognized at a point in time at the effective exercise of the option. At this stage it is highly probable that a reversal of the cumulative revenue will not occur.	Under the previous accounting policy these development option exercise fees were recognized over time where depending on the assessment of timing to completion.

Due to immateriality the Company determined that certain recharges to its collaboration and other partners would no longer be presented as other revenue but as credits to the associated expense lines in the income statement.

The following table summarizes the impact, net of tax, of the transition to the new revenue recognition policy as at January 1, 2018. This overview reflects the impact of the recognition at a point-in-time, whereby the actual date of the performance obligation, for milestones and

development option fees, is satisfied / completed, is taken into consideration and this resulted in an earlier or later recognition of revenue as compared to the previously applied accounting policy. The Company has accounted for the effect of the implementation of the new accounting policy as an extraordinary income at the date of the effective implementation.

in CHF thousands	Impact of adopting the new revenue recognition policy at January 1, 2018
Milestones achieved before January 1, 2018	6,244
Development options exercised before January 1, 2018	7,494
Development options exercised after January 1, 2018	(4,759)
Extraordinary Income at January 1, 2018	8,979

The following tables summarize the impacts of adopting the new revenue recognition policy on the Company's statement of financial position as at December 31, 2018.

as of December 31, 2018 In CHF thousands	As reported	Adjustments	Amounts without adoption of the new revenue recognition policy
Total current assets	153,301	—	153,301
Total non-current assets	1,837	—	1,837
Total Assets	**155,138**	**—**	**155,138**
Shareholders' equity and liabilities			
Trade accounts payable	2,089	—	2,089
Other short term payables	537	—	537
Accrued expenses	6,386	—	6,386
Contract liability	27,834	(27,834)	—
Deferred revenue	—	35,367	35,367
Total current liabilities	**36,846**	**7,533**	**44,379**
Contract liability	20,876	(20,876)	—
Deferred revenue	—	22,882	22,882
Long term provisions	229	—	229
Total non-current liabilities	**21,105**	**2,006**	**23,111**
Total liabilities	**57,951**	**9,539**	**67,490**
Share capital	2,123	—	2,123
Reserve from capital contributions	160,887	—	160,887
Cumulative losses			
Loss carried forward	(42,056)	—	(42,056)
Net result for the year	(23,767)	(9,539)	(33,306)
Total Cumulative losses	**(65,823)**	**(9,539)**	**(75,362)**
Total Shareholders' equity	**97,187**	**(9,539)**	**87,648**
Total liabilities and shareholders' equity	**155,138**	**—**	**155,138**

For the 12 months ended December 31, 2018 In CHF thousands	As reported	Adjustments	Amounts without adoption of the new revenue recognition policy
Research and collaboration revenues	10,355	(560)	9,795
Other revenues	—	226	226
Total revenues	**10,355**	**(334)**	**10,021**
Total operating expenses	(43,474)	(226)	(43,700)
Operating result	**(33,119)**	**(560)**	**(33,679)**
Net finance result	373	—	373
Extraordinary income	8,979	(8,979)	—
Result before income taxes	**(23,767)**	**(9,539)**	**(33,306)**
Income taxes	—	—	—
Net result	**(23,767)**	**(9,539)**	**(33,306)**

Share-based Compensation Plan

The Company operates share-based compensation plans that qualify as equity-settled plans as follows:

Employee stock option plans (ESOP)

- ESOP 2007 established in July 2007
- ESOP 2009 established in December 2009
- ESOP 2014 established in July 2014

An ESOP is an incentive tool that fosters the entrepreneurial spirit and performance by way of financial participation in the Company's long term success. It gives employees, members of the Board of Directors and selected advisors a beneficial opportunity to purchase shares of the Company. Each option entitles its holder to purchase one share of the Company at a pre-defined exercise price. The number of options granted to each participant was determined by the Board of Directors based on a participant's position and level of responsibility. The options generally vest quarterly over four years, with cliff vesting of 25% after one year. At the end of the option term, unexercised options expire without value.

As of December 31, 2018, an aggregate of 864,197 options were outstanding under the ESOP 2007, ESOP 2009 and ESOP 2014. All these options are fully vested at the reporting date.

Since the initial public offering of the Company on the SIX Swiss Exchange on November 5, 2014, no more option grants have been made under any of these three share option plans.

Long term incentive (LTI) plans: restricted share units and performance share units

- LTI plans 2015 established in March 2015
- LTI plans 2016 established in March 2016
- LTI plans 2017 established in March 2017
- LTI Plans 2018 established in March 2018

Under the LTI plans, members of the Board of Directors are eligible to be granted RSUs, whereas members of the Management Board and other employees are eligible to be granted performance share units PSUs.

RSUs are contingent rights to receive a certain number of shares of the Company at the end of a three-year blocking period. The number of RSUs per plan participant is a function of the approved CHF amount per position divided by the fair value of each RSU as at the grant date. In certain circumstances, including a change of control, a full or partial accelerated vesting of the RSUs may occur. RSUs vest over a one-year period from date of grant.

PSUs are contingent rights to receive a variable number of shares of the Company at the end of a three-year cliff-vesting period. The number of PSUs per plan participant is a function of the approved CHF amount per position divided by the fair value of each PSU as of the grant date. While the PSUs are designed to let the beneficiaries participate in the long-term share price development, the number of shares to be earned in relation to a PSU also depends on the achievement of certain corporate goals for the respective year. Accordingly, the number of shares to be issued based on the PSUs can be between zero and 120% of the number of PSUs granted. Even after the determination of goal achievement, participants may lose their entitlements in full or in part depending on certain conditions relating to their employment. In certain circumstances, including a change of control, a full or partial accelerated vesting of the PSUs may occur.

The LTI plans are rolled out annually, which allows the Board of Directors to review and adjust the terms and targets on an annual basis. Employees generally receive the grants on April 1 of each calendar year. Members of the Management Board and the Board of Directors receive the annual grants after the approval of the ordinary shareholders' meeting.

As of December 31, 2018, 251,555 PSUs and 68,911 RSUs were outstanding.

The Company does not recognize any expense at the date of grant of the contingent rights (RSUs/PSUs). When options under the ESOPs above are exercised or shares under the LTI Plans issued, the difference between the carrying amount of treasury shares issued (or par value of new shares issued) and any proceeds received is recognized in profit or loss.

Leases

Leases of assets under which Molecular Partners essentially assumes all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized as assets and liabilities at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. The assets acquired under these contracts are depreciated over the shorter of the estimated useful life of the asset and the lease term. No such finance lease contracts existed during the reporting period.

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases, and payments made are charged to profit or loss on a straight-line basis. Except for facility lease contracts, no such operating lease contracts existed during the reporting period.

3. Cash, cash equivalents and short-term time deposits

Balance at December 31 in CHF thousands	**2018**	**2017**
Cash at bank and at hand in CHF	33,574	61,498
Cash at bank and at hand in EUR	15,207	23,262
Cash at bank and at hand in USD	50,177	46,556
Total cash at bank and at hand	98,958	131,316
Short-term time deposits in USD	—	9,745
Total short-term time deposits	—	9,745

The short-term time deposits in USD at December 31, 2017 contain one position with a major Swiss bank.

4. Other Short-term Receivables

in CHF thousands	**2018**	**2017**
Value added tax	835	680
Withholding tax	256	216
Other receivables	1,183	51
Balance at December 31	**2,274**	**947**

5. Prepaid Expenses and Accrued Income

in CHF thousands	**2018**	**2017**
Prepayments	2,746	311
Accrued income	—	38
Balance at December 31	**2,746**	**349**

6. Property, Plant and Equipment

in CHF thousands	2018	2017
Lab equipment	1,174	1,409
Office equipment	95	122
IT hardware	61	175
Leasehold improvements	125	165
Balance at December 31	**1,455**	**1,871**

7. Intangible Assets

in CHF thousands	2018	2017
IT software	382	27
Balance at December 31	**382**	**27**

8. Other Short-term Payables

in CHF thousands	2018	2017
Social security	537	575
Balance at December 31	**537**	**575**

9. Accrued Expenses

in CHF thousands	2018	2017
Accrued project costs	2,982	1,211
Accrued payroll and bonuses	3,020	2,487
Other	384	273
Balance at December 31	**6,386**	**3,971**

10. Contract Liability / Deferred Revenues

The Company expects the contract liabilities / deferred revenues to be recognized as follows:

in CHF thousands	Contract liability
Expected revenue recognition in year one after balance sheet date	27,834
Expected revenue recognition in year two after balance sheet date	20,876
Expected revenue recognition in year three after balance sheet date	—
Expected revenue recognition in year four after balance sheet date	—
Expected revenue recognition in year five and later after balance sheet date	—
Balance at December 31, 2018	**48,710**

in CHF thousands	Deferred revenues
Expected revenue recognition in year one after balance sheet date	8,879
Expected revenue recognition in year two after balance sheet date	7,533
Expected revenue recognition in year three after balance sheet date	1,337
Expected revenue recognition in year four after balance sheet date	669
Expected revenue recognition in year five and later after balance sheet date	—
Balance at December 31, 2017	**18,418**

The implementation of the new revenue recognition policy has resulted in a change in terminology; prior to the implementation these amounts as presented above were labeled deferred revenues and post implementation the Company will present these amounts under contract liabilities.

See note 2 for further information related to the implementation of the new revenue recognition policy as per January 1, 2018.

11. Share Capital and Treasury Shares

Ordinary share capital
As of December 31, 2018, the Company's share capital consisted of 21,228,593 fully paid registered shares with a par value of CHF 0.10 each. As of December 31, 2017, the Company's share capital consisted of 21,044,062 fully paid registered shares with a par value of CHF 0.10 each.184,531 new registered shares were issued in 2018 as a result of the option exercises and the vesting of performance share units (PSU and RSU 2015). The corresponding capital increase was registered with the commercial register on February 20, 2019.

Authorized share capital
The Board of Directors is authorized to increase the share capital at any time until April 18, 2020 by a maximum amount of CHF 565,986 by issuing a maximum of 5,659,860 fully paid up shares with a par value of CHF 0.10 each. An increase of the share capital in partial amounts is permissible.

Conditional capital
As of December 31, 2018 the Company's share capital was allowed to be increased by an amount not to exceed CHF 241,186 through the issuance of up to 2,411,857 fully paid up shares with a par value of CHF 0.10 per share through the direct or indirect issuance of shares, options or preemptive rights granted to employees, members of the Board of Directors or members of any advisory

boards. During 2018, the share capital was increased out of conditional capital. As a result, the available conditional capital was reduced by CHF 18,453, from CHF 259,639 to CHF 241,186.

In addition, the share capital may be increased by an amount not to exceed CHF 400'000 through the issuance of up to 4'000'000 fully paid up shares with a par value of CHF 0.10 per share through the exercise or mandatory exercise of conversion, exchange, option, warrant or similar rights for the subscription of shares granted to shareholders or third parties alone or in connection with bonds, notes, options, warrants or other securities or contractual obligations by or of the Company.

Treasury shares
As of December 31, 2018 and December 31, 2017, the Company held no treasury shares. During the year ended December 31, 2017, the number of treasury shares was reduced by 7,532 to service the exercise of share options by current and former employees.

The following table summarizes the movements of treasury shares in 2017:

2017 **Treasury shares**	**No. of shares**	**in thousand**
At January 1, 2017	7,532	152
Additions	—	—
Exercise of options	(7,532)	(152)
At December 31, 2017	**—**	**—**

In 2018, the cash proceeds from the exercise of share options and the vesting of performance share units ("PSUs") amounted to TCHF 395 and was all serviced from the issuance of new shares (conditional share capital).

12. Revenues and entity-wide disclosures

Revenues in the table below are attributable to individual countries and are based on the location of the Company's alliance partner, while the non-current assets are based on the location of the Company. All operating costs are incurred in Switzerland. The Company's non-current assets are all located in Switzerland.

Revenues by country in CHF thousands, for the years ended December 31	**2018**	**2017**
Revenues Switzerland	—	109
Revenues USA	10,355	19,907
Total revenues	**10,355**	**20,016**

Analysis of revenue by major alliance partner in CHF thousands, for the years ended December 31	**2018**	**2017**
Allergan Inc., USA	9,440	19,907
Amgen Inc., USA	915	—
Other	—	109
Total revenues	**10,355**	**20,016**

The presented revenues from Allergan arise from agreements entered into in 2011 and 2012; the amounts presented for the period ended December 31, 2018 resulted from the full reversal of the contract liability (CHF 9.4 million) as of January 1, 2018 due to the fulfillment of the performance obligation. The extraordinary income resulting from the transition effect in relation of the adoption of the revenue accounting policy reflects adjustment in revenue from Allergan arising from agreements entered into 2011 and 2012 for which the performance obligations had been fulfilled before January 1, 2018. For a detailed description please refer to Note 2 Revenue Recognition.

In December 2018, the Company entered into a License and Collaboration Agreement with Amgen for the clinical development and commercialization of MP0310. Under the terms of the agreement, the Company granted to Amgen an exclusive worldwide, royalty-bearing, sublicensable license under the Company;s patents and know-how relating to MP0310 to develop and commercialize MP0310. The parties will jointly evaluate MP0310 in combination with Amgen`s oncology pipeline products, including its investigational BiTE® (bispecific T-cell engager) molecules. Under the collaboration, Molecular Partners retains certain rights to develop and commercialize its proprietary DARPin® pipeline products in combination with MP0310.

Under the agreement the Company will receive a non-refundable upfront payment of $50 million that is due as per the date of signing and with a 40 day payment term. The Company will have the lead on performing certain clinical development, manufacturing and regulatory activities in the first clinical phase and the Company assigned the full $50 million upfront as the transaction price to this performance obligation, based on the Company's development plan and the contractual agreement. The Company has considered if the contract contains a significant financing component and has concluded this was not the case. The Company will recognize the related revenue pro-rata over time, starting from the date of signing, and over the time period the Company assigned to satisfy the performance obligation. This time period is subject to the assessment of the management of the Company. In considering the gradual recognition of the upfront payment the Company applied an input based approach, related to the consistent use of funds and resources it will take the Company to satisfy the performance obligation.

In addition the Company is eligible to receive up to $497 million in development, regulatory and commercial milestone payments, as well as double-digit, tiered royalties up to the high teens. The Company considers these various milestones to be variable consideration as they are contingent upon achieving uncertain, future development stages and net sales. For this reason the Company considers the achievement of the various milestones as binary events that will be recognized into revenue upon occurrence. Furthermore, the parties will share the clinical development costs in defined percentages for the first three indications subject to certain conditions. For all additional clinical trials, Amgen is responsible for all development costs.

13. Research and Development expenses

in CHF thousands	**2018**	**2017**
Personnel expenses	(17,041)	(14,469)
Research consumables and costs	(13,500)	(17,762)
Royalties and license fees	(2,102)	(60)
Facility expenses	(1,450)	(1,388)
Depreciation and amortization	(824)	(1,019)
Other expenses	(804)	(557)
Intellectual property	(200)	(343)
Total year ended December 31	**(35,921)**	**(35,598)**

14. General and Administrative Expenses

in CHF thousands	2018	2017
Personnel expenses	(3,736)	(3,771)
Other expenses	(3,541)	(2,529)
Facility expenses	(176)	(172)
Depreciation and amortization	(100)	(126)
Total year ended December 31	**(7,553)**	**(6,598)**

15. Financial Income

in CHF thousands	2018	2017
Interest income on loans and receivables	693	610
Foreign exchange gain	111	1
Total year ended December 31	**804**	**611**

Financial Expense

in CHF thousands	2018	2017
Foreign exchange loss	(329)	(111)
Other financial expenses	(102)	(86)
Total year ended December 31	**(431)**	**(197)**

16. Full-time equivalents and headcount

Full-time equivalents and head count

	2018	2017
Average number of full-time equivalents	113.5	104.0
Full-time equivalents at year end	117.7	107.8
Headcount at year end	129	119

17. Lease Commitments

Operating lease commitments
As at the end of 2018 the Company had four lease contracts in place for its facilities in Schlieren, Switzerland:

- Wagistrasse 14, Schlieren, Switzerland (base agreement for 4th and 5th floor): expires on December 31, 2021
- Wagistrasse 14, Schlieren, Switzerland (cellar): can be terminated anytime with 6 months notice
- Wagistrasse 14, Schlieren, Switzerland (parking lots): can be terminated anytime with 6 months notice
- Wagistrasse 13a, Schlieren, Switzerland (animal facility): expires on April 30, 2020

The following obligations under operating leases existed as of the balance sheet date (all related to facility lease contracts):

in CHF thousands	2018	2017
Within one year	1,266	1,266
Due within two to five years	2,289	3,523
Balance at December 31	**3,555**	**4,789**

Finance lease commitments
The Company does not have any finance lease commitments.

18. Major shareholders

At the reporting date, the largest shareholders in the Company known to the Company based on the published notifications to SIX or the share register, as applicable, are:

Shareholders with over 3% of share capital registered with the Commercial Register	**2018**	**2017**
Hansjoerg Wyss	9.70%	9.85%
Index Ventures Associates IV Limited	8.06%	8.18%
Essex Woodlands Health Ventures VIII, LLC	7.70%	7.82%
Andreas Plückthun	4.84%	4.92%
Mark N. Lampert (Biotechnology Value Funds)	<3%	4.34%
Johnson & Johnson	4.18%	4.25%
Pictet Asset Management (Direction de Fonds)	4.10%	3.11%
Michael Tobias Stumpp	3.34%	3.40%
Patrick Amstutz	3.15%	3.19%
GAM Holding AG	3.05%	<3%
UBS Funds Management (Switzerland) AG	3.00%	<3%
Patrik Forrer	2.99%	3.14%
Endeavour Partners GP Limited	2.94%	4.10%

The percentages above are based on (i) the number of shares held by such shareholders, excluding any options, PSUs and RSUs held by such shareholders and (ii) for the year ended December 31, 2018, 21,044,062 common shares, which is the share capital registered with the commercial registry on December 31, 2018 (December 31, 2017, 20,724,345 common shares).

19. PSU/RSU Granted to the Members of the Board of Directors, management and employees

in CHF	Number	Value TCHF
Total grants to the members of the Board of Directors	21,790	570
Total grants to the members of the management	45,042	1,244
Total grants to other employees	76,523	2,186
Total grants in 2018	**143,355**	**4,000**

in CHF	Number	Value TCHF
Total grants to the members of the Board of Directors	27,401	713
Total grants to the members of the management	38,457	1,088
Total grants to other employees	76,423	1,872
Total grants in 2017	**142,281**	**3,673**

The Company has not granted any loans, credits or post-retirements benefits beyond the occupational benefit schemes to members of the Board of Directors nor to the Management Board or other employees.

20. Ownership of Shares, PSU/RSU and Options by Key Management Personnel

Board of Directors	Shares	RSUs	Options
Goran Ando	2,118	8,216	70,000
Steven H. Holtzman	2,118	8,216	20,000
William A. Lee	2,133	8,216	42,340
Petri Vainio	2,118	8,216	—
Gwen Fyfe	—	5,751	—
William Burns	—	8,900	
Total Board of Directors as of December 31, 2018	**8,487**	**47,515**	**132,340**

Management Board	Shares	PSUs	Options
Patrick Amstutz	692,549	27,346	70,080
Michael Tobias Stumpp	750,106	19,779	36,070
Andreas Harstrick	—	20,603	—
Andreas Emmenegger	235,629	19,779	36,070
Pamela Trail	—	7,267	—
Total Management Board as of December 31, 2018	**1,678,284**	**94,774**	**142,220**

Board of directors	Shares	RSUs	Options
Jörn Aldag	2,710	16,450	94,680
Goran Ando	—	8,225	70,000
Steven H. Holtzman	—	8,225	20,000
William A. Lee	—	8,225	42,340
Andreas Plückthun	918,995	8,225	—
Petri Vainio	—	8,225	—
Jeff Buchalter	—	5,349	—
Gwen Fyfe	—	2,884	—
William Burns	—	1,445	—
Total Board of Directors as of December 31, 2017	**921,705**	**67,253**	**227,020**

Management Board	Shares	PSUs	Options
Patrick Amstutz	687,125	28,117	70,080
Michael Tobias Stumpp	743,049	21,093	36,070
Andreas Harstrick	—	21,651	—
Andreas Emmenegger	231,376	21,093	36,070
Total Management Board as of December 31, 2017	**1,661,550**	**91,954**	**142,220**

21. Auditing and Additional Fees as incurred from the Statutory Auditor

in CHF thousands	2018	2017
Auditing fees	158	149
Other assurance related services	822	17
Tax related services	17	—
Balance at December 31	**997**	**166**

22. Events After Balance Sheet Date

These financial statements were approved for issuance by the Board of Directors on March 13, 2019.

On January 22, 2019 the Company collected the USD 50 million non-refundable upfront from the license and collaboration agreement with Amgen.

No other events occurred between the balance sheet date and the date on which these financial statements were approved by the Board of Directors that would require adjustment to the financial statements or disclosure under this heading.

Statutory Auditor's Report

To the General Meeting of Molecular Partners AG, Schlieren

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Molecular Partners AG, which comprise the balance sheet as at December 31, 2018, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 116 to 135) for the year ended December 31, 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Revenue recognition: Upfront payment in connection with the 2018 license and collaboration agreement with Amgen

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

Revenue recognition: Upfront payment in connection with the 2018 license and collaboration agreement with Amgen

Key Audit Matter

The Company entered into a license and collaboration agreement with Amgen Inc. As part of the agreement, Molecular Partners is entitled to receive an upfront payment of $50 Mio. In connection with the upfront payment, determining the related performance obligation as well as the measurement and the recognition of revenue to be recognized over the period of satisfying the performance obligation is complex and is subject to significant judgement. In 2018, the revenue recognized related to the upfront payment amounted to CHF 914,797.

The contractual upfront payment reflects the consideration for the right to access the underlying intellectual property of Molecular Partners, including transferring the related technology and certain future research and development services.

Management determined its performance obligation by considering the contractual terms, the underlying technology, and the research and development services to be provided.

Management has assessed the estimated duration of its performance obligation based on its development plan and the contractual agreement. Management determined it will satisfy its performance obligation related to the upfront payment pro rata over the estimated duration using an input based approach

Our response

Our audit procedures included, amongst others, assessing the revenue recognition applied by management for this new collaboration. More specifically

- We analyzed the collaboration and license agreement with Amgen Inc.
- We obtained the Company's documented accounting analysis and independently assessed the consistency to the terms of the underlying contractual agreement. Using the support of our own accounting specialists, we assessed the agreement in relation to the upfront payment for the appropriateness of revenue recognition. Specifically, we assessed the Company's identified performance obligations, and the method of revenue recognition as to whether they were consistent with the agreement.
- We obtained audit evidence on the Company's method for measuring progress of the satisfaction of the performance obligation. We challenged management's assessment of the method of pro rata recognition by obtaining and considering the consistency of the Company's development plan and other items including the underlying budget to assess the estimated pro rata (over time) satisfaction of the identified performance obligations. We also made inquiries of the Company's management to corroborate the assertions made in the accounting analysis, the development plan and the budget
- We obtained confirmation from Amgen Inc. on the outstanding trade receivable balance and performed subsequent receipt testing after the balance sheet date.
- We recalculated the portion of the contractual revenue recognized for 2018 and assessed the related foreign exchange valuation of the contract liability.
- We evaluated the adequacy of the Company's disclosures made in relation to the collaboration and license agreement.

For further information on revenue recognition refer to the following:

- Note 2 Accounting Policy Revenue Recognition, page 120
- Note 10 Contract Liabilities/ Deferred Revenue
- Note 12 Revenues and entity-wide disclosures

Responsibility of the Board of Directors for the Financial Statements

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

In preparing the financial statements, the Board of Directors is responsible for assessing the entity'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 entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and 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 financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 financial statements according to the instructions of the Board of Directors.

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

KPMG AG

Martin Rohrbach
Licensed Audit Expert
Auditor in Charge

Judith Herold
Licensed Audit Expert

Zurich, March 13, 2019


SCHOTT
DURAN
1000 ml

Glossary of Terms

Angiogenesis: The physiological process through which new blood vessels form from pre-existing vessels. Angiogenesis is a normal and vital process in growth and development, as well as in wound healing. However, it is also a fundamental step in the formation of tumors or the development of diseases like wet age-related macular degeneration (AMD) or diabetic macular edema (DME).

Best corrected visual acuity (BCVA): Best achievable vision of a person, including the use of eyeglasses or contact lenses.

Co-stimulatory agonists: A receptor ligand that activates a signaling pathway on a lymphocyte (such as a T-cell), potentially leading to the activation of such lymphocyte.

Designed ankyrin repeat protein (DARPin®): An acronym for designed natural anykyrin protein, a new class of small-protein therapeutic agents. One of the most common binding proteins in nature, ankyrin repeat proteins are responsible for diverse functions, such as cell signaling and receptor binding. Due to their small size, high potency, high stability, high affinity (strong binding) and flexible architecture, DARPin® therapeutic products have the potential to overcome many of the limitations of conventional approaches to addressing complex diseases, such as cancer.

Diabetic macular edema (DME): A condition involving retinal swelling in diabetes mellitus due to fluid leaking from blood vessels.

EGFR-mutated non-small cell lung cancer (EGFR mut NSCLC): Non-small-cell lung carcinoma (NSCLC) is any type of epithelial lung cancer other than small cell lung carcinoma (SCLC). NSCLC accounts for about 85% of all lung cancers. EGFR-mutated NSCLC is a type of NSCLC and roughly 10–35% of people who have NSCLC will have this mutation.

HER: A family of receptors, called human epidermal growth factor receptors including its members HER1 (also known as EGFR), HER2/neu, HER3 and HER4.

Heterodimerization: A process by which two different (macro-) molecules form a complex.

Hepatocyte Growth Factor (HGF): A process which involves embryonic organ development, adult organ regeneration and wound healing.

Homodimerization: A process by which two identical (macro-) molecules form a complex.

Immune checkpoint modulators (ICMs): Therapeutic molecules that modulate the activity of T-cells by blocking or activating certain regulators on the T-cell surface.

Immuno-oncology: A sub-field in oncology investigating the influence of the body's immune system to fight cancer.

Immunogenicity: Immunogenicity is the ability of a particular substance, such as a therapeutic protein, to provoke an immune response in the body of a human or animal. Unwanted immunogenicity can reduce the activity of a therapy or lead to its full inactivation.

Metastasis: The process by which cancer spreads from the place at which it first arose as a primary tumor to distant locations in the body.

Monoclonal antibody (mAb): Monoclonal antibodies are large macromolecules that are specifically binding to a given substance. The fact that monoclonal antibodies can be produced binding to almost any substance led to their wide use as medicines. Monoclonal antibodies are the natural effector molecule produced by the body's immune system to recognize and neutralize an intruder, such as a virus, or a cancer cell.

Multiple myeloma (MM): A hematological cancer that forms in a type of white blood cell called a plasma cell. MM causes cancer cells to accumulate in the bone marrow, where they crowd out healthy blood cells. MM is one of the largest markets in hematology, estimated to exceed USD 8 billion in 2015.

Programmed Cell Death Protein 1 (PD-1): A checkpoint protein, key in regulating the immune system.

Platelet-Derived Growth Factor (PDGF): A process which involves in blood vessel formation and maturation.

Pharmacokinetics (PK): Important parameter when characterizing a drug, describing the residence time in the serum and in certain other organs upon administration.

Phase 1: First stage of testing in human subjects. Normally, a small (20- 100) group of healthy volunteers will be selected. This phase includes trials designed to assess the safety, tolerability, pharmacokinetics, and pharmacodynamics of a drug.

Phase 2: Second stage of testing in human subjects. Normally, a drug or treatment is given to a larger group of people to see if it is effective and to further evaluate its safety.

Phase 3: Third stage of testing in human subjects, often in large groups of people to confirm its effectiveness, monitor side effects, compare it to commonly used treatments, and collect information that will allow for the submission for registration and commercialization of a drug.

Vascular endothelial growth factor (VEGF): A signal protein produced by cells that stimulates vasculogenesis and angiogenesis.

Wet age-related macular degeneration (AMD): Wet AMD is a degenerative eye disease that causes damage to the macula, the central part of the retina. Wet AMD is one of the leading causes of blindness in the western world. It is caused by the abnormal growth of blood vessels in the retina.

Disclaimer:

This report does not constitute an offer or invitation to subscribe for or purchase any securities of Molecular Partners AG. This report may contain certain forward-looking statements and assessments or intentions concerning the company and its business. Such statements involve certain risks, uncertainties and other factors which could cause the actual results, financial condition, performance or achievements of the company to be materially different from those expressed or implied by such statements. Readers should therefore not place reliance on these statements, particularly not in connection with any contract or investment decision. The company disclaims any obligation to update these forward-looking statements, assessments or intentions.

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MOLECULAR partners

Making the DARPin® Difference Reality for Patients