ANNUAL REPORT 2019

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*

2019 R&D Milestones

- **Abicipar in Neovascular Wet Age-Related Macular Degeneration**
  - Two-year results from CEDAR and SEQUOIA presented at AAO in October 2019 demonstrate that vision gains observed after one year with both,every 8-week and every 12-week dosing were maintained in second year
  - MAPLE trial with improved manufacturing process demonstrated decreased intraocular inflammation;
  - FDA and EMA filings accepted and under review

- **MP0250 (VEGF x HGF) in Multiple Myeloma**
  - Updated data presented at ASH in December show long-lasting and deepening responses in patients with relapsed/refractory disease
  - U.S. FDA Orphan Drug Designation received in December 2019
  - Previously planned clinical trial investigating MP0250 in combination with an IMiD will not be initiated, in alignment with Group's corporate strategy to pursue combination data in collaboration with a partner

- **MP0274**
  - Phase 1 dose escalation trial in Her2-positive cancer patients progressing; first patients dosed at level of 8mg/kg

- **MP0310 / AMG 506 (FAP x 4-1BB)**
  - First patient cohorts dosed in phase 1 trial for this tumor-localized immune-modulator, representing a key milestone as the first novel therapeutic design of an immuno-oncology DARPin® candidate in clinical development (in co-development with Amgen)

- **MP0317 (FAP x CD40)**
  - Tumor-localized immune agonist nominated as second DARPin® protein in Group's immuno-oncology pipeline

- **Research: Progress continues on novel therapeutic designs including**
  - tumor-localized immune-cell agonists,
  - peptide-MHC complex DARPin® binders, and
  - next-generation immune cell engagers

Talent Base

- Nicolas Leupin, M.D., MBA, started in his roles as Chief Medical Officer and Member of the Management Board effective September 1, 2019

- Talent base of 135 full-time employees at year-end 2019 (+15% year-on-year), reflective of growth of the Group and its pipeline

2019 Financial Milestones

- 2019 financial performance in-line with expectations and guidance
- Ongoing strong financial position with CHF 95.1 million in cash and short-term time deposits as of December 31, 2019
- Net cash used in operating activities of CHF 1.2 million in 2019
- Operating loss of CHF 36.7 million and net loss of CHF 36.3 million in 2019
- Financed into H2 2021, beyond targeted market launch of abicipar

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 oncology and immuno-oncology. The company establishes research and development partnerships with leading pharmaceutical companies and is backed by established biotech investors.

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To Our Shareholders

We are committed to leveraging our unique DARPin® platform to create novel therapeutic designs that deliver patient value.

As we look back at what Molecular Partners accomplished in 2019, we are in the same act looking forward, as so much of what we've done this year has been in preparation for 2020 and beyond.

The 2019 calendar year saw a sharpening of our development strategy for MP0250, concrete advances toward commercialization of the first DARPin® therapeutic, and the first clinical trial within our immuno-oncology pipeline.

Alongside those milestones are others that have set us up for success on an even longer horizon. Our research efforts have generated a new development candidate, tumor-localized immune agonist MP0317 (FAP x CD40). And we continue to generate promising preclinical data for peptide-MHC complex DARPin® binders and next-generation T cell engagers, both leveraging functionalities that present-day biologic drugs cannot approach.

We look forward to a number of key events to come in 2020, including anticipated regulatory decisions by the U.S. Food and Drug Administration (FDA) and the European Medicines Agency (EMA) regarding the market launch of abicipar for patients with nAMD and initial data from the phase 1 trial of MP0310 / AMG 506 in H2 2020.

In 2019, we achieved the following **important milestones**:

- The FDA accepted a Biologics License Application (BLA) and the EMA validated a Marketing Authorisation Application (MAA) for abicipar.
- We initiated first-in-human trials for our lead IO candidate, MP0310 / AMG 506, in collaboration with Amgen.
- With two-year data from phase 3 studies in nAMD, abicipar became the first anti-VEGF therapy to maintain initial vision gains on a true fixed 12-week dosing interval.
- MP0250 received U.S. FDA Orphan Drug Designation in multiple myeloma.
- We presented updated data from the phase 2 trial of MP0250 in combination with bortezomib, showing long-lasting and deepening responses in patients with relapsed/refractory disease.
- We nominated our next development candidate, MP0317, a tumor-localized immune agonist targeting FAP and CD40.
- Data from the MAPLE trial of an improved abicipar manufacturing process demonstrated decreased intraocular inflammation.
- We grew to a talent base of 135 full-time employees (+15% year-on-year), reflecting further build-out of our R&D team.
- We maintained our strong financial position, with CHF 95.1 million in cash (incl. short-term deposits) as of Q4.

2019 Milestones

Most notably among our 2019 milestones, with our partner Allergan we announced that abicipar has been accepted for FDA and EMA review. This acceptance marks an important milestone for the DARPin® technology, as abicipar is now the first DARPin® candidate to receive filing acceptance by these agencies.

We also were pleased to announce additional clinical data on abicipar. In the spring, Molecular Partners and Allergan announced topline safety results from MAPLE, a 28-week open-label study that evaluated the safety of abicipar with an improved manufacturing process. The data showed a reduction of inflammation and reinforced the positive efficacy data from previously reported phase 3 trials. Further data from the CEDAR and SEQUOIA trials were presented at AAO in the fall. Two-year results from these trials showed that vision gains observed after one year with both every 8-week and every 12-week dosing were maintained in second year. This type of fixed-interval 12-week therapy would greatly reduce the treatment burden for patients with nAMD. We submitted marketing applications for abicipar to the EMA and the FDA, both of which were accepted in 2019 and are currently under review, with decisions expected in 2020.

For MP0310 / AMG 506, the first product candidate in our DARPin® immuno-oncology pipeline, we enrolled and treated the first patients in our first-in-human study, in collaboration with Amgen. This phase 1 trial (MP0310-CP101) is evaluating MP0310 as a single agent in patients with advanced solid tumors. The trial will evaluate the optimal dose range of MP0310 / AMG 506 in preparation for planned combination studies with Amgen's oncology pipeline products. The trial is an open-label, dose-escalation study that will evaluate the safety, tolerability and pharmacokinetics of MP0310 / AMG 506, and it intends to enroll up to 54 patients at three sites in France.

MP0250 saw a number of milestones and a refinement of clinical strategy in 2019. We presented data from our ongoing phase 2 trial for MP0250 in combination with bortezomib (Velcade®) and dexamethasone in patients with multiple myeloma at the 61st Annual Meeting of the American Society of Hematology (ASH). Those data indicate that MP0250 continues to show long-lasting and deepening responses across a variety of patients with multiple myeloma in the relapsed/refractory setting.

We announced in December that our previously planned additional phase 2 trial investigating MP0250 in combination with an IMiD will not be initiated. This is aligned with our corporate strategy to pursue combination data for the most relevant clinical combinations of MP0250, which would be more appropriately determined in collaboration with a partner. In December, MP0250 for multiple myeloma received Orphan Drug Designation by the FDA.

Meanwhile, recruitment for the phase 1 trial for MP0274 is ongoing; the trial is in the dose escalation stage. MP0274 is a multi-specific DARPin® product candidate being developed for the treatment of HER2-positive solid tumors.

Finally, in 2019 we nominated MP0317, a tumor-localized immune agonist, as our next development candidate and the second DARPin® protein in our immuno-oncology pipeline. MP0317 comprises localizer (FAP) and stimulator (CD40) DARPin® domains. It is designed to activate immune cells specifically in the tumor and not in the rest of the body, potentially delivering greater efficacy with fewer side effects.

Financial highlights

Molecular Partners remains solidly funded to capture upcoming value inflection points. In 2019, Molecular Partners recognized revenues of CHF 20.4 million (2018: CHF 10.4 million) and incurred total expenses of CHF 57.1 million (2018: CHF 47.8 million). This led to an operating loss of CHF 36.7 million for 2019 (2018: operating loss of CHF 37.4 million). The net financial result of CHF 0.4 million recorded in 2019 remained on the same level as in 2018. This resulted in a 2019 net loss of CHF 36.3 million (2018: net loss of CHF 37.0 million).

The net cash used for operating activities in 2019 was CHF 1.2 million (2018: net cash used of CHF 42.5 million). Including time deposits, the cash and cash equivalents position decreased by CHF 3.9 million vs. year-end 2018 to CHF 95.1 million as of December 31, 2019 (December 31, 2018: CHF 99.0 million). Total shareholders' equity stood at CHF 54.1 million as of December 31, 2019, a decrease of CHF 37.6 million (December 31, 2018: CHF 91.7 million).

Management Board changes

Nicolas Leupin, M.D., MBA, appointed Chief Medical Officer and Member of Management Board

On September 1, Nicolas Leupin, M.D., MBA, took up his newly appointed role as Chief Medical Officer and Member of the Management Board. Dr. Leupin is a medical oncologist with a proven track record in drug development, most recently as Chief Medical Officer of argenx. Prior to argenx, Dr. Leupin held roles of increasing responsibility at Celgene, where he supported the clinical development of several drug candidates in lymphoma and multiple myeloma, resulting in regulatory filings in Europe and the U.S. With the appointment of Nicolas Leupin, Andreas Harstrick, M.D., stepped down from his position as CMO.

Pamela A. Trail, Ph.D., departed from Chief Scientific Officer to consultant role

On July 1, Pamela A. Trail, Ph.D., departed from her role as Chief Scientific Officer of Molecular Partners. The Group's Senior Vice President of Research Daniel Steiner, Ph.D., assumed the leadership of the research department of the Group. This transition completed the successful transformation of the Group's research organization around a defined set of therapeutic strategies in oncology. As part of the transition, Dr. Trail continues to support Molecular Partners as a consultant.

Business outlook and priorities for 2020 and beyond

In 2020, Molecular Partners anticipates regulatory decisions by the FDA and EMA regarding abicipar for patients with nAMD. The FDA is expected to take action on the BLA in mid-2020, and a decision from the European Commission is expected in the second half of 2020. Molecular Partners continues to work closely with its partner Allergan in the preparation and education of the market for the expected launch.

In immuno-oncology, recruitment of patients will continue in the phase 1 trial of MP0310 / AMG 506. Molecular Partners and Amgen expect to collect initial data from this trial in H2 2020.

In oncology, the Group intends to continue to advance its phase 2 trial of MP0250 in patients with multiple myeloma in combination with Velcade® and will pursue partnership opportunities for the MP0250 program. The Group further plans in 2020 to establish dosing and clinical strategy for MP0274, as that therapeutic candidate concludes its phase 1 dose escalation.

Additionally, Molecular Partners will continue to advance its immuno-oncology research pipeline, specifically MP0317, CD3 DARPin® T cell-engager platform, and peptide-MHC programs.

For the full year 2020, at constant exchange rates, the Group expects total expenses of CHF 60-70 million, of which around CHF 6 million will be non-cash effective costs for share-based payments, IFRS pension accounting and depreciations. The increase versus the previous year is driven by the progress of the Group's pipeline as well as the budgeted growth of the Group's workforce.

Our purpose: Moving the needle of medicine

At Molecular Partners, our core purpose is transforming treatment options available to cancer patients. This mission is a very personal one, as our entire team knows what it feels like to be touched by this disease.

We believe our DARPin® platform is uniquely suited to accomplish this bold goal. Novel therapeutic designs enabled by the unique architecture of DARPin® proteins can accomplish previously impossible therapeutic activities. We are committed to expeditiously progressing these drug candidates to clinical testing and to finally making them available to patients.

To leverage the full potential of our platform we engage in strategic partnerships with academic and industry collaborators, 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. These partnerships also provide cross-funding to support our proprietary pipeline.

Ultimately, we measure our success based on our ability to repeatedly move the needle of medicine — building today the breakthroughs of tomorrow.

Thank you to our supporters

The progress we have made, laid out in this report, would not have been possible without the numerous efforts of our employees, strategic partners, investors, researchers and patients. We are grateful to these individuals for their contributions, and we look forward to sharing updates on our progress throughout 2020.

Sincerely,

Bill Burns
Chairman of the Board

Patrick Amstutz
Chief Executive Officer

"I enjoy the culture of collaboration and innovation at Molecular Partners, where everyone can speak up and have their input valued."

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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 2019**	**FY 2018**	**Change**
Total revenues	**20.4**	**10.4**	**10.0**
R&D expenses	(43.5)	(38.2)	(5.3)
SG&A expenses	(13.6)	(9.6)	(4.0)
Total operating expenses (incl depr. & amort.)	**(57.1)**	**(47.8)**	**(9.3)**
Operating result	**(36.7)**	**(37.4)**	**0.7**
Net finance result	0.4	0.4	—
Income taxes	—	—	—
Net result	**(36.3)**	**(37.0)**	**0.7**
Basic and diluted net result per share (in CHF)	(1.69)	(1.75)	0.06
Net cash from (used in) operating activities	(1.2)	(42.5)	41.3
Net cash from (used in) investing activities	(19.8)	9.6	(29.4)
Net cash from (used in) financing activities	(0.2)	0.4	(0.6)
Exchange gain/(loss) on cash positions	(2.0)	0.1	(2.1)
Net increase (decrease) in cash & cash equivalents	(23.2)	(32.4)	9.2
Cash & cash equivalents at December 31	**75.7**	**99.0**	**(23.3)**
Cash & cash equivalents at December 31 (incl. short-term time deposits)	**95.1**	**99.0**	**(3.9)**
Total non-current assets	5.0	1.8	3.2
Total current assets	99.9	153.3	(53.4)
Total shareholders' equity at December 31	54.1	91.7	(37.6)
Total non-current liabilities	22.2	26.6	(4.4)
Total current liabilities	28.6	36.9	(8.3)
Number of total FTE at December 31	**135.2**	**117.7**	**17.5**

Financial highlights

Over the course of 2019, Molecular Partners' financial position developed in line with management's expectations. The Group 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 2019 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 Group's solid cash position with no debt on the balance sheet. This strong balance sheet continues to provide the Group with financial flexibility and a forecasted cash runway into H2 2021 — 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 blue-chip pharma companies Allergan and Amgen, and its strong financial position combine to provide the Group 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.

Summary of the financial highlights and key figures for the year 2019:

- 2019 revenues were CHF 20.4 million, with R&D expenses of CHF 43.5 million and SG&A expenses of CHF 13.6 million
- This constitutes a net operating loss of CHF 36.7 million, in line with management's expectations and the guidance provided
- The Group incurred a net loss of CHF 36.3 million in 2019
- Cash-wise the Group recorded an operating cash outflow of CHF 1.2 million in 2019
- As at December 31, 2019, the Group held CHF 95.1 million in cash and short-term deposits
- Molecular Partners maintains a strong, debt-free balance sheet with cash reach into H2 2021 — beyond the targeted abicipar launch — to advance the Group's proprietary pipeline
- As of December 31, 2019, the Group employed 135 full-time employees, almost a 15% increase versus the previous year. Approximately 85% of the employees are employed in R&D-related functions.
- As of December 31, 2019, there were 21,601,192 shares outstanding

Revenues

In 2019, the Group recognized total revenues of CHF 20.4 million, an increase of 97% compared to the previous year (2018: CHF 10.4 million).

The revenue in 2019 was solely from the Group's partnership with Amgen. As of December 31, 2019, the Group has CHF 28.3 million of contract liability under the Amgen collaboration agreement. This contract liability is expected to be recognized into revenue over the coming years. See note 15 of the IFRS Consolidated Financial Statements on page 101 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. 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 the partnerships.

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 9.2 million (+19%) to CHF 57.1 million (compared to CHF 47.8 million in 2018). These costs included CHF 2.8 million in non-cash effective share-based compensation and pension costs as well as CHF 2.5 million in depreciation. The two major expense categories were personnel expenses of CHF 27.6 million (48% of total operating expenses) and research consumables and costs totaling CHF 20.3 million (36% of total operating expenses).

Total R&D expenses increased by CHF5.3 million (+14%) to CHF 43.5 million (2018: CHF 38.2 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 SG&A expenses went up by CHF 4.0 million (+42%) to CHF 13.6 million (2018: CHF 9.6 million), mainly due to the higher legal, administrative and personnel cost.

As of December 31, 2019, the Group had 135 full-time employees (FTEs) on its payroll, with ca. 85% in R&D roles. By comparison, the Group had 118 total FTEs on its payroll as of December 31, 2018.

Operating result

In 2019, the Group generated an operating loss of CHF 36.7 million (compared to an operating loss of CHF 37.4 million in 2018). The increase in revenues during 2019 was largely offset by the increase in operating expenses, resulting in a flat operating loss over the two years.

Financial income

In 2019, Molecular Partners recorded a net financial income of CHF 0.4 million, in line with the net financial income of CHF 0.4 million in 2018.

Income taxes and deferred taxes

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

After considering the net operating loss of 2019, tax losses of CHF 99.3 million (CHF 4.3 million to expire in 2021) may be used as tax loss carryforwards to offset future taxable income over a period of seven years. No deferred tax assets have been recognized for these tax loss carryforwards, because it is unlikely that such loss carryforwards 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. The Group's applicable income tax rate in the U.S. is 27% for both federal and state taxes, and the entity recorded a tax expense of CHF 0.02 million (USD 0.02 million).

Net result

In 2019, the Group recorded a net loss of CHF 36.3 million, basically mirroring the effects and the magnitude of the increased operating loss recorded (2018: net loss of CHF 37.0 million).

Balance sheet and capital resources

As of December 31, 2019, the Group's balance of cash and cash equivalents plus the short-term time deposits was reduced by CHF 3.9 million compared to year-end 2018 to a level of CHF 95.1 million. The Group's total balance of cash and cash equivalents plus the short-term time deposits continued to be very strong and still represented over 90% of the total balance sheet.

Compared to year-end 2018, the total shareholders' equity position decreased to CHF 54.1 million as of December 31, 2019 (December 31, 2018: CHF 91.7 million). The Group's balance sheet continued to be debt-free in 2019.

Liabilities in the balance sheet are made up of contract liabilities, lease liabilities, trade payables and accrued expenses from our operations as well as pension liabilities as per IAS19. Total liabilities amount to CHF 50.8 million (2018: CHF 63.5 million), mainly driven by the collaboration agreement with Amgen. The contract liabilities are the most significant liability item with an amount of CHF 28.3 million at the end of 2019 (2018: CHF 48.7 million).

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

Cash flow statement

In 2019, Molecular Partners generated a net cash outflow from operations of CHF 1.2 million, compared to the net cash outflow from operations of CHF 42.5 million in 2018. 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 outflow from investing activities was CHF 19.8 million, compared to a CHF 9.6 million cash inflow in 2018. The amount in 2019 reflects a increase in short-term time deposits. A CHF 1.9

million outflow was recorded for capital expenditure in equipment and intangible assets and a CHF 1.4 million inflow was recorded from interest. Net cash outflow from financing activities was CHF 0.2 million. In addition, the Group recorded a foreign exchange loss on cash positions of CHF 2.0 million in 2019 (2018: CHF 0.1 million gain).

Overall, this resulted in a net decrease of the Group's total cash balance and short-term time deposits by CHF 3.9 million from CHF 99.0 million at the end of 2018 to CHF 95.1 million at the year-end 2019.

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 its activities primarily in Switzerland, EU and U.S. 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) if markets conditions allow, to consider hedging certain of the remaining expected net currency exposure as the need arises. However, due to market volatilities, the impact of negative interest rates in Switzerland and uncertainties in the cash flows, a 100% hedging of the currency exposure is impossible or not appropriate. 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 2020-2024, management estimates that the Group is financed into H2 2021.

Outlook 2020

For the full year 2020, at constant exchange rates, the Group expects total expenses of CHF 60-70 million, of which around CHF 6 million will be non-cash effective costs for share-based payments, IFRS pension accounting and depreciation.

In 2020, 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.

Capital expenditures for the full year 2020 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.

The unpredictable effects of the COVID-19 (coronavirus) pandemic, with its direct implications on the global economy across all sectors as well as on the financial markets, are expected to present an additional major challenge in 2020.

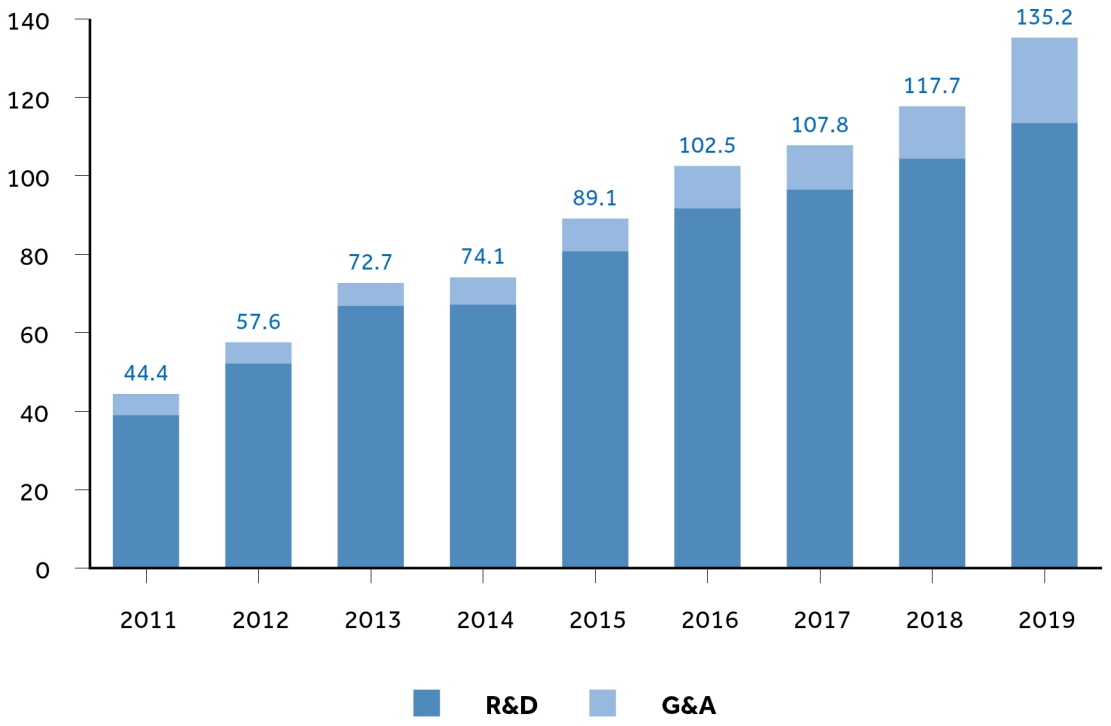
Financial calendar 2020

The following table summarizes the scheduled financial calendar for the financial year 2020.

Date:	Event:
March 25, 2020	Expected Publication Date of Annual General Meeting Invitation 2020
April 29, 2020	Annual General Meeting
May 7, 2020	Interim Management Statement Q1 2020
August 26, 2020	Publication of Half-year Results 2020 (unaudited)
October 29, 2020	Interim Management Statement Q3 2020

Development of employee base

The ongoing growth of the organization is reflected in the growth of the employee base, which continued in 2019. Total headcount (on a full-time equivalent/FTE basis) grew by 15% to 135.2, of which about 85% are employed in R&D-related areas.



"I know that with our team at MP we can make a difference for patients — and if it is only for one it's worth it."

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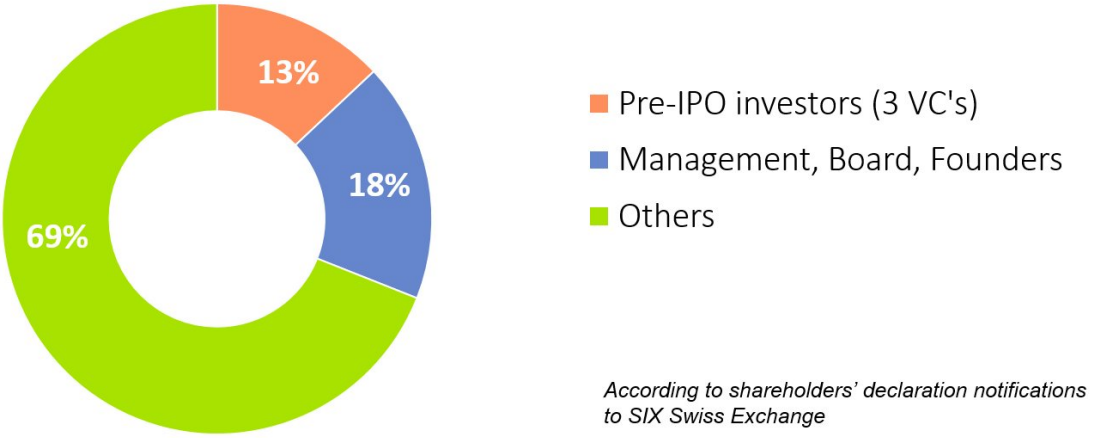
Shareholders & Share Price

In this section, we highlight the current status of the Group's shareholder base, the development of the share price over the business year 2019 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
- 21,601,192 shares outstanding as of December 31, 2019
- CHF 378 million market capitalization as of December 31, 2019
- Formal free float of 92% as per SIX Swiss Exchange definition



According to shareholders' declaration notifications to SIX Swiss Exchange

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 21.6 million registered shares (Namenaktien) with a nominal value of CHF 0.10 each.

As of December 31, 2019, the largest shareholders in Molecular Partners, holding each per year-end 2019 more than 3% of shares outstanding as recorded on the corresponding website of the SIX Swiss Exchange[1], were Hansjoerg Wyss (9.6%), Essex Woodlands Health Ventures VIII, LLC (7.6%), UBS Fund Management (5.2%), Federated Investors (5.1%), Johnson & Johnson (4.2%), Pictet Asset Management (4.1%), GAM Holding (3.0%) as well as the founders of the Group, Andreas Plückthun (4.8%), Michael Tobias Stumpp (3.3%), and Patrick Amstutz (3.1%) and Patrik Forrer (3.0%). These disclosed holding positions of the shareholders owning more than 3% in

[1] % based on the share capital registered in the Commercial Register as of December 31, 2019 (i.e. CHF 2,122,859.30, divided into 21,228,593 registered shares).

Molecular Partners summed up to 50% of shares outstanding per December 31, 2019, marginally down versus year-end 2018 (51%).

As per the definition of the SIX Swiss Exchange, the free float of Molecular Partner shares at year-end 2019 was 92%. This represents an increase of 8% compared to year-end 2018 (84%), following the exit of venture capital investor Index Ventures / Medicxi essentially in December 2019. 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 Group.

As per year-end 2019, a total of 13.77 million shares were entered in the Group's share register, representing 64% of the total outstanding capital. Those shares were held by approximately 1,740 shareholders, including nominees, which represents a substantial 16% increase over the number of registered shareholders of the previous year (1,500). In terms of shares registered, the increase from the previous year is 7% (year-end 2018: 12.82 million). Only shares registered in the share register of Molecular Partners possess voting rights at the Molecular Partners shareholder meetings.

In 2019, the brokerage firm Research Partners (Zurich-based) initiated research coverage on Molecular Partners. Together with the existing coverage of Credit Suisse, Cowen & Group, J.P. Morgan, Kempen, Octavian and Royal Bank of Canada (RBC) the total number of covering brokers now amounts to seven 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	21,601,192
Nominal value	CHF 0.10
Share register	Molecular Partners c/o AREG AG

Share price development

While the Molecular Partners share had outperformed both its peers and the market in the last quarter of 2018 due to a positive market reception of the announced collaboration for MP0310 / AMG 506 with Amgen, the share rapidly lost this momentum at the beginning of 2019. The share could not cope with the strong positive development of equity markets and the biotech sector, both reflecting the regained positive sentiment and "risk-on" momentum at the beginning of the year.

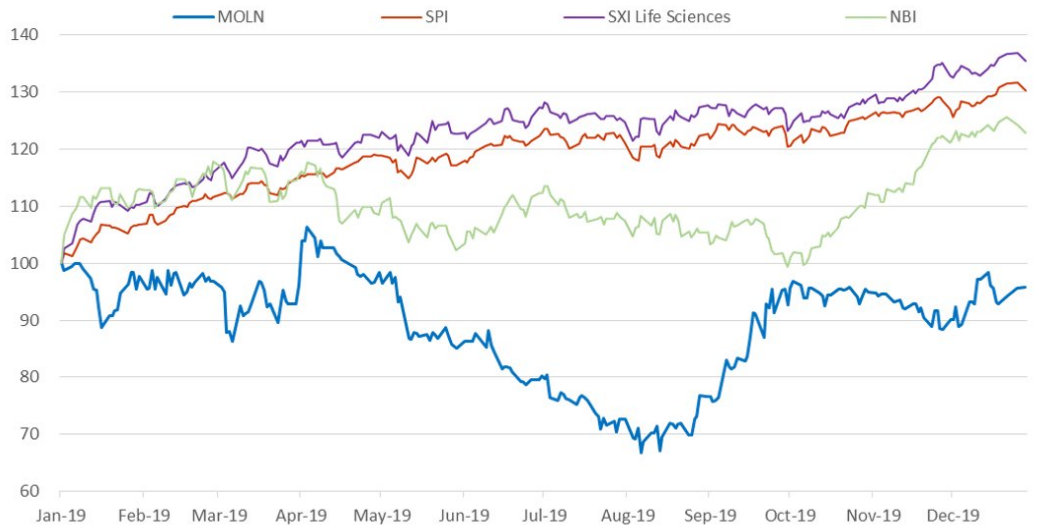
However, following the positive market reception of the reduced inflammation data of abicipar from the MAPLE trial on April 2, the Molecular Partners share outperformed the market by more than 10% and closed on April 10, 2019 at a share price of CHF19.00, virtually unchanged to year-end

2018. In Q2 19, the share price remained under pressure throughout the quarter. The Molecular Partners share consequently closed the first half-year 2019 on a level of CHF 14.56, reflecting a decline of 14.4% in the second quarter alone. At mid-year 2019, this equaled a substantial underperformance compared to the NBI (-2.4% in Q2) and a >20% relative decline compared to domestic equity indices (SPI +6.5% in Q2).

The negative development extended further into Q3 19. However, the momentum initially changed with the announcement of the EMA validation of the MAA filing for abicipar on August 6. With that announcement the market's concerns about a potential delay of the filing process attributable to the ongoing AbbVie-Allergan takeover process started to ease. Further in the third quarter, the reporting of the Group's H1 2019 results on August 27 was taken positively by the market. Finally, the announcement of FDA acceptance of the abicipar BLA filing on September 9 fueled the positive share price development throughout the third quarter. As a consequence, the Molecular Partners share recorded a strong quarterly increase of 19.8% in Q3 19. This represented a remarkable outperformance vs. the NBI index which was under strong pressure during the third quarter 2019 (-8.8%), reflecting a particularly challenging market environment for global biotech stocks.

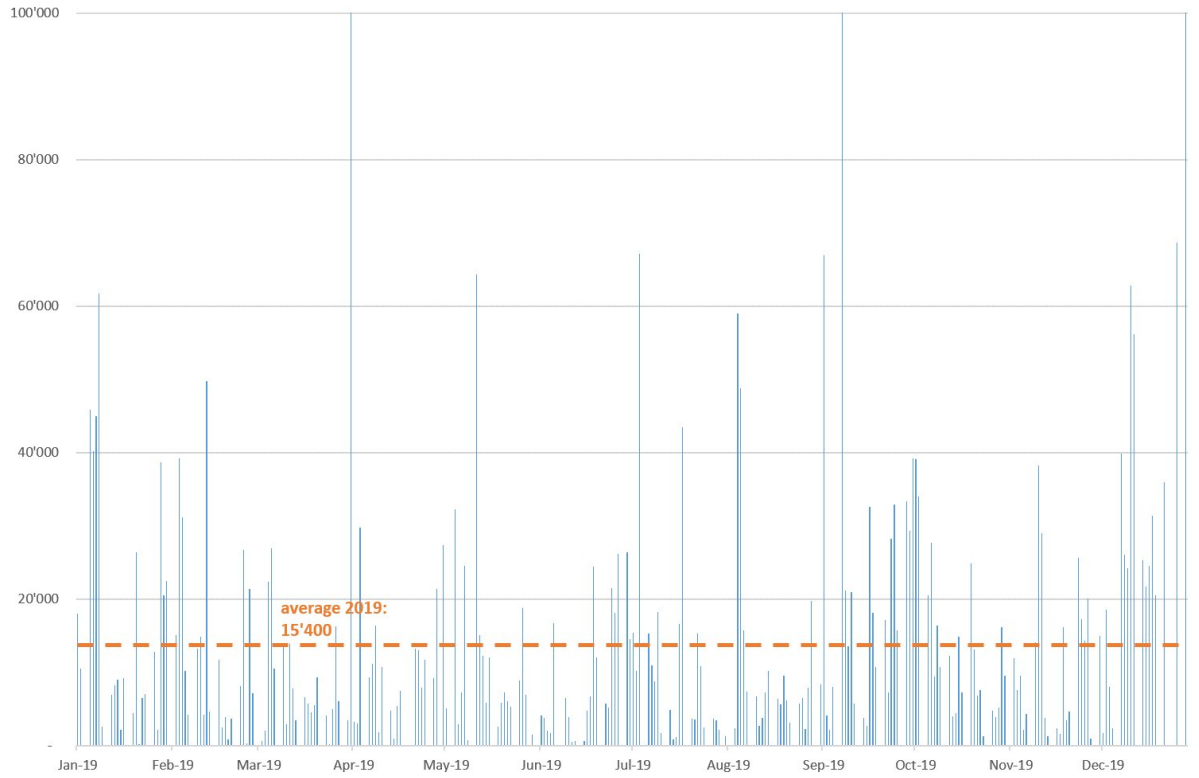
The announcement of the start of the phase 1 trial for MP0310 / AMG 506 on October 2 sustained the positive development entering into the fourth quarter. However, as of mid-October, the NBI started a strong and steady increase until almost the end of 2019 and finished the quarter up almost 21%. The SPI increased less, but finished up 5%. The MOLN share remained broadly flat in October, then started to decline to a trough level of more than -7% as of end of November. In December, a recovery of the share started, substantially fueled by the positive reception of the Group's R&D Day on December 12. The share closed the year 2019 on a level of CHF 17.52, implying a modest quarterly increase of 0.5%. This reflects an underperformance vs. the domestic SPI index (+4.9% in Q4). The performance stands also in sharp contrast to the outperformance of the NBI which was up 20.6% in Q4 19, reflecting the risk-on environment and a clearly more positive perception of the U.S. listed biotech sector. For the full-year 2019, the Molecular Partners share was down 8.1%, contrasting the strong annual performances of both the SPI (+30.6% year-on-year in 2019) as well as the NBI (+26.4% annually).

The following chart highlights the Molecular Partners stock price development in 2019 compared to NBI, Swiss Life Sciences as well as the SPI indices.



Volume development

The total volume of Molecular Partner shares traded on the SIX Swiss Exchange during 2019 was 3.83 million shares, almost 20% below the total volume traded in 2018 (4.71 million shares). This implies that about 18% of all shares outstanding and approximately 19% of the free float as per SIX Swiss Exchange definition changed hands.



The average daily trading volume in 2019 was 15,400 shares, a 21% drop versus the previous year (2018: 19,500). The average turnover was down 38% to CHF 254,000, as alongside lower volumes the lower share price also weighed on the average turnover.

Three trading days with a daily turnover above CHF 1.0 million were recorded in 2019 (2018: twelve). The highest turnover of over CHF 2.5 million was recorded on September 9, 2019, the day of the Group's announcement that the FDA had accepted the BLA for abicipar. Another peak in trading volume and liquidity was recorded on April 2, 2019, when Allergan and Molecular Partners released the MAPLE data, highlighting the substantially reduced inflammation data of the optimized material of abicipar. Trading was also elevated in the second half of the month of December, reflecting the increased interest in the Group and its share subsequent to the R&D Day in New York.

Research & Development

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

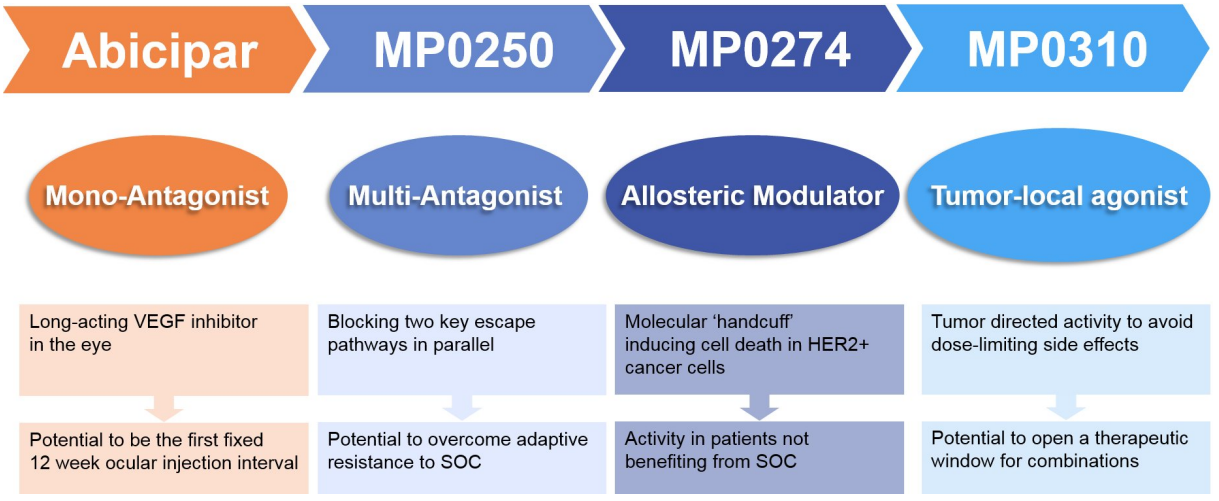
Overview

At Molecular Partners we endeavor to create meaningful medicines that benefit patients by providing a novel solution to problems that present-day therapeutic approaches cannot address. In 2019, we continued to advance our proprietary platform of these medicines both in clinical application and also with significant progress in our discovery efforts.

These advances can be seen in the clinic, for instance, with the maturity of data in our MP0250 program, showing deep and durable responses in multiple myeloma patients, some of who had seen no benefit from multiple prior therapies (updated ASH 2019). Our MP0274 program is another example, evaluating whether a HER2-targeting DARPin® molecule can initiate tumor cell killing and lead to beneficial outcomes for patients.

Now, with the addition of our MP0310 / AMG 506 program in clinical development, we can test if our multispecific DARPin® designs can create localized activation of immune-stimulating targets. Our newly nominated MP0317 program follows close behind, now progressing through preclinical development and planned to enter the clinic in late 2020 or early 2021. These novel therapeutic designs, empowered by our DARPin® discovery platform, are allowing us to "take the fight to the cancer."

The potential of the DARPin® platform extends well beyond oncology, and we continue to identify additional targets and therapeutic opportunities where DARPin® applications may provide value. The potential to advance these programs through external collaborations continues to be a real opportunity and we will look to do so whenever possible.



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, 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.

We focus on "clinically validated problems"

There are countless targets and approaches to attacking cancers. Our strategy is to identify those targets which are known and validated to play a causal role either in attacking tumors or preventing tumor growth, and to use our DARPin® library to build multi-specific protein designs which may offer clinical success where others have met challenges.

Key aspects of our strategy include the following:

- **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 microenvironment, 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-specific DARPin® product candidates that bind to a tumor-associated antigen and to 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.

- **Rapidly advance MP0250 and MP0274 through clinical development**. We are developing our lead product candidate, MP0250, to treat patients with multiple myeloma who show resistance to current standard of care therapies. In December 2019, following a positive clinical update of our ongoing phase 2 trial of MP0250 in combination with Velcade®, we announced our intention to engage in negotiations for potential partnerships for MP0250. This is aligned with the Group's corporate strategy to pursue combination data for the most relevant clinical combinations of MP0250, which would be more appropriately determined in collaboration with a partner.

  Additionally, we are conducting a phase 1 clinical trial of MP0274 in patients with advanced HER2-positive solid tumors. Recruitment is ongoing and initial results from the phase 1 are expected in 2020. These data will provide key insights into the clinical path forward for the program.

- **Advance MP0310 / AMG 506 and other potential immuno-oncology product candidates** into and through clinical development. Our lead immuno-oncology product candidate, MP0310 / AMG 506, 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. The first in-human trial of MP0310 / AMG 506 was initiated in H2 2019. The goal of this study is 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 / AMG 506 in combination with selected Amgen therapeutic candidates.

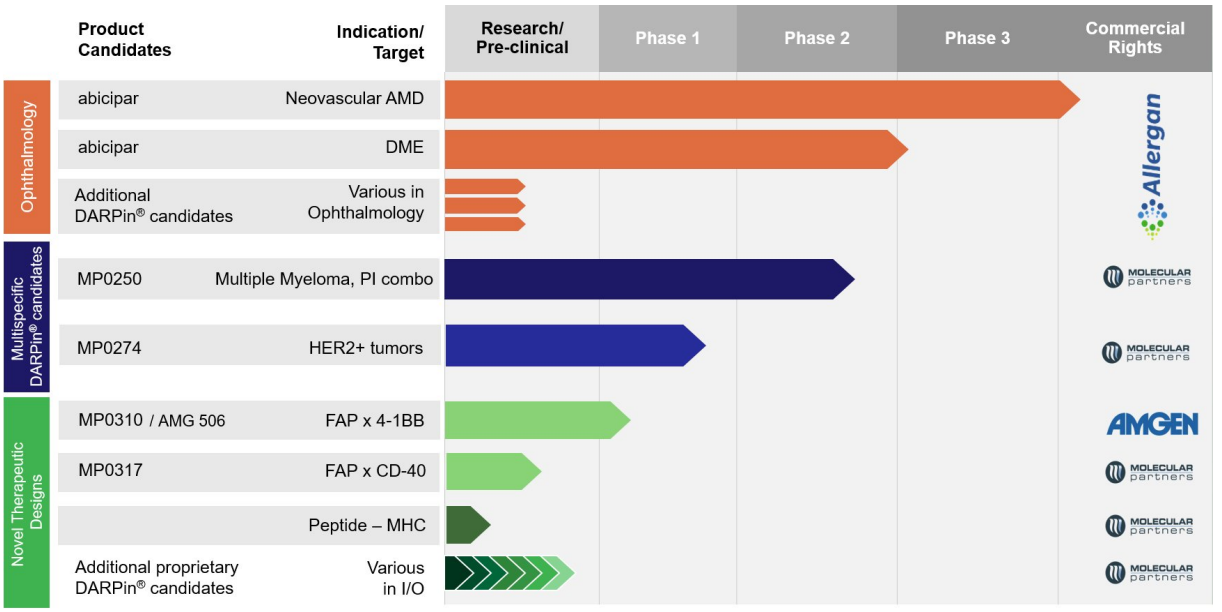
- **Prepare MP0317 for clinical studies in 2021**. As announced at our R&D Day in December 2019, MP0317 is our second multi-specific immuno-oncology DARPin® drug candidate designed for localized activation, focusing on FAP x CD40. CD40 had been identified as a potent immunostimulatory mechanism which can be employed to activate an anti-tumor T cell response via activation of dendritic cells, macrophages, and B cells. Preclinical work is ongoing and MP0317 is anticipated to be ready for IND submission around year-end 2020.

- **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. This work is already ongoing in our peptide-MHC (pMHC) program. This program is exploring the ability of DARPin® therapeutics to target these well-understood but highly difficult to reach targets of interest in oncology. Drug makers have had limited success creating antibodies and enhanced T-cell receptors to bind to peptide-MHC complexes with both high selectivity and high affinity. To date, it appears that DARPin® proteins are uniquely suited to provide solutions to both of these problems. This work is ongoing and we plan to nominate our first preclinical pMHC programs before the end of the year.

- **Build a fully integrated biotechnology Group** 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 Group 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 / AMG 506 may result in future milestone and royalty payments, which could accelerate our internal development efforts. We believe this approach will allow us to maximize the potential of our DARPin® product engine and the respective DARPin® product candidates it generates.

Pipeline

Before elaborating in 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**.



Oncology

Our proprietary oncology pipeline comprises innovative DARPin® candidates with novel modes of action, including multi-specific 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:

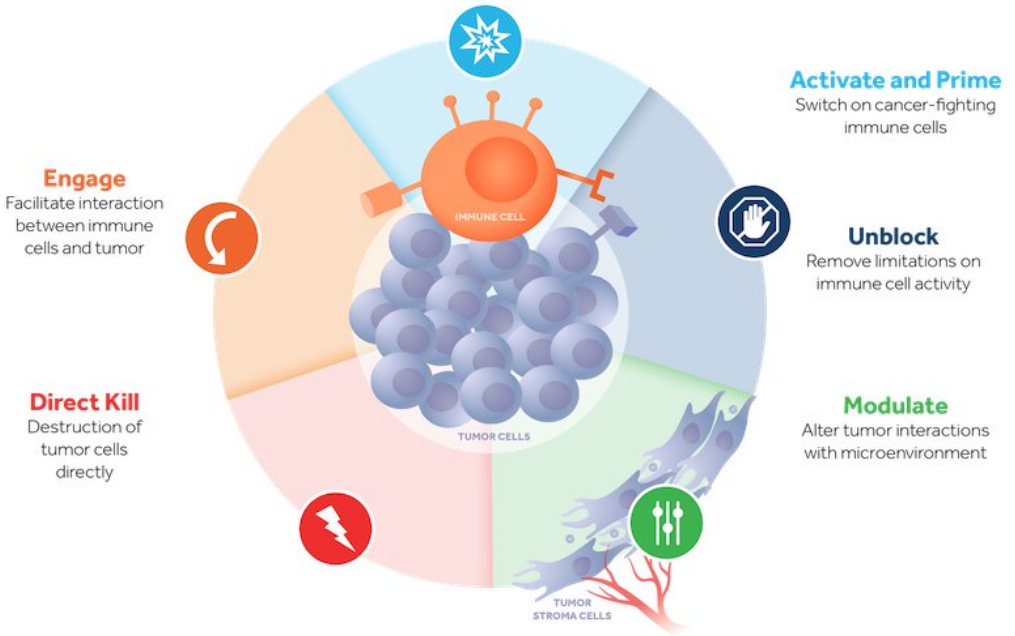
- **Targeting multiple escape pathways in parallel.** When cancer cells are attacked by conventional therapies, they often develop resistance by activating multiple escape pathways at once. To create an effective product, we believe that we must understand the dynamics of these escape pathways and then target the key pathways in parallel. We believe our multi-specific 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-specific 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-specific 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.

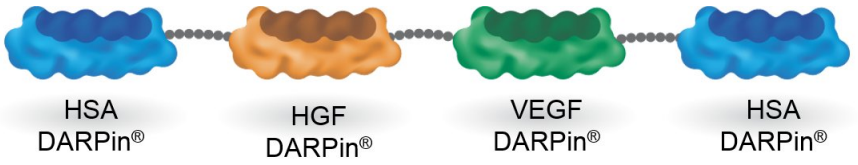
- **Engaging and activating immune cells.** Immuno-oncology utilizes a patient's immune response to fight tumors. In some cases, blocking negative checkpoint signals can produce a deep and durable tumor response. We believe that our DARPin® product engine is well-suited for the combined approaches of 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-specific DARPin® product candidates that cluster and thereby more effectively locally activate immune cells. For example, MP0310 / AMG 506 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), whereas MP0317 utilizes the same binding target, FAP, while engaging additional arms of the immune system by use of the CD40 pathway.

- **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 .



MP0250: Proprietary multi-specific DARPin® molecule blocking VEGF, HGF



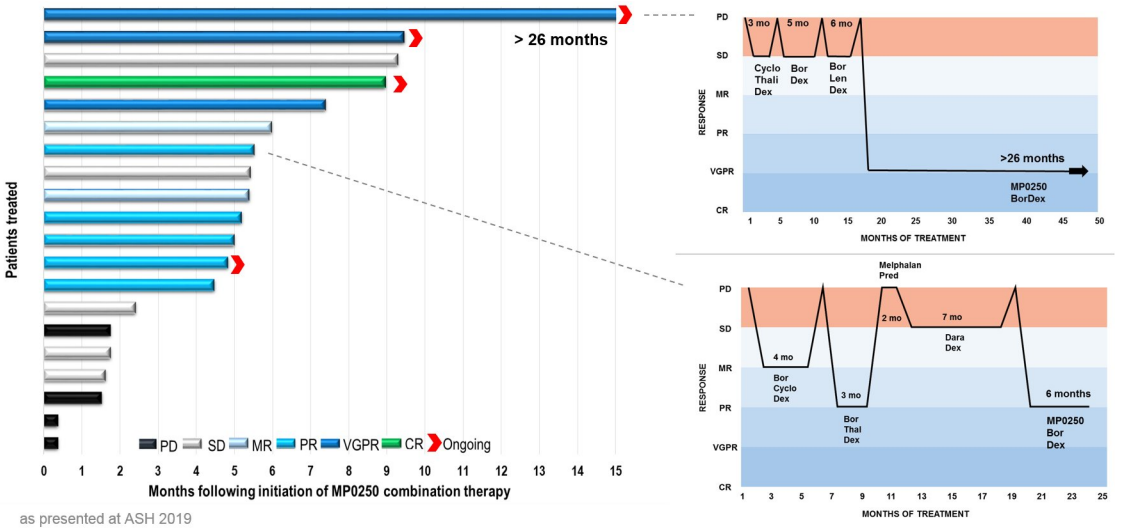
MP0250 is a multi-specific DARPin® product candidate consisting of four domains that target both the vascular endothelial growth factor (VEGF) and the hepatocyte growth factor (HGF). It also binds to human serum albumin (HSA) to increase the compound's plasma half-life.

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): Unique and differentiated activity

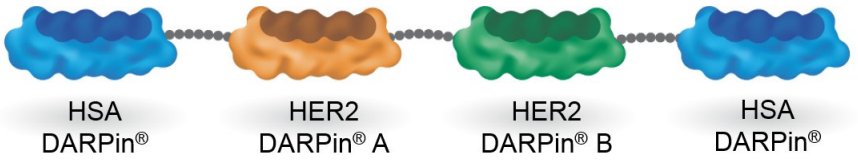
Efficacy data for MP0250 in MM continue to be promising. At the ASH conference in December 2019, we presented an update on the initial ongoing phase 2 trial evaluating MP0250 in combination with bortezomib (Velcade®) and dexamethasone in patients with multiple myeloma who had failed standard therapies. At the time of data cutoff, results in this heavily pretreated patient population (patients had a median of four prior lines of therapy) showed 75% of patients receiving MP0250 saw stable disease, some for the first time. As seen in the below figure, the data presented at ASH 2019 demonstrates deep and durable responses in MM patients who previously progressed on multiple lines of therapy, or had seen no prior response from therapy.



as presented at ASH 2019

To underline what is possible with MP0250, one patient of the first patient cohort continues to show very good partial response at 26 months of treatment.

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



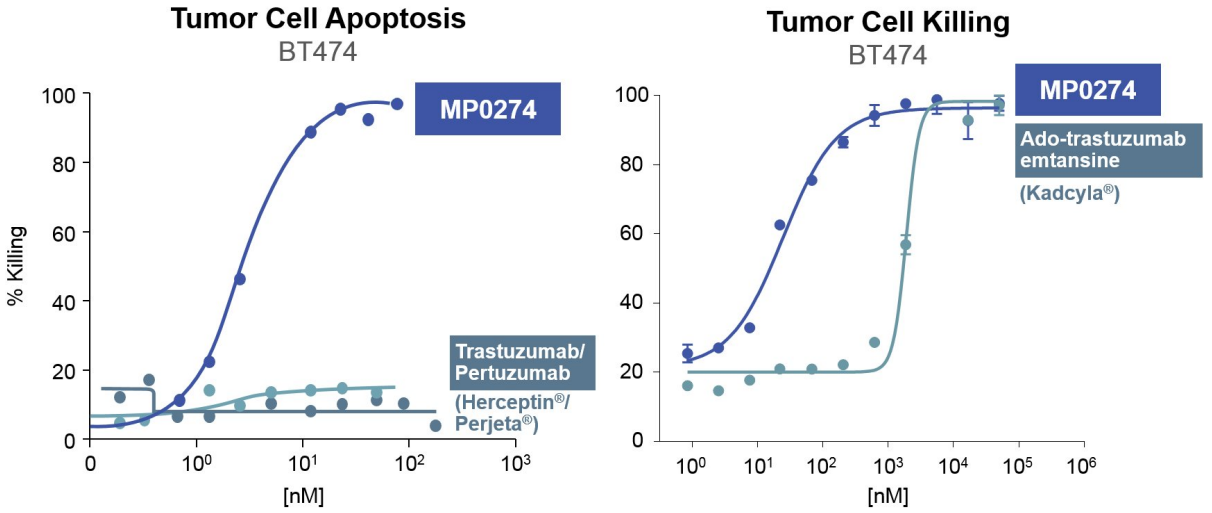
MP0274 is a multi-specific DARPin® molecule that binds two distinct epitopes of HER2, an oncogenic protein that signals tumor cell survival and proliferation. The biparatopic binding action of MP0274 "handcuffs" HER2 in an inactive or "locked" conformation, leading to potent inhibition of downstream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

This inhibition of downstream HER2-mediated signaling includes the:

- 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, MP0274 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 is ongoing. The recruitment of the first patient cohort has been completed. We expect initial safety and efficacy data in the course of 2020.

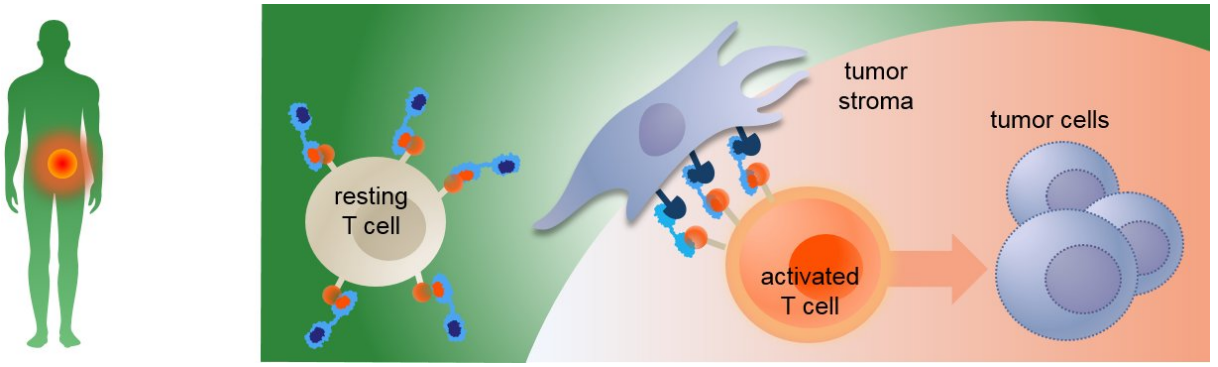
Immuno-oncology: A novel approach to anticancer treatment

Molecular Partners is taking a differentiated approach to immuno-oncology (IO) research and development, one predicated on the 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 those based on our novel multi-specific DARPin® molecule approach, may both increase efficacy and reduce systemic toxicities compared to these products.

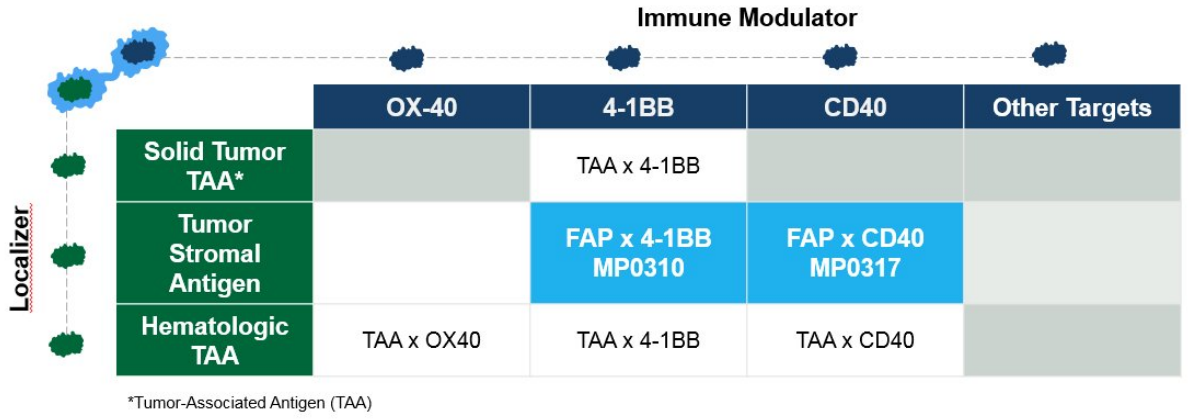


The above chart illustrates how the multi-specific DARPin® molecules accomplish tumor localization. In a first step, the DARPin® binds to the receptors of the T cell. Clustering of those receptors, and as a consequence the activation of the T cell, is then accomplished via binding to FAP.

Our DARPin® toolbox of potential drug candidates

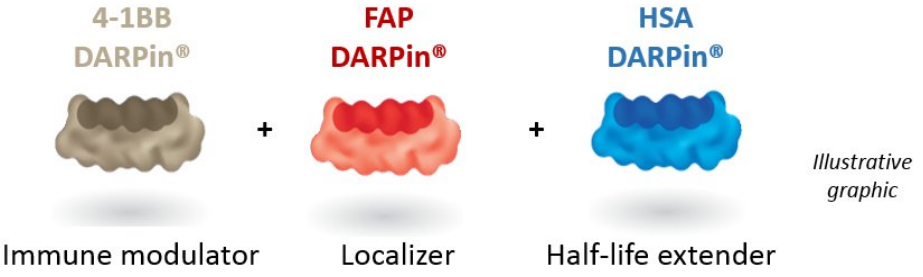
Over the past years, we focused our immuno-oncology efforts on developing a modular "toolbox" of DARPin® molecules that locally activate immune cells in the tumor. Our IO product candidates utilize a combination of localizer DARPin® modules, which recognize antigens expressed primarily in tumor stroma,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



MP0310 / AMG 506: Our first immuno-oncology product candidate

MP0310 / AMG506 is a FAP x 4-1BB x HSA multi-specific 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).

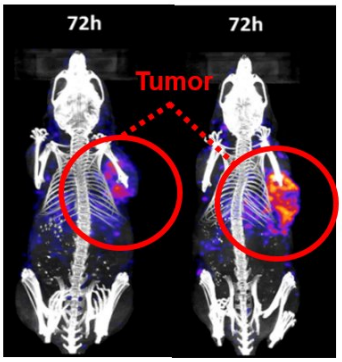


In preclinical studies of MP0310 / AMG 506, we observed lower systemic toxicity compared to other current therapies, suggesting that it would be well suited as a combination therapy with other drugs. An update from our ongoing phase 1 trial of MP0310 / AMG 506 in collaboration with Amgen will be provided in H2 2020.

Compared to clinically tested mAbs targeting CD137, such as urelumab or utomilumab, MP0310 / AMG 506 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 / AMG 506, in contrast to antibodies directed against 4-1BB, is designed to preferentially co-stimulate immune cells in the tumor and as such result in fewer side effects.

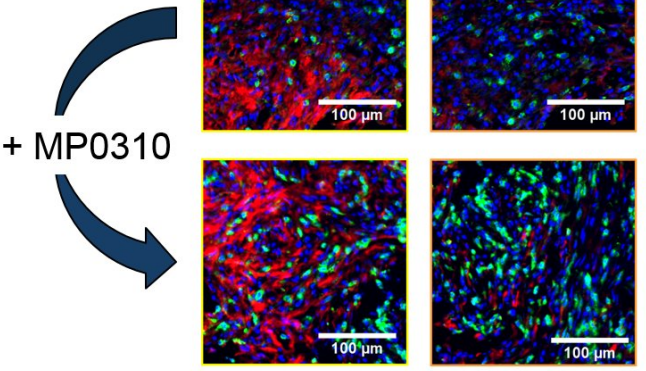
MP0310 / AMG 506 has shown expected effects on tumor growth reduction and on T cell activation in mice. We believe that these studies demonstrate the potential of our T cell co-stimulatory agonistic approach. In addition, MP0310 / AMG 506 has been shown to locally activate immune cells in the tumor in preclinical models. MP0310 / AMG 506 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 / AMG 506 together with Amgen.

FAP-Mediated Tumor Accumulation of MP0310
HT-29-T-implanted NSG mice



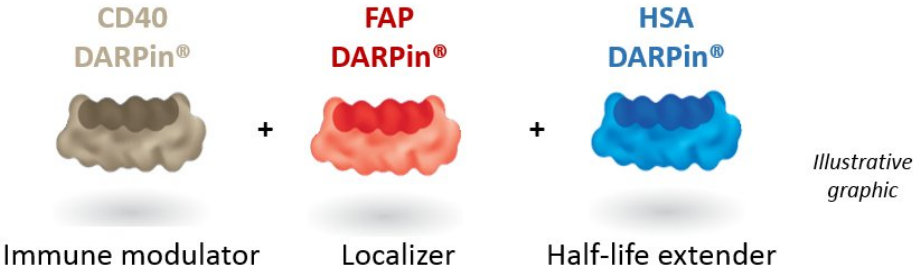
no-FAP x 4-1BB mFAP x 4-1BB

Increased T Cells in tumor cross-sections



MP0317: Nominated as next IND candidate

The tumor-localized immune agonist MP0317 is the second DARPin® protein in the Group's immuno-oncology pipeline. MP0317 comprises localizer (FAP) and stimulator (CD40) DARPin® domains. It is designed to activate immune cells specifically in the tumor and not in the rest of the body, potentially delivering greater efficacy with fewer side effects.



Preclinical data demonstrate that MP0317 can induce FAP-dependent activation of B cells, dendritic cells and macrophages.

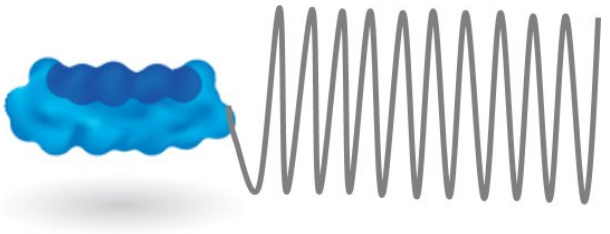
Ophthalmology

In advancing our ophthalmology programs, we and our strategic partner Allergan[2] 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 (nAMD) 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. While 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® therapeutics offer the potential benefits of less frequent injections with comparable vision gains as those attainable with standard therapies.

Abicipar

For abicipar, the first product of the DARPin® technology platform, we and our partner Allergan achieved important milestones in 2019. 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 of the eye.



Allergan's submissions for the approval of abicipar were accepted by both the FDA and EMA in 2019. The FDA is expected to take action on the BLA in mid-2020, and a decision from the European Commission is expected in the second half of 2020.

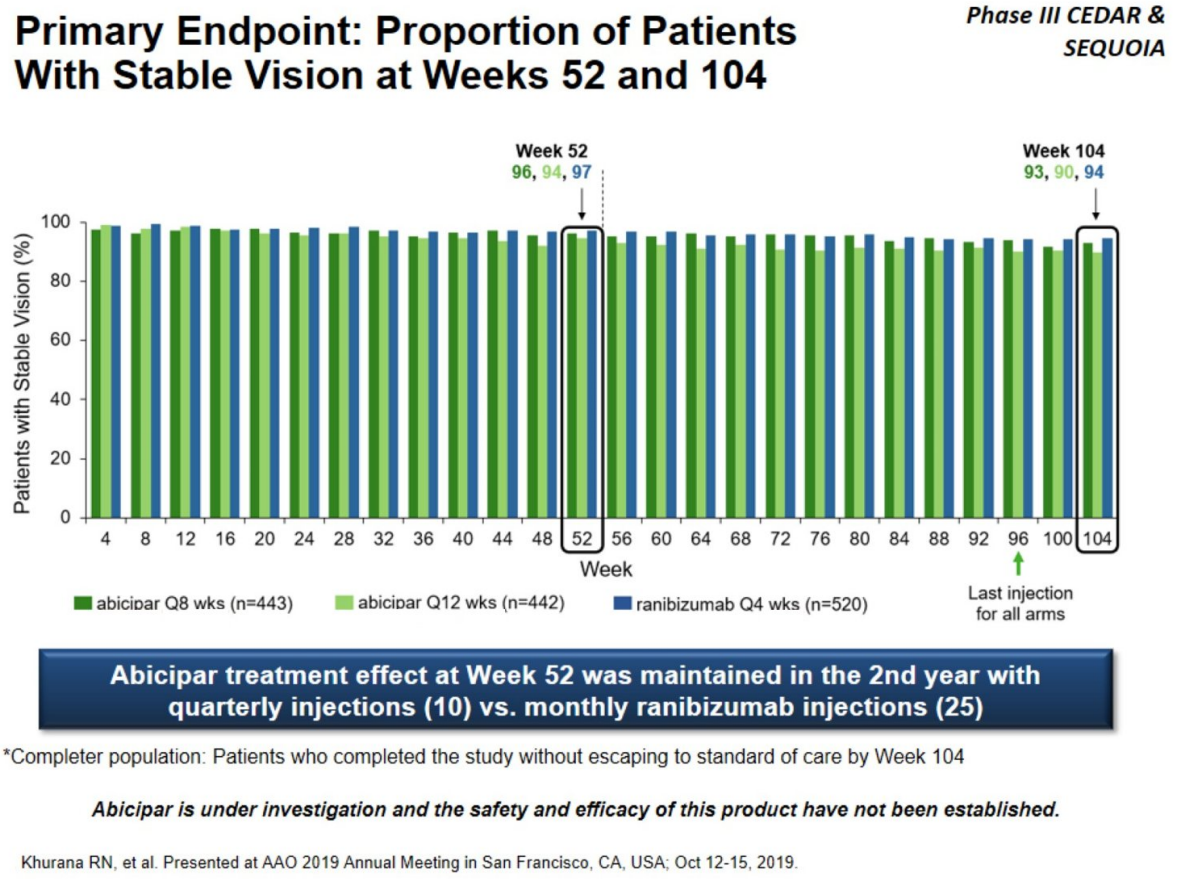
Beyond the important regulatory work which has been accomplished, multiple significant data presentations were provided throughout 2019. These presentations highlighted improvements to the abicipar product profile, as well as the two-year updated data from the phase 3 studies, showing continued efficacy and improved tolerability into the second year of treatment.

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 outcomes in measures of stable vision (primary endpoint), visual acuity and retinal thickness (secondary endpoints). In 2019, a presentation of follow-up data for patients receiving treatment over two years demonstrated that abicipar treatment effect at week 52 was maintained in the second year with quarterly injections (10) versus monthly ranibizumab injections (25). All benefits from secondary endpoints were maintained in year two as well.

[2]Allergan plc is presently in the process of merging with AbbVie Inc. Once this merger is completed the newly formed entity will hold all market rights for abicipar. All related financial terms to Molecular Partners remain unchanged.

Also presented in 2019 were data from the MAPLE study, a 28-week open-label study which enrolled 123 nAMD patients and evaluated the safety of abicipar produced via a modified manufacturing process. As a result of the improvements in the manufacturing process, the incidence of intraocular inflammation (IOI) was lower than the rate observed in prior phase 3 studies. Most IOI events were assessed as mild to moderate in severity. The incidence of severe IOI was 1.6 percent, with one reported case of iritis and one reported case of uveitis. There were no reported cases of endophthalmitis or retinal vasculitis in this study. We believe this improved formulation of abicipar will help drive physician and patient adoption, if approved. Based on the above we believe abicipar has the potential to become the first fixed 12-week anti-VEGF therapeutic for nAMD.

Phase 3 efficacy results (updated two-year data)



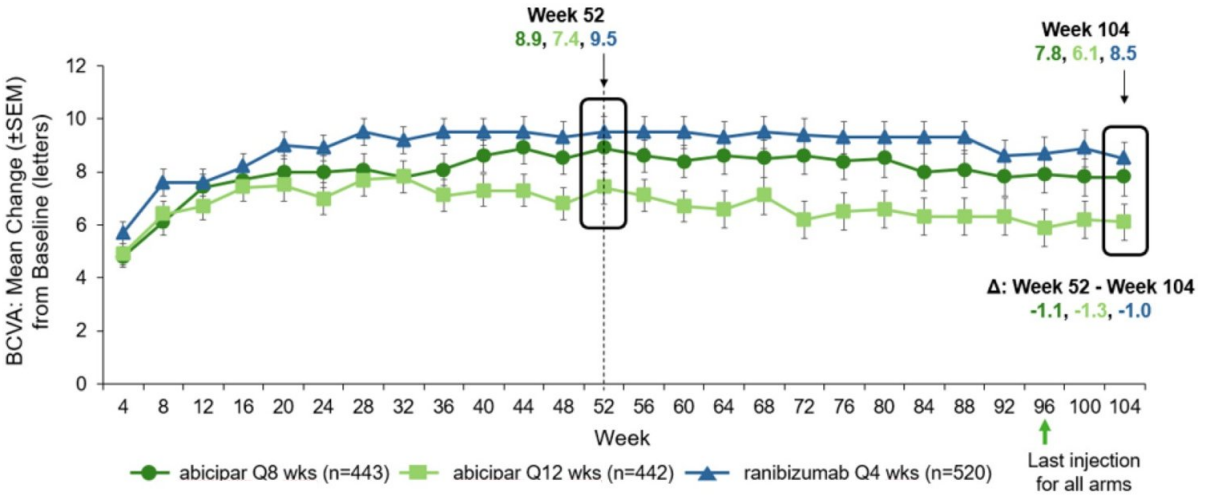
*Completer population: Patients who completed the study without escaping to standard of care by Week 104

Abicipar is under investigation and the safety and efficacy of this product have not been established.

Khurana RN, et al. Presented at AAO 2019 Annual Meeting in San Francisco, CA, USA; Oct 12-15, 2019.

Secondary Endpoint: Mean Change in BCVA From Baseline at Weeks 52 and 104

Phase III CEDAR & SEQUOIA



BCVA improvement after initial doses were maintained to Week 104 with quarterly abicipar injections (10) vs. monthly ranibizumab injections (25)

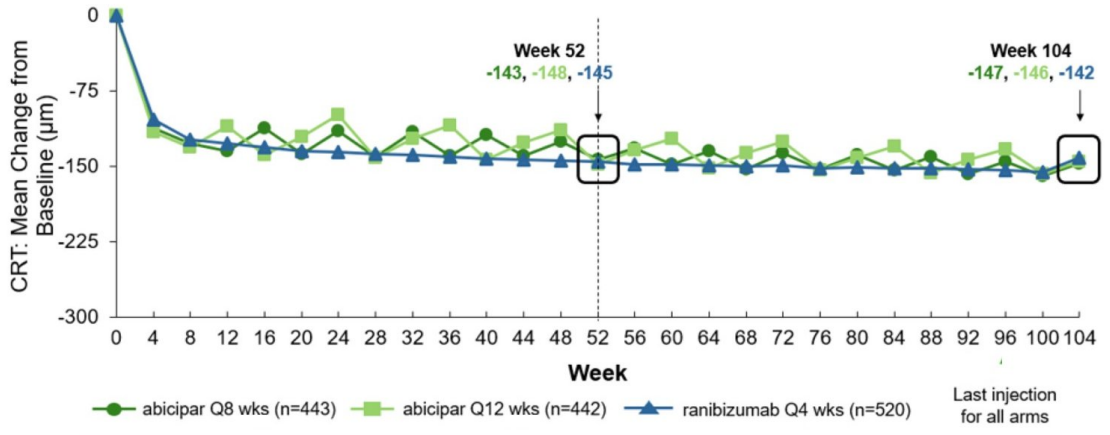
BCVA = best-corrected visual acuity; SEM = standard error of the mean

Abicipar is under investigation and the safety and efficacy of this product have not been established.

Khurana RN, et al. Presented at AAO 2019 Annual Meeting in San Francisco, CA, USA; Oct 12-15, 2019.

Secondary Endpoint: Mean Change in CRT From Baseline at Weeks 52 and 104

Phase III CEDAR & SEQUOIA



CRT improvement after initial doses were maintained to Week 104 with quarterly abicipar injections (10) vs. monthly ranibizumab injections (25)

CRT = central retinal thickness

Abicipar is under investigation and the safety and efficacy of this product have not been established.

Khurana RN, et al. Presented at AAO 2019 Annual Meeting in San Francisco, CA, USA; Oct 12-15, 2019.

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 Group 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 Group's proprietary pipeline in oncology and immuno-oncology.

The Group is proud to have the following partnerships in place:

- Allergan partnership to leverage the DARPin® candidates in ophthalmology
- Amgen partnership for clinical development and commercialization of MP0310 / AMG 506

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-specific DARPin® molecules for diseases with high unmet medical need. This alliance broadened the companies' initial collaboration on abicipar from the year 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 the indications of nAMD and DME. The majority of these milestone payments are due to the Group 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 for MP0310 / AMG 506

On December 19, 2018, the Group 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 / AMG 506. Together with Amgen 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 Group 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 / AMG 506 with other agents, leveraging the full potential of MP0310 / AMG 506.

In January 2019, we collected the upfront payment of USD 50 million from Amgen corresponding to the collaboration agreement. The Group 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.

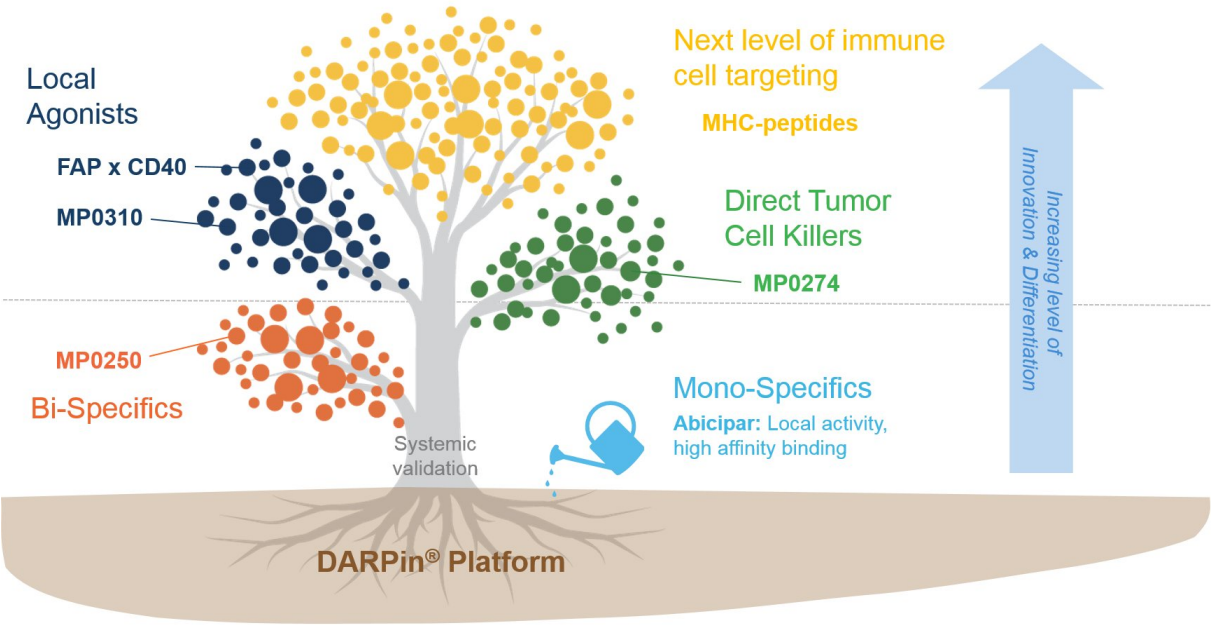
R&D summary and outlook

2020 will prove to be a decisive year in the history of Molecular Partners. As we await decisions from the FDA and EMA on the approval of abicipar, our clinical and preclinical pipeline continues to expand and differentiate. The data from our MP0250 phase 2 study in MM continue to mature, and we look forward to continuing discussions with potential partners on ways which we might accelerate the development of this program. We also look forward to reporting initial data from MP0274 in HER2-positive tumors in 2020, allowing us to determine the best path forward for the program.

Recruitment for our MP0310 / AMG 506 phase 1 remains on track, and we look forward to completing the dose escalation work and to collect initial data from this trial in H2 2020. In parallel to this program we will continue to drive our MP0317 program toward the clinic, with the intent of initiating human studies in early 2021.

Finally, underpinning all of this exciting progress, we continue to expand our DARPin® toolbox. Our research efforts will enable entirely new functionalities for the coming generation of DARPin® therapeutic candidates.

In this way, the increasing functional complexity of our DARPin® candidates mirrors the progress of Molecular Partners toward our end goal of developing and delivering innovative therapies to patients suffering from severe diseases with significant unmet medical need. Our work on abicipar, in a known biology in ophthalmology, propelled us into classic oncology and multi-specific DARPin® designs. From there, we have advanced into IO, where we can employ the architecture of the multi-specific DARPin® module to accomplish tumor-localized treatment. And today, we have reached a stage where we are forging new therapeutic territory, taking the DARPin® platform beyond the capabilities currently seen in other classes of medicines.



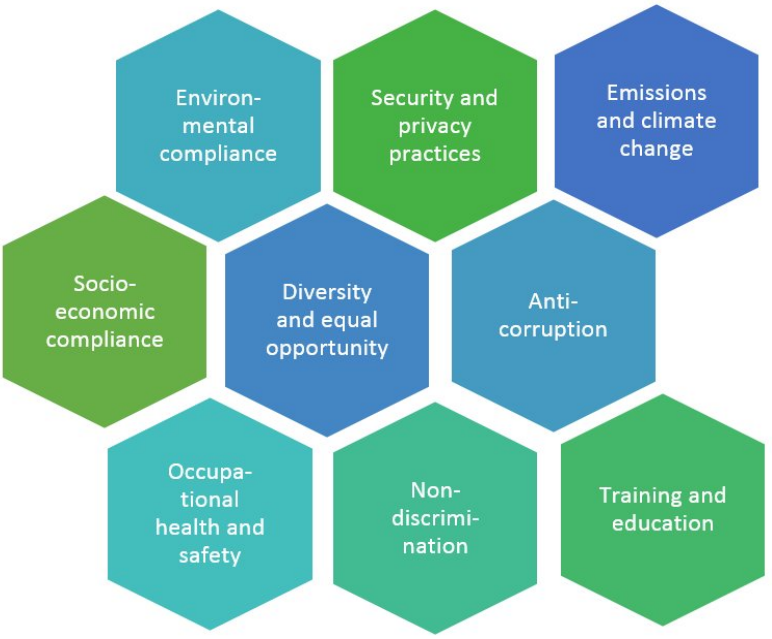
"My favorite part about Molecular Partners is the passion for developing innovative therapeutic options and the strong dedication towards a common goal: helping patients in need."

Nina

Corporate Sustainability

Molecular Partners is committed to building a sustainable business across the areas of environmental stewardship, social responsibility and corporate governance. Sustainability supports our primary purpose, which is to put patients first and to deliver better treatment options for people with cancer.

In the coming year we plan to further formalize this commitment by undertaking measurement and goalsetting of our ESG performance. With the support of Molecular Partners' Board of Directors, and championed by our executive leadership team, Molecular Partners intends to work to understand and communicate our Group's impact on critical sustainability issues according to the framework of the GRI Sustainability Reporting Standards. These issues include, among many others, the elements summarized in the graphic below.



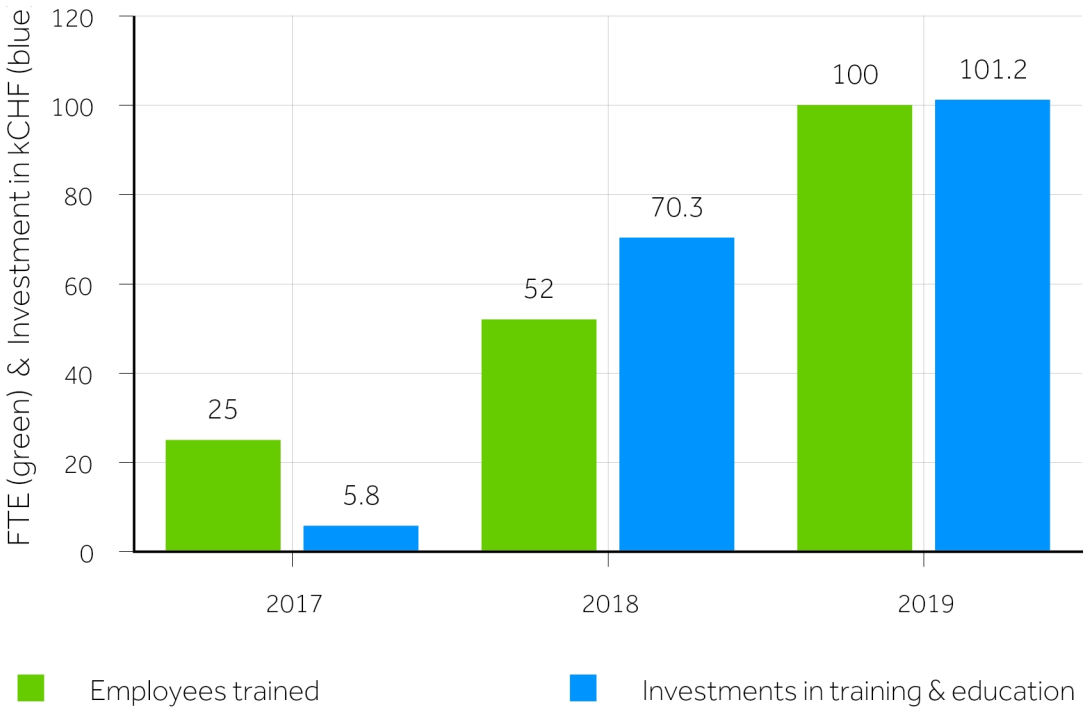
The GRI standards are the leading global standards for sustainability reporting and are compliant with regulations established by many governments, financial markets and international organizations. Furthermore, as we strive to become cash-flow positive in 2020, a key financial milestone for our Group, we anticipate using these proceeds to increase our resources and efforts in ESG reporting.

Molecular Partners' employees are trained on the company's Code of Conduct[3] which includes e.g. provisions on clinical and scientific integrity, privacy, prohibition of harassment and discrimination, fair treatment of animals.

Already in 2017, Molecular Partners has started to roll-out a company-wide training and education initiative. This program has been extended gradually over the years and focuses both on technical skill-oriented and professional development courses. Within the framework of this initiative the

[3] investors.molecularpartners.com/governance-and-compliance/

company invested substantial amounts in 2019 in its employees, which are the most important resource to achieve its strategic objectives.



In addition to these individual training initiatives, we heavily support the sharing of knowledge across our industry. In 2019, we sent 135 participants to more than fifty scientific conferences in order to foster robust scientific and business discourse.

In recent years we have also taken steps to ensure fairness of compensation within the company and towards the external market. We therefore participate in Mercer's Life Science Switzerland compensation survey and gradually brought all employees' compensation in line with this national benchmark.

Gender equity is also something we care deeply about at Molecular Partners. At the end of 2019, approximately two thirds of the Molecular Partners workforce were women. Our internally conducted analysis of measures of gender equity found no substantial difference in compensation for men and women at the same career level at Molecular Partners in 2019. The promotion ratio of women versus men in 2019 was virtually equal, as was the average salary increase concurrent with promotion. As it relates to gender equity in compensation, we will perform a comprehensive internal equal pay analysis in alignment with the revised Equality Act passed by the Swiss Parliament in December 2018. In 2020, we intent to perform a comprehensive internal equal pay analysis. We continue to commit to an active role in reviewing our operations and decisions in order to promote diversity, eliminate gender bias, and support equal opportunity.

Over the course of 2020 and in a continued dialogue with our key stakeholders, we will lay the groundwork for ongoing future measurement and reporting within the GRI standards. In the years ahead, we look forward to sharing information on our policies and performance on environmental, social and governance issues, fostering greater trust and transparency, monitoring and mitigating risk, and finding ways to improve efficiency in delivering on our goal of developing new medicines for patients.

Corporate Governance Report

The information published in this report follows the SIX Swiss Exchange (**SIX**) Directive on Information relating to Corporate Governance dated June 20, 2019 (Directive on Corporate Governance, **DCG**).

1. Group 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 19ff 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

Molecular Partners Inc. and Company are hereafter referred to as the **Group**.

1.2 Significant Shareholders and Groups of Shareholders

On December 31, 2019 the most significant 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	9.62%
Essex Woodlands Health Health Ventures VIII, LLC	1,620,247	7.63%
UBS Fund Management (Switzerland) AG[3]	1,095,248	5.16%
Federated Investors, Inc.[4]	1,091,435	5.14%
Andreas Plückthun[5]	1,018,995	4.80%
Johnson &Johnson	880,203	4.15%
Pictet Asset Management (Direction de Fonds)	862,742	4.06%
Michael Tobias Stumpp[6]	703,910	3.32%
Patrick Amstutz[7]	661,900	3.12%
Patrik Forrer[8]	642,687	3.03%
GAM Holding AG	642,242	3.03%

[1] This table presents the shares held on December 31, 2019 by the shareholders listed therein. The options, performance share units (each a PSU) and restricted share units (each a RSU) held by such shareholders are not included. For an overview of the options, PSUs ad 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 138 of this Annual Report.

[2] Based on the share capital registered in the Swiss Commercial Register on December 31, 2019 (i.e. CHF 2,122,859.30, divided into 21,228,593 registered shares).

[3] On January 19, 2020, UBS Fund Management notified they had fallen below the 5% threshold following the capital increase of the Company registered on February 10, 2020 (see footnote 3 on page 43 of this Corporate Governance Report).

[4] On February 14, 2020, Federated Investors, Inc. notified its name change to Federated Hermes, Inc.

[5] On February 7, 2020, Andreas Plückthun notified that he had fallen below the 3% threshold.

[6] 754,446 shares according to share register on December 31, 2019 (corresponding to 3.55% of voting rights)

[7] 695,947 shares according to share register on December 31, 2019 (corresponding to 3.28% of voting rights)

[8] On January 25, 2020, Patrik Forrer notified that he had fallen below the 3% threshold.

On December 31, 2019, 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 shareholders of 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.

2. Capital Structure

2.1 Ordinary Share Capital

On December 31, 2019, the issued share capital of the Company amounted to CHF 2,160,119.20 divided into 21,601,192 fully paid up registered shares with a par value of CHF 0.10 per share.

The Company's share capital registered with the Swiss Commercial Register on December 31, 2019, 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.[4]

2.2 Authorized Share Capital

On December 31, 2019, 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 26% 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 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 rights 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) if a shareholder or a group of shareholders acting in concert have accumulated shareholdings in excess of 15% of the share

[4] As a result of the exercise of 372,599 stock options exercised throughout the year 2019 and the vesting of Performance Share Units (PSU) and Restricted Share Units (RSU) from the PSU and RSU plans for 2016, the Company's share capital increased (out of conditional capital) by CHF 37,259.90 from CHF 2,122,859.30 to CHF 2,160,119.20. This capital increase was registered with the Swiss Commercial Register on February 10, 2020.

capital registered in the Swiss 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.

2.3 Conditional Share Capital

On December 31, 2019, the conditional share capital available under Article 3b of the Article of Incorporation (the **Articles**)[5] amounted to CHF 203,925.80 divided into 2,039,258 registered shares with a par value of CHF 0.10 per share. As a result of the 2019 share capital increase out of the conditional capital, the available conditional capital was reduced by CHF 37,260 from CHF 241,186 to CHF 203,926. 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 board. For more details, please refer to Article 3b of the Articles. This conditional capital of CHF 203,925.80 equates to approximately 9% 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 18% 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:

On 31 Dec	Ordinary Share Capital	Authorized Share Capital	Conditional Share Capital (Article 3b)[2]	Conditional Share Capital (Article 3c)
2019	CHF 2,160,119.20[1]	CHF 565,986	CHF 203,925.80	CHF 400,000
2018	CHF 2,122,859.30[3]	CHF 565,986	CHF 241,185.70	CHF 400,000
2017	CHF 2,104,406.20	CHF 565,986	CHF 259,638.80	CHF 400,000

1 For more details, please refer to Section 2.1 on page 43 above.
2 investors.molecularpartners.com/governance-and-compliance/documents
3 On December 31, 2018, the issued share capital of the Company amounted to CHF 2,122,859.30 whereas the registered share capital amounted to CHF 2,104,406.20. The capital increase was registered with the Swiss Commercial Register on February 20, 2019.

2.5 Participation Certificates and Profit-sharing Certificates

The Company has not issued participation certificates nor profit-sharing certificates.

[5] investors.molecularpartners.com/governance-and-compliance/documents

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 70 and 138 of this Annual Report.

The table below shows the outstanding options granted to the Board of Directors, the Management Board, other employees and consultants on December 31, 2019:

No. of options outstanding	Latest expiry date	Exercise price	Subscription ratio	Amount of share capital concerned (in CHF)
123,817	30.09.2022	CHF 2.31	1:1	12,382
5,400	19.11.2023	CHF 6.05	1:1	540
21,302	10.07.2024	CHF 6.06	1:1	2,130
409,731	31.10.2024	CHF 6.94	1:1	40,973
560,250				**56,025**

The above number of outstanding options equates to approximately 2.6% of the existing share capital. Should all these options been exercised, the issued share capital would amount to CHF 2,216,144.

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 138 of this Annual Report.

3. Shareholders' Participation

3.1 Shareholders' Voting Rights

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

Shareholders must be registered in the share register no later than six (6) business days prior to the general meeting of shareholders in order to be entitled to vote. The Board of Directors approves the deadline for the entry of shareholders into the share register when it approves the invitation to the general meeting of shareholders. Except for the cases described under Section 3.2 below, there are no voting rights restrictions limiting the Company's shareholders` rights.

3.2 Limitation on Transferability of Shares and Nominee Registration

Voting rights and appurtenant rights associated therewith may be exercised 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 upon request be recorded in the share register as a shareholder with voting rights, if such acquirer expressly declares to have acquired the shares in her/his own name and for her/his own account.

Persons who do not declare to hold the shares for their own account (**Nominees**) may be recorded in the share register as shareholders with voting rights, if such Nominee (i) has entered into an agreement with the Company regarding the Nominee`s position and (ii) s 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 2019, no such exemption was 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 2/3 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 such 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 Swiss 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 Swiss Commercial Register.

3.4 Shareholders' Participation Rights

A shareholder may be represented at the general meeting of shareholders by the independent voting rights representative (unabhängiger Stimmrechtsvertreter) (by way of a written or electronic proxy), her/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% of the share capital may request that an item be included on the agenda of a general meeting of shareholders. Such inclusion must be requested in writing at least 45 calendar days prior to the meeting and shall specify the agenda item(s) and proposal(s) of such shareholder(s).
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[6] provide that the Board of Directors shall consist of a minimum of three members and maximum of 11 members. On December 31, 2019, the Board of Directors consisted of seven 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 Articles and the Organizational Rules[7] (including Charters for the Nomination and Compensation Committee[8], the Audit and Finance Committee[9] and the Research and Development Committee[10]). The allocation of tasks within the Board of Directors is determined annually following the Annual General Meeting 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 its members a vice-chairman (the **Vice-Chairman**), and shall also appoint a secretary (the **Secretary**) who does not need to be a member of the Board of Directors. Should the Chairman be temporarily unable or unavailable to exercise her/his functions, her/his 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 exemptions set forth below, 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 an oral deliberation. No quorum is required for confirming resolutions and for amendments of the Articles in connection with (i) capital increases or measures related thereto pursuant to articles 651a, 652e, 652g and 653g of the Swiss Code of Obligations or (ii) approvals pursuant to articles 23 et seq. of the Swiss Federal Merger Act.

The Chairman or, should she/he 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 include the agenda. 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.

The Board of Directors meets at least on a quarterly basis. In 2019, the Board of Directors met four times in person, and in addition conducted five meetings by telephone conference. The vast majority of the members was present at each meeting. Physical 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.

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

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

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

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

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

The Management Board presents reports to, and the Board of Directors then takes decisions on, the relevant matters, except when the Board of Directors has delegated specific decisions to any of its committees.[11] If the Management Board presents its report to a committee of the Board of Directors, the committee takes a preliminary decision, which is reported along with the details of the matter to the entire Board of Directors, which then takes the final decision.

In accordance with Swiss law, the Articles and the Organizational Rules[12], 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, but 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 control has been put in place in 2019, 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, as well as with laws and regulations. The design and implementation of this system of internal control is assessed by the Audit and Finance Committee.

The Audit and Finance Committee receives and reviews the Company Only Financial Statements 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 (if any) 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 to and updates the Board of Directors at the next Board of Directors 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 immediately known to the Chairman of the Board of Directors, are reported by the chairman of the Audit and Finance Committee 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 relevant matter.

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.

4.4 Members

The following table sets forth the name, nationality, function and committee membership of each member of the Board of Directors on December 31, 2019, followed by a short description of each member's birth year, business experience, education and activities.

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[11] Please refer to Section 4.6 on page 52 of this Corporate Governance Report for more details on areas of responsibilities of each Board committee.

[12] 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

Name	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	2020
Dr. Göran Ando	Swedish	Vice-Chairman	Nomination and Compensation Committee Research and Development Committee	2010	2020
Dr. Gwen Fyfe	U.S.	Member	Research and Development Committee	2017	2020
Steven H. Holtzman	U.S.	Member	Audit and Finance Committee	2014	2020
Dr. William A. Lee	U.S.	Member	Nomination and Compensation Committee Research and Development Committee (Chair)	2007	2020
Dr. Petri Vainio	Finnish	Member	Audit and Finance Committee (Chair)	2009	2020
Dr. Patrick Amstutz	Swiss	Member	-	2017	2020

On December 31, 2019, except for Patrick Amstutz, CEO of the Company, all members of the Board of Directors are non-executive. None of the members of the Board of Directors has any significant business connections with the Company or was 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. No changes occurred in the membership of the Board of Directors during 2019.[13]

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

[13] On February 20, 2020, the Company announced that Dr. Göran Ando, Dr. William A. Lee and Dr. Petri Vainio would not stand for re-election at the general meeting of shareholders of April 29, 2020.

William M. Burns, born in 1947

William "Bill" Burns is the Chairman of the Board of Directors of the Company. 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 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, born in 1949

Dr. Göran Ando is the Vice-Chairman of the Company. 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 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, 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 was member of the board of directors of Array BioPharma until 2019 and Cascadian Therapeutics until 2018. She is a graduate of Washington University School of Medicine and a board certified pediatric oncologist.

Steven H. Holtzman, born in 1954

Steven H. Holtzman joined Decibel Therapeutics as president and chief executive officer in 2016. In January 2020 he retired from Decibel and became a strategic business advisor to Decibel. 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 eight 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 chairman 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 of directors and the executive vice president of DNX Corporation, the

first transgenic animal company. 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, 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, 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 80 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, born in 1975

Dr. Patrick Amstutz has been CEO of the Company since November 2016. From 2014 to 2016, he was Chief Operating Officer and from 2006 to 2014, Chief Business Officer. He co-founded the Company and has been a member of the Company's Management Board 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 out-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 CEO of the Company Patrick Amstutz is not member of any committees of the Board of Directors of the Company.

4.5 Rules Regarding Mandates in the Articles

According to Article 33 of the Articles[14], the number of mandates in a board of directors of a legal entity outside the Group which is to be registered in the Swiss Commercial Register or a similar foreign register 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 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 or supervisory bodies of important Swiss or foreign organisations, institutions or foundations under private and public law;

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

c. official functions or political position.

4.6 Board Committees

The Board of Directors has established an Audit and Finance Committee, a Nomination and Compensation Committee and a Research and Development Committee. The duties and objectives of these board committees are set forth in the Articles, the Charter of the Audit and Finance Committee[15], the Charter of the Nomination and Compensation Committee[16] and the Charter of the Research and Development Committee[17].

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 whereby 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 of the internal control system of the Company. In particular, the Audit and Finance Committee[18] (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 with applicable norms and its monitoring within the Company, (iii) 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 can be recommended to the Board of Directors for presentation in the general meeting of shareholders, (iv) assesses the performance of, 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 Board of the Company any legal matters that may have a material impact on the Company Only Financial Statement or the Consolidated Financial Statements and any material reports or inquiries from regulatory or

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

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

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

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

[18] 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 Financial Statements as well as IFRS Consolidated Financial Statements remains subject to the decision of the entire Board of Directors.

governmental agencies which could materially impact the Company's contingent liabilities or risks and (vi) supports the Board of Directors in the financial planning as well as in establishing principles of accounting and financial control and (vii) reviews finance policy and operations in treasury, controlling, insurance, tax, investments and acquisitions.

The Audit and Finance Committee holds meetings as often as required, but in any event at least twice a calendar year. In 2019, 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 her/his own initiative or on the initiative of a member of the Audit and Finance Committee. In 2019 the Audit and Finance Committee met with the external auditors four times.

On December 31, 2019, 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 to the Board of Directors proposals for performance metrics, target values and other compensation-related matters. Following a meeting of the Nomination and Compensation Committee, the chairperson of the Nomination and Compensation Committee reports to, and updates the Board of Directors at the next Board of Directors 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 to the Chairman of the Board of Directors, must be immediately reported to the Chairman of the Board of Directors by the chairperson of the Nomination and Compensation Committee. Upon request of the Chairman, the chairperson of the Nomination and Compensation Committee shall report on any other relevant matters. Please refer to page 62 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 general meeting of shareholders for a term of office until completion of the next Annual General Meeting, whereby 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 its members substitutes for a term of office until completion of the next Annual General Meeting.

The Nomination and Compensation Committee holds meetings as often as required, but in any event at least twice a year. In 2019, four meetings of the Nomination and Compensation Committee took place and lasted on average for one hour and a half. In addition, five circular resolutions have been adopted in electronic form. The meetings are convened by the chairperson of the Nomination and Compensation Committee on her/his own initiative or on the initiative of a member of the Nomination and Compensation Committee. The chairperson of the Nomination and Compensation Committee reports to, and updates the Board of Directors at the next meeting of the Board of Directors on the recent Nomination and Compensation Committee's activities.

On December 31, 2019, the Nomination and Compensation Committee consisted of William M. Burns (chairperson), Dr. William Lee and Dr. Göran Ando.

4.6.3 Research and Development Committee

The Research and Development Committee provides (i) strategic advice and brings recommendations to the Management Board 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 Research and Development Committee is only acting in an advisory capacity.

The members of the Research and Development Committee are elected by the Board of Directors for a term of office until completion of the next Annual General Meeting. The Board of Directors may remove and replace individual members at any time. A majority of the members should have a scientific background. The Research and Development Committee shall consist of not less than two members of the Board of Directors. All members may be re-elected.

The Research and Development Committee holds meetings as often as required, but in any event at least twice a year. In 2019, nine meetings of the Research and Development Committee took place and lasted in average for three hours. The meetings are convened by the chairperson of the Research and Development Committee on her/his own initiative or upon the initiative of a member of the Research and Development Committee. The chairperson of the Research and Development Committee reports to, and updates the Board of Directors at the next meeting of the Board of Directors on the recent Research and Development Committee's activities. The Research and Development Committee invited from time to time internal experts or external consultant joined part of the committee meeting.

On December 31, 2019, the Research and Development Committee consisted of Dr. William Lee (chairperson), Dr. Göran Ando and Dr. Gwen Fyfe.

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

Information about the compensation of the Board of Directors as well as loans, credit facilities and post-employment benefits can be found in the Compensation Report of the Company at page 70ff of this Annual Report. Information about shareholdings of the Board of Directors can be found in note 20 to the Company Only Financial Statements on page 138 of this Annual Report.

5. Management Board

5.1 Responsibilities and Organization

In accordance with Swiss law, the Articles[19] and the Organizational Rules[20], and subject to those matters that are non-delegable and inalienable duties of the Board of Directors by Swiss law, the Articles and/or 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 provides 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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[19] http://investors.moleculARpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf

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

5.3 Members

The following table sets forth the name, nationality and function of each member of the Management Board on December 31, 2019, followed by a short description of each member's birth year, business experience, education and activities.

Name	Nationality	Appointed	Function
Dr. Patrick Amstutz	Swiss	2016	Chief Executive Officer (from 2014 to 2016 Chief Operating Officer, from 2006 to 2014 Chief Business Officer)
Andreas Emmenegger	Swiss	2007	Chief Financial Officer
Dr. Nicolas Leupin	Swiss	2019	Chief Medical Officer
Dr. Michael Tobias Stumpp	German	2018	Chief Operating Officer (from 2006 to 2018 Chief Scientific Officer)

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

Dr. Patrick Amstutz, born in 1975

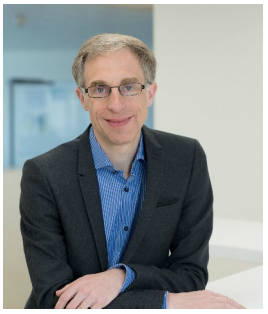
Dr. Patrick Amstutz has been Chief Executive Officer of the Company since November 2016. From 2014 to 2016, he was Chief Operating Officer and from 2006 to 2014, Chief Business Officer. He co-founded the Company and has been a member of the Company's Management Board since its inception in 2004. As Chief 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 academic and commercial collaborations and in-/out-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, born in 1966

Andreas Emmenegger is Chief Financial Officer (CFO) and Co-Entrepreneur of the Company 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 of Glycart 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. Nicolas Leupin, born in 1973

Nicolas Leupin, M.D., MBA, is Chief Medical Officer of the Company. Dr. Leupin is a medical oncologist with a proven track record in drug development, most recently as Chief Medical Officer of argenx, a clinical-stage biotechnology company developing antibody-based therapies for treatment of severe autoimmune diseases and cancer. In that role he led the company's global clinical strategy and execution, successfully supporting the company's transformation into a late-stage clinical company, and was responsible for translating preclinical hypotheses into innovative proof-of concept clinical trials. Prior to argenx, Nicolas Leupin held roles of increasing responsibility at Celgene, where he supported the clinical development of several drug candidates in lymphoma and multiple myeloma, resulting in regulatory filings in Europe and the U.S.



Dr. Michael Tobias Stumpp, born in 1972

Dr. Michael Tobias Stumpp is Chief Operating Officer of the Company. Dr. Stumpp is a co-founder of the Company and before assuming the role of the Chief Operating Officer, 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. He received his PhD from the University of Zürich for his work on repeat proteins. Since the Company`s 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.

5.4 Rules Regarding Mandates in the Articles

According to Article 33 of the Articles[21], the number of mandates of the members of the Management Board in a legal entity outside the Group which is to be registered in the Swiss Commercial Register or a similar foreign register is limited for each member of the Management Board to five 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/or 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.

Apart from 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 or supervisory bodies of important Swiss or foreign organizations, institutions or foundations under private and public law;

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

c. official functions or political positions.

5.5 Compensation of Management Board and Shareholdings

Information about the compensation of the Management Board can be found in the Compensation Report of the Company on page 72 of this Annual Report. Information about shareholdings of the Management Board can be found in note 20 to the Company Only Financial Statements on page 138 of this Annual Report.

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

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 such non-competition undertaking must not exceed the sum of the total annual compensation of the respective member of the Management Board last paid. On December 31, 2019, all four members of the Management Board held employment agreements with an indefinite term.

There are no management contracts in place between the Company and companies not belonging to the Group.

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 67ff 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 employees, members of the Board of Directors and of the Management Board as well as to consultants and advisors of the Company under three Employee Stock Option Plans (each a **ESOP**) which all 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[22] and ESOP 2009, a "change of control" is deemed to occur when (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 50% or more of the combined voting power of all outstanding voting securities of the Company, (b) the shareholders 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 shareholders of the Company, (c) the shareholders 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 accelerated in case of change of control , 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 ESOP 2014 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 (each a **LTI**) in place. Under the Performance Share Plan, the Company may grant Performance Share Units (each a **PSU**) to members of the Management Board, other employees as well as 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 yet, will vest immediately. Under the Restricted Share Plan, the Company may grant Restricted Share Units (each a **RSU**) to members of the Board of Directors and 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 yet, 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.

[22] At the reporting date, there were no outstanding options under the Employee Stock Option Plan 2007.

9. Auditors

9.1 Auditors

The Company's statutory auditor is KPMG AG, Raffelstrasse 28, 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, Michael Blume, began serving in this function in respect of the financial year ending on December 31, 2019. The external auditor in charge is required by Swiss law to serve no longer than seven years.

In 2018, Molecular Partners conducted an evaluation of its existing external auditor, KPMG AG. The evaluation included a tender process where several firms were evaluated and KPMG AG also submitted a proposal. As a result of the audit tender process, the Board of Directors decided to reappoint KPMG AG and the Annual General Meeting 2019 re-elected KPMG AG as auditors for the financial year 2019.

9.3 Auditing and Additional Fees Paid to the Auditors

In CHF 1,000	2019	2018
Auditing fees	183	158
Other assurance related services[23]	192	822
Tax related services	—	17

9.4 Informational Instruments Relating to External Audits

The Audit and Finance Committee is responsible for reviewing the internal control systems for 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 reviews the Company Only Financial Statements and the 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 financial statements as well as the report of the external auditor 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 by the Company, 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 2019, the Audit and Finance Committee held four 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[24], 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 by the Board of Directors for election by the shareholders in the general meeting of shareholders.

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

[24] See for 2019 section 9.2 above.

10. Information Policy

The Company as a listed company is committed to communicate to its shareholders, potential investors, financial analysts, customers, suppliers, the media and other interested parties in a timely and consistent way, 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 Swiss stock exchange (**SIX**) 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 at the end of the first quarter (Q1) and at the end of the third quarter (Q3), respectively. Any such quarterly management statements will be published as press releases and 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/.

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

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

The Company`s official means of communication is the Swiss Official Gazette of Commerce (www.shab.ch).

The invitation to the general meeting of shareholders may also be sent by mail to registered shareholders.

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

Mail: investors@molecularpartners.com
Phone: +41 44 755 7700
Molecular Partners AG, Wagistrasse 14, 8952 Schlieren, Switzerland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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 2019 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 award 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 53.

2.2 Responsibilities of the Board of Directors and the Nomination and Compensation Committee

The table below summarizes the responsibilities 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 concerned. 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 regarding the Management Board.

In 2019, four meetings of the Nomination and Compensation Committee and the Board of Directors took place in February, March, June and December. The Nomination and Compensation Committee executed five circular resolutions in January, February, April, July and December 2019 and one in January 2020. Two meetings of the Nomination and Compensation Committee dealing with 2019 compensation and Compensation Report were held in January and March 2020. Two meetings of the Board of Directors dealing with 2019 compensation and Compensation Report were held in February and March 2020. At these meetings, the Nomination and Compensation Committee and the Board of Directors discussed and approved the main following compensation matters:

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

June 2019

- Interim review of achievement of corporate goals 2019
- Organization of Management Board (Research and Development Team)

December 2019

- Achievement of corporate goals 2019
- Determination of corporate goals 2020
- Compensation of Board of Directors and Management Board for 2020

January/February 2020

- Compensation of Board of Directors and Management Board for 2020
- Compensation report 2019
- Various compensation matters for senior management and employees

March 2020

- Motions to the Annual General Meeting 2020 regarding compensation
- Compensation report 2019
- Long-term equity incentive plans 2020 and allocation of related PSUs/RSUs

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

In summer 2018, 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 and the Management Board. This compensation study has been used to benchmark the compensation 2019 of the Board of Directors and the Management Board. In this analysis, compensation data of 12 Swiss companies[25] (including biotechnology, medical technology and pharmaceutical companies) and 17 biotech companies listed on the NASDAQ[26] were collected. According to the above benchmark data, the cash and equity compensation of the Board of Directors was found to be below the 25th percentile of the peer group of the 17 biotech companies listed on the NASDAQ[27].

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.[28]

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 73.

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:

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[25] Idorsia, Tecan, Ypsomed, Siegfried, Bachem, Aevis Victoria, Basilea, Coltene, Obseva, Evolva, Santhera and Newron Pharma.

[26] Tesaro, Blueprint Medicines, Ironwood, Spectrum, Repligen, Momenta, Epizyme, Immunogen, CytomX, Macrogenics, PTC, Five Prime, G1, Jounce, Pieris, Neon and Rubius.

[27] See footnote 25 above.

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

- the compensation of the Board of Directors for the next term of office (until the next annual general meeting);
- 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 chair 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 long-term value driving milestones outside of such annual 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 35% cash fee (base fee), no short-term cash bonus and approximately 65% in form of RSUs under the LTI Plan (RSUs with 1 year vesting and 3 year blocking period);
- Management Board: Approximately 50% fixed compensation, 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, additional fixed fee(s) for committee membership and/or chair, as applicable, and a fixed travel fee. For the period from the Annual General Meeting 2019 to the Annual General Meeting 2020, such fees are as follows:

Chairmanship Fee	CHF 125,000 (This fee is a lump sum fee which includes the Chairman's membership to the Nomination and Compensation Committee and to the Audit and Finance Committee, the chair of the Nomination and Compensation Committee and the travel fee)
Board Membership Fee	CHF 20,000 (CHF 25,000 for the Vice-Chairman)
Committee Fee	CHF 10,000 for the Audit and Finance Committee and Research and Development Committee; CHF 5,000 for the Nomination and Compensation Committee
Committee Chair Fee	CHF 5,000
Travel Fee	CHF 10,000 for members based in the US and CHF 5,000 for members based in Europe

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[29].

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).

[29] Please refer to footnotes 1 and 3 in the 2019 compensation table in section 4.2 on page 72 of the Compensation Report.

At the beginning of each year, the Nomination and Compensation Committee proposes and the Board of Directors approves corporate goals for the calendar year. At the beginning 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 in 2019 were as follows:

Chief Executive Officer	50% of base salary
Other members of the Management Board (CFO, CSO, COO, CMO)	between 35% and 60% 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 2019 were divided into four categories with each category having a predetermined weighting:

- Goals regarding Molecular Partners' research portfolio;
- Goals regarding Molecular Partners' clinical portfolio;
- Goals regarding financing and partnering; and
- Goals regarding internal organization and future growth.

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 2019 were approved by the Board of Directors in March 2019. 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 and consultants 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:

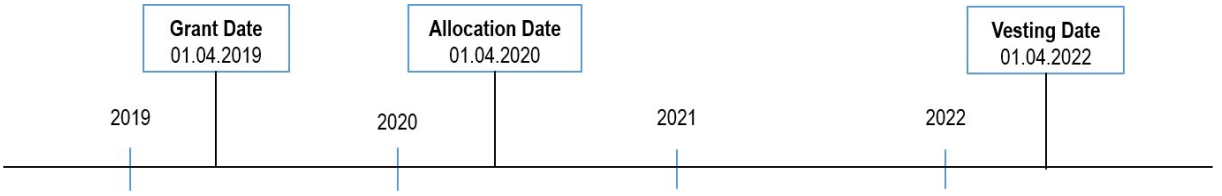
Factors	**Weighting**
Achievement of the corporate goals for the year 2019 (see section 3.2.2 above)	Between 0% and maximum 80%
Achievement of value driving milestones outside of corporate goals 2019	Between 0% and maximum 20%
Share price performance[1] of Molecular Partners over 12 months since grant date: (i) 20% is reached if the share price is larger/equal than 10% compared to the average performance of NBI/SPI indices; (ii) 0% is reached if share price change is less/equal 0% compared to the average performance of NBI/SPI indices; and (iii) pro rata if share price is between 0-10% compared to the average performance of the NBI/SPI indices.	Between 0% and maximum 20%
Total	**Between 0% and maximum 120%**

1 The relevant share price and NBI/SPI indices are the average of the last paid price/index of the trading days during the two months prior to the grant date compared to the same period in year plus one. (For PSUs 2019 granted on 1 April 2019: 1 February to 31 March 2019 vs 1 February to 31 March 2020)

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. At the beginning 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 such 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 2019 can be summarized as follow:



RSUs and PSUs grants and adoption of LTI Plan for 2019:

- Existing employees and members of the Management Board[30] received PSU grants on April 1, 2019 and the employees who joined Molecular Partners after April 1, 2019 received PSU grants depending on their entry date on July 1, 2019, October 1, 2019 or January 1, 2020.
- Members of the Board of Directors received their grants of RSUs under the RSU Plan 2019 after the ordinary shareholders' meeting of 2019, i.e. after shareholders' approval of the compensation amount for the Board of Directors.

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[31] 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, 2019, 560,250 options were outstanding under the Employee Stock Option Plan 2009 and 2014[32]. For additional information reference is made to note 18.2 of the IFRS financial statements on pages 105ff 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 58 of this Annual Report.

[30] For members of the Management Board, the grant is made subject to approval by the ordinary shareholders' meeting 2019 of the variable compensation amount for the year 2019.

[31] At the reporting date, there were no outstanding options under the Employee Stock Option Plan 2007.

[32] For details on the number of options held by the members of the Board of Directors and the Management Board, please refer to footnote 20 of the Company only Financial Statements on page 138 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 2019 and 2018:

Year 2019	Base compensation		RSUs		Total Compensation
in CHF 1'000	Base fee (cash gross)	Pension contributions	Number of RSUs	Value of RSUs	Total Compensation [1]
William Burns Member/Chairman	132	—	11,169	195	327
Dr. Göran Ando Member/Vice-Chairman	40	—	4,296	75	115
Steven Holtzman Member	34	—	4,296	75	109
Dr. William A. Lee Member	45	—	4,296	75	120
Dr. Petri Vainio Member	36	—	4,296	75	111
Dr. Gwen Fyfe Member	34	—	4,296	75	109
Dr. Patrick Amstutz Member	—	—		—	—
Total	**321**	**—**	**32,649**	**570**	**891**

[1] The total compensation awarded to the members of the Board of Directors shown in this table does not include the payments of TCHF 6 made by the Group in 2019 to cover the mandatory employer social security contribution on the base fees. In addition, upon vesting of the RSUs 2019 in 2022, the Group will be obliged to make employer contributions to social security pursuant to applicable mandatory law. As an estimate based on currently applicable contribution rates, the employer contributions on the RSUs 2019 expected to vest in 2022 will amount to approximately TCHF 10.

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[6]
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. As a result the cash compensation shown above represents the Chairman's annual cash compensation 2018 from April to December 2018.
[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.
[6] The total compensation awarded to the members of the Board of Directors shown in this table does not include the payments of TCHF 5 made by the Group in 2018 to cover the mandatory employer social security contribution on the base fees. In addition, upon vesting of the RSUs 2018 in 2021, the Group will be obliged to make employer contributions to social security pursuant to applicable mandatory law. As an estimate based on currently applicable contribution rates, the employer contributions on the RSUs 2018 expected to vest in 2021 will amount to approximately TCHF 10.

The total compensation paid to the Board of Directors in 2019 slightly increased compared to 2018. While the equity compensation in the form of RSUs remained unchanged compared to the equity compensation 2018, the compensation in cash 2019 increased in accordance with the budget approved by the Annual General Meeting 2019. As explained in the invitation to the Annual General Meeting 2019, the reasons for this increase are (i) the participation in 2019 of three directors to the Research and Development Committee (instead of only two directors in 2018) and (ii) the necessity to offer a higher cash fee to attract and retain qualified directors from the biotech industry in the United States underpinned by a benchmarking study performed in 2018[33] . Given the importance on a global scale of US biotech companies and US market and regulations, it is key for Molecular Partners' development to be able to attract US Board members. In addition, the compensation offered to US Board members should appropriately reflect the time commitment required to attend Board meetings in Europe.

In 2019, the portion of compensation delivered in the form of RSUs (based on the fair value of the RSUs at grant) amounted to 64% (2018: 69%) of the total compensation paid to the members of the Board of Directors.
The compensation paid out to the Board of Directors in 2019 and 2018 did not exceed the respective budgets approved by the annual general meetings for the year 2019 and 2018.

[33] See section 2.3 above of the Compensation Report on page 64.

Compensation Paid to Former Members of the Board of Directors

In 2019 and 2018, no compensation was paid to former members of the Board of Directors.

4.2 Compensation to the Management Board in 2019 and 2018

The tables below summarize the compensation of the members of the Management Board in 2019 and 2018:

Year 2019	Fixed compensation		Variable compensation			Total Compensation
in CHF 1'000	Base salary (cash gross)[1]	Pension contributions	Bonus (cash gross)	Number of PSUs [2]	Value of PSUs [2]	Total Compensation[3]
Total Management	1,653	173	418	65,913	1,204	3,448
Patrick Amstutz (CEO)	363	56	131	20,043	380	930

[1] Out of TCHF 1,653 indicated as base salary in the 2019 table above, TCHF 43 relate to tax allowances and other allowances paid to Pamela Trail.

[2] Pamela Trail and Andreas Harstrick were granted PSUs in 2019 for an aggregate value of TCHF 542. However, because these PSUs forfeited according to the applicable PSU Plan 2019 upon their departure from the Management Board of the Group, the number and value of these PSUs are not included in the compensation table.

[3] The total compensation awarded to the members of the Management Board shown in this table does not include the payments of TCHF 109 made by the Group in 2019 to cover the mandatory employer social security contribution on the base salary and on the bonus. In addition, upon vesting of the PSUs 2019 in 2022, the Group will be obliged to make employer contributions to social security pursuant to applicable mandatory law. As an estimate based on currently applicable contribution rates, the employer contributions on the PSUs 2019 expected to vest in 2022 will amount to approximately TCHF 68 (assuming 100% target achievement and full vesting of the PSUs).

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[4]
Total Management	1,609	158	466	45,042	1,244	3,477
Patrick Amstutz (CEO)	346	53	164	12,003	346	909

[4] The total compensation awarded to the members of the Management Board shown in this table does not include the payments made by the Group of TCHF 98 in 2018 to cover the mandatory employer social security contribution on the base salary and on the bonus. In addition, upon vesting of the PSUs 2018 in 2021, the Group will be obliged to make employer contributions to social security insurance pursuant to applicable mandatory law. As an estimate based on currently applicable contribution rates, the employer contributions on the PSUs 2018 expected to vest in 2021 will amount to approximately TCHF 56 (assuming 100% target achievement and full vesting of the PSUs).

The above compensation paid to the Management Board in 2019 includes the compensation paid to 6 individuals who were members of the Management Board during the year 2019. In addition to Patrick Amstutz (CEO), Andreas Emmenegger (CFO) and Michael Stumpp (COO) who were members of the Management Board throughout the year 2019, the compensation described above includes the compensation paid to:

– Pamela Trail who was Chief Scientific Officer (CSO) of the Group until June 30, 2019;

– Andreas Harstrick who was Chief Medical Officer (CMO) of the Group until August 31, 2019[34]; and

– Nicolas Leupin who was appointed CMO of the Group effective as of September 1, 2019.

Pamela Trail departed from her role as Chief Scientific Officer effective July 1, 2019 and was employed by the Group until July 9, 2019. The compensation paid to Pamela Trail until July 9, 2019 is included in the table above. Pamela Trail provided consultant services to the Group during the period July 10 to December 31, 2019. Please refer to note 22 ("Related Party Transactions") of the IFRS Financial Statements on page 111 for further information.

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 47% of the total compensation in 2019 (2018: 49%).

[34] The cash compensation paid to Andreas Harstrick in 2019 during his termination notice after August 31, 2019 is included in the table above.

Use of Supplementary Amount

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 2018. As a result, the fixed compensation paid out to the Management Board for the period from July 1, 2018 through June 30, 2019 did exceed the fixed compensation budget approved by the annual general meeting 2018.

Financial Year 2018

For the financial year 2018, TCHF 237 of Pamela Trail's *fixed* compensation for the period from July 1, 2018 to December 31, 2018 was paid out of the supplementary amount pursuant to Article 29 of the Company's Articles. 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.

Financial Year 2019

For the financial year 2019, TCHF 133 of Pamela Trail's *fixed* compensation for the period from January 1, 2019 to June 30, 2019 has been paid out of the supplementary amount pursuant to Article 29 of the Company's Articles. The *fixed* compensation paid out to the Management Board for the period from July 1, 2019 to December 31, 2019 did not exceed the fixed compensation budget approved by the annual general meeting 2019. The *variable* compensation paid out to the Management Board in 2019 did not exceed the budget for the variable compensation approved by the annual general meeting 2019.

Compensation Paid to Former Members of the Management Board

In 2018 and 2019, no compensation was paid to former members of the Management Board.

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[35] 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[36] 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, 2019 and 2018, 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 138 of this Annual Report.

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[35] See Article 31 of the Articles (http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20190122-statuten-molecular-partners.pdf)

[36] 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

We have audited the accompanying compensation report dated March 18, 2020 of Molecular Partners AG for the year ended December 31, 2019. 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 (pages 70 to 73) 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, 2019 of Molecular Partners AG complies with Swiss law and articles 14 – 16 of the Ordinance.

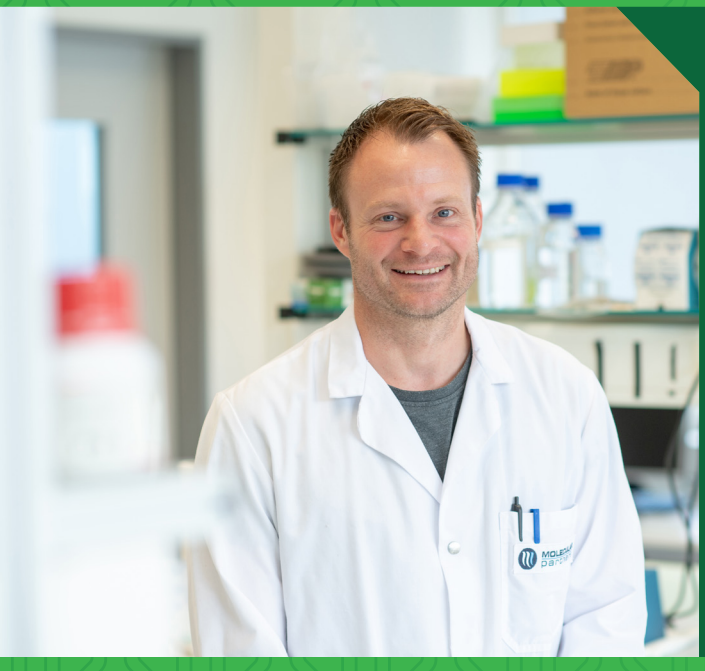
KPMG AG

Michael Blume
Licensed Audit Expert
Auditor in Charge

Judith Herold
Licensed Audit Expert

Zurich, March 18, 2020

KPMG AG, Räffelstrasse 28, Postfach, CH-8036 Zürich



"I joined Molecular Partners to find an interesting job – and I stayed for the passion to build something meaningful!"

Marcel

IFRS Consolidated Financial Statements

Consolidated statement of financial position as of December 31,		2019	2018
in CHF thousands	Note		
Assets			
Property, plant and equipment	6	4,242	1,455
Intangible assets	7	772	382
Total non-current assets		**5,014**	**1,837**
Short-term time deposits	11	19,368	—
Prepaid expenses and accrued income	9	2,497	2,746
Trade and other receivables	10	2,344	51,615
Cash and cash equivalents	11	75,712	98,958
Total current assets		**99,921**	**153,319**
Total assets		**104,935**	**155,156**
Shareholders' equity and liabilities			
Share capital	12	2,160	2,123
Additional paid-in capital		182,849	179,438
Cumulative losses		(130,870)	(89,857)
Total shareholders' equity		**54,139**	**91,704**
Contract liability	15	10,017	20,876
Lease liability	2	1,278	—
Employee benefits	18	10,896	5,711
Total non-current liabilities		**22,191**	**26,587**
Trade and other payables	13	2,410	2,645
Accrued expenses	14	6,618	6,386
Contract liability	15	18,310	27,834
Lease liability	2	1,267	—
Total current liabilities		**28,605**	**36,865**
Total liabilities		**50,796**	**63,452**
Total shareholders' equity and liabilities		**104,935**	**155,156**

See accompanying notes, which form an integral part of these consolidated financial statements. The Group has initially applied IFRS 16 as per January 1, 2019. Under the transition methods chosen, comparative information has not been restated at the date of initial application.

Consolidated statement of comprehensive loss for the year ended December 31,		2019	2018
in CHF thousands	Note		
Revenues			
Revenues from research and development collaborations		20,383	10,355
Total revenues	5	**20,383**	**10,355**
Operating expenses			
Research and development expenses	16	(43,498)	(38,203)
Selling, general and administrative expenses	16	(13,545)	(9,562)
Total operating expenses		**(57,043)**	**(47,765)**
Operating result		**(36,660)**	**(37,410)**
Financial income	19	1,599	693
Financial expenses	19	(1,210)	(319)
Net financial result		**389**	**374**
Result before income taxes		**(36,271)**	**(37,036)**
Income taxes	20	(17)	—
Net result, attributable to shareholders		**(36,288)**	**(37,036)**
Other comprehensive result			
Items that will not be reclassified to profit or loss			
Remeasurement of net pension liabilities, net of tax	18	(4,711)	(1,075)
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(14)	—
Other comprehensive result, net of tax		**(4,725)**	**(1,075)**
Total comprehensive result, attributable to shareholders		**(41,013)**	**(38,111)**
Basic and diluted net result per share	21	(1.69)	(1.75)

See accompanying notes, which form an integral part of these consolidated financial statements. The Group has initially applied IFRS 16 as per January 1, 2019. Under the transition methods chosen, comparative information has not been restated at the date of initial application.

Consolidated cash flow statement for the year ended December 31,		2019	2018
in CHF thousands			
	Note		
Net result attributable to shareholders		(36,288)	(37,036)
Adjustments for:			
Depreciation and amortization	6 / 7	2,469	924
Share-based compensation costs	18	2,438	3,716
Change in employee benefits	18	473	622
Income tax	20	17	—
Financial income	19	(1,599)	(693)
Financial expenses	19	1,210	319
Changes in working capital:			
Change in prepaid expenses and accrued income		453	(2,435)
Change in trade and other receivables		49,570	(50,830)
Change in trade and other payables		(270)	1,389
Change in contract liability	15	(20,383)	39,270
Change in accrued expenses		217	2,415
Exchange gain/(loss) on working capital positions		604	(33)
Interest paid		(91)	(95)
Other financial expense		(9)	(7)
Net cash used in operating activities		**(1,189)**	**(42,474)**
Proceeds from investments in short term time deposits		56,630	39,973
Investments in short term time deposits		(75,998)	(30,228)
Acquisition of property, plant and equipment	6	(1,031)	(456)
Acquisition of intangible assets	7	(833)	(411)
Net proceeds from disposal of property, plant and equipment	6	—	4
Interest received		1,396	731
Net cash from (used in) investing activities		**(19,836)**	**9,613**
Proceeds from exercise of stock options, net of transaction costs	12	1,010	392
Payment of lease liabilities	2	(1,237)	—
Net cash from (used in) financing activities		**(227)**	**392**
Exchange gain/(loss) on cash positions		(1,994)	111
Net decrease in cash and cash equivalents		**(23,246)**	**(32,358)**
Cash and cash equivalents at January 1		98,958	131,316
Cash and cash equivalents at December 31	11	**75,712**	**98,958**

See accompanying notes, which form an integral part of these consolidated financial statements. The Group has initially applied IFRS 16 as per January 1, 2019. Under the transition methods chosen, comparative information has not been restated at the date of initial application.

To provide more relevant information, the Group now presents all changes in contract liabilities in the line item change in contract liability as part of changes in working capital. The comparative period contract liability recognized in profit or loss (TCHF 10,355), previously disclosed separately as an adjustment to net result, has been reclassified to conform with the current period presentation. The reclassification has no impact to total operating activities cash flows.

Consolidated statement of changes in equity

in CHF thousands	Share capital	Additional paid-in capital	Cumulative losses	Total shareholder's equity
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**
At January 1, 2019	**2,123**	**179,438**	**(89,857)**	**91,704**
Net result	—	—	(36,288)	(36,288)
Remeasurement of net pension liabilities [1]	—	—	(4,711)	(4,711)
Exchange differences on translating foreign operations	—	—	(14)	(14)
Total comprehensive income	**—**	**—**	**(41,013)**	**(41,013)**
Share-based compensation costs [1]	—	2,438	—	2,438
Exercise of stock options, net of transaction costs [2]	37	973	—	1,010
At December 31, 2019	**2,160**	**182,849**	**(130,870)**	**54,139**

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

See accompanying notes, which form an integral part of these consolidated financial statements. The Group has initially applied IFRS 16 as per January 1, 2019. Under the transition methods chosen, comparative information has not been restated at the date of initial application.

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. is based in Cambridge, Massachusetts.

These audited consolidated financial statements as of and for the twelve-month period ended December 31, 2019 comprise Molecular Partners AG and Molecular Partners Inc.

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

These consolidated financial statements 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 16, 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".

In order to provide more relevant and reliable information to the users of the financial statements, during 2019, the Group modified the classification of foreign exchange gains and losses to present amounts on a net basis whereas the amounts previously had been presented on a gross basis. Prior period amounts have been reclassified to the current period presentation.

The foreign exchange gains and losses as disclosed under financial income and financial expense are netted in the consolidated statement of comprehensive loss for all periods presented. The Group has reclassified comparative period information to conform with the current period presentation, which did not impact net finance result nor operating result. Please also refer to note 19.

The consolidated financial statements as of and for the period ended December 31, 2019 were approved for issuance by the Company's Board of Directors on March 18, 2020.

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, 2019 did not have a material effect on these consolidated financial statements:

- IFRIC Interpretation 23 Uncertainty over income tax treatments
- Prepayment features with negative compensation - Amendments to IFRS 9
- Long-term interests in associates and joint ventures - Amendments to IAS 28
- Plan amendment, curtailment or settlement - Amendments to IAS 19
- Annual Improvements to IFRS standards 2015-2017 cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

The Group adopted IFRS 16 Leases as per January 1, 2019. Changes to significant accounting policies and related impacts are described later in this note.

Several new or revised standards have been published that are not yet effective and that have not been early adopted. No significant impacts on the Group's consolidated financial statements are expected.

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 cumulativeeffect 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

With the implementation of IFRS 16 Leases, as described later in this note, the Group introduced Right-of-use assets as a new category under Property, plant and equipment.

Laboratory equipment, Office equipment, IT hardware and Leasehold improvements 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. Right-of-use assets are depreciated over 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

Following the implementation of IFRS 16 Leases, the Group has changed its accounting policy for leases where the Group is the lessee. The revised policy and the impact of the change is described later in this note.

Policy applicable before January 1, 2019
Leases of assets under which the Group 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.

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

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 is recognized. Measurement of any impairment loss is based on the 'expected credit loss' (ECL) model, which is based on a predictive model. The loss allowance for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance / impairment loss for that financial asset at an amount equal to 12-month expected credit losses.

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 are 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 Group has not paid any dividends since its inception and does not anticipate paying dividends in the foreseeable future.

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 2019 and 2018. 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, the group's US subsidiary is liable for US federal and Massachusetts's state tax.

Employee Benefits

Postretirement benefits (pension plans)
The Company provides retirement, death and disability benefits to its Swiss 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. 30 of the 32 eligible employees participated in this plan as of December 31, 2019. 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, 2019, the Company had pension liabilities in the amount of TCHF 10,656 (see note 18.1). Pension liabilities 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.

The Group has set up a 401k plan for its US based employees. Under the plan the US entity matches the employee's contribution and provides a true-up in matched contributions at year end. The 401 k plan qualifies as a defined contribution scheme and the associated expenses are presented under operating expenses in the statement of comprehensive loss.

Share-based compensation
The Group 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 Group 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.

Revenue recognition

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), 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 as revenue when (or as) the Group satisfies the performance obligation by transferring the good or service to the customer, which generally is over time for upfront payments or at a point in time for milestone payments 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 immediately transfer a good or a service to the customer, rather the upfront fee consists of an advance payment for future services and the right to access the underlying intellectual property of the Group. For such arrangements, the Group has determined that the promised goods and services are not distinct and are accounted for as one performance obligation. The Group recognizes revenue for this performance obligation over time using a cost based method to measure its progress towards complete satisfaction of the performance obligation. Accordingly, Revenue is recognized over time based on the percentage of actual costs incurred to date relative to the Group's estimate of total costs expected to satisfy the performance obligation. Estimated costs are reviewed and updated routinely for contracts in progress to reflect any changes of which the Group becomes aware. The cumulative effect of any change in estimate is recorded in the period when the change in estimate is determined.

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 a non-refundable payment and the customer has typically acquired the right to use the underlying intellectual property, without any remaining performance obligations for 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 details of the accounting policy are set out below. Under IFRS 15, revenue is recognized as or 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**
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. For such arrangements, the Group has determined that the promised goods and services are not distinct and are accounted for as one performance obligation. The Group recognizes revenue for this performance obligation over time using a cost based method to measure its progress towards complete satisfaction of the performance obligation.
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.
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.

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 Group'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 Group 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 Group is also party to in-licensing and similar arrangements with its partners. The Group 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. 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 Group does not currently have any such externally acquired in-process research and development assets.

The Group 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 16 Leases
This note explains the impact of the initial adoption of IFRS 16 'Leases' on the Group's consolidated financial statements and discloses the new accounting policies that have been applied from January 1, 2019. IFRS 16 Leases replaced IAS 17 and related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The main effect on the Group was that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for almost all leases and therefore increased total assets and total liabilities.

The Group has adopted IFRS 16 Leases from January 1, 2019 using the modified retrospective approach and has not adjusted comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules were therefore recognized in the opening balance sheet on January 1, 2019.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. The leases as recognized for IFRS 16 relate to the Group's offices in Schlieren, Switzerland. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The incremental borrowing rate applied to the lease liabilities on January 1, 2019, was 0.85%. The reconciliation from operating lease commitments disclosed as at December 31, 2018 to the lease liabilities recognized at 1 January 2019 is as follows:

Reconciliation of IAS17 disclosure to IFRS 16 disclosures, as per January 1, 2019

in TCHF

Operating lease commitments disclosed as at 31 December 2018	3,555
Alignment of periods of contractual commitments to expected lease terms under IFRS 16	341
Exclusion of certain costs not eligible for IFRS 16 consideration	(209)
Gross lease liability as per January 1, 2019 under IFRS 16	**3,687**
Discounted using the Group's incremental borrowing rate of 0.85% at the date of initial application	(48)
Lease liability recognized as at 1 January 2019	**3,639**
Of which relate to:	
Current lease liability	1,203
Non-current lease liability	2,436

The recognized right-of-use asset in the amount of TCHF 3,639 as at January 1, 2019 relates to real estate and is presented as part of property, plant and equipment in the consolidated statement of financial position (please see also note 6).

The adoption of IFRS 16 had no impact on segment disclosures, as the Group operates in one segment. The adoption of IFRS 16 had no significant impact on earnings per share nor on cumulative losses.

Practical expedients applied

In applying IFRS 16 for the first time, to leases previously classified as operating leases, the Group used the following practical expedients permitted by the standard:

a. the use of a single discount rate to all leases that have reasonably similar characteristics
b. reliance on previous assessments on whether leases are onerous
c. the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
d. the accounting for operating leases for which the underlying asset is of low value as low-value leases (the Group applies a threshold of CHF 5,000)
e. the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
f. the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 determining whether an arrangement contains a lease.

The Group has various real estate leases. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. The Group is currently not involved in any sale and leaseback transactions.

For contracts entered into, on or after 1 January 2019, the Group, at inception of the contract, assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets (threshold of CHF 5,000) and short-term leases. Short-term leases are leases with a lease term of 12 months or less. For all other leases the Group recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Subsequently the right-of-use asset is depreciated using the straight-line method over the shorter of the asset's useful life and the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate, as the interest rate implicit in the lease generally cannot be readily determined. Subsequently, the lease liability is measured at amortized cost using the effective interest method. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

During 2019 the Group leased additional space in one of its existing locations. The Group accounted for this addition (in the amount of TCHF 143) as a separate lease. The carrying amount of the right-of-use assets at December 31, 2019 amounted to TCHF 2,535 (please also see note 6).

For the period ended	**December 31, 2019**
in TCHF	
Depreciation expense for the right-of-use asset	1,247
Interest expense on lease liabilities as presented under financial expense	27
Expense related to lease to short-term leases as presented under operating expenses	2
Expense related to leases of low value assets as presented under operating expenses	—
Total cash outflow in relation to leases	1,237

Contractual maturities of financial liabilities at December 31, 2019

in TCHF	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total contractual cashflows	Carrying Amount lease liabilities
Lease liabilities	1,284	1,284	—	2,568	2,545

Some property leases contain variable payment terms that are linked to a consumer price index. The lease liability for those leases was initially measured using the consumer price index as at the commencement date. The Group remeasures the lease liability if there is a change in future lease payments resulting from a change in the index.

Extension and termination options are included in a number of real estate leases. These terms are used to maximize operational flexibility in terms of managing contracts. The options to extend are held by the Company and the termination options are held both by the Company and the lessor. As of January 1, 2019, and December 31, 2019, the Group has determined it is not reasonably certain that it would exercise any of these options and for that reason these optional payments have not been included in the measurement of the lease liability. The earliest contractual termination date for both the lessor and the lessee on the major real estate lease is December 31, 2020.

The Group does not provide residual value guarantees and does not have any leases not yet commenced to which the lessee is committed.

The Group is presenting lease liabilities separately under current and non-current liabilities.

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, 2019 and 2018.

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 in regards to the performance obligations recognized using the cost based method, where revenue is recognized based on costs incurred in relation to the Group's estimate of total estimated costs to complete satisfaction of the underlying performance obligations) is required to reflect the substance of the arrangement in the recognition of revenues. The Group's estimate of total costs to be incurred on the project is based on actual project-related contracts and history of similar contracts of other collaborations as well as industry experience. The Group is required to evaluate whether any changes in operational and/or technical collaboration and project requirements could lead to a change in the timing of estimated project completion or to a change in the timing and/or amount of estimated project costs, and how such changes, if any, impact the recognition of revenue. 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

The Group assesses and estimates the progress of its projects with alliance partners at each reporting date. When the cost based method is applied, the Group recognizes revenue based on the ratio of the associated costs incurred to date and the total forecasted cost to satisfy the performance obligation.

With regard to the license and collaboration agreement with Amgen entered into in December 2018, the Group initially expected its estimated inputs toward satisfaction of the performance obligation to be expended evenly throughout the performance period and thus considered it appropriate to recognize revenue on the same basis.

In 2019, the overall project completion timing was extended. Additionally, in the fourth quarter of 2019, patient dosing relating to the project began, providing new information regarding the expected timing of estimated project costs to be incurred to satisfy the performance obligation. The Group determined that the inputs would no longer be evenly expended throughout the performance period and as such, no longer expect revenue to be recognized evenly over the contract period under the cost based method.

These changes to the Group's estimate resulted in the Group recording TCHF 7,451 less revenue for the twelve month period ended December 31, 2019 relative to the original assessment as determined in December 2018 . The total amount of revenue expected to be recognized for the project remains unchanged. The remaining unrecognized transaction price at December 31, 2019 of TCHF 28,327 will be recognized in line with the recognition of estimated expenses to satisfy the performance obligation. During the twelve month periods ended December 31, 2019 and 2018, the Group recognized revenues as disclosed in the table below.

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	**2019**	**2018**
Revenues USA	20,383	10,355
Total revenues	**20,383**	**10,355**

Analysis of revenue by major alliance partner

in CHF thousands, for the years ended December 31	**2019**	**2018**
Allergan Inc., USA	—	9,440
Amgen Inc., USA	20,383	915
Total revenues	**20,383**	**10,355**

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 / AMG 506. 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 / AMG 506. The parties will jointly evaluate MP0310 / AMG 506 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 / AMG 506.

Under the agreement the Group received a non-refundable upfront payment of $50 million. The Group has 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 using the cost based method which is measured by actual costs incurred in relation to the Group's best estimate of total expected costs to satisfy the performance obligation. This costs based method is subject to the assessment of the management of the Group. The Group determined using an over time cost based method to measure its progress most faithfully depicts the inputs 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

Following the implementation of IFRS 16 Leases as per January 1, 2019 and as described in note 2 the Group introduces a new category under Property, Plan and Equipment, labeled as Right-of-use assets.

in CHF thousands	Lab equipment	Office equipment	IT hardware	Right-of-use assets	Leasehold improvements	Total
2019						
Cost						
At January 1, 2019	6,553	603	839	—	317	8,312
Adoption of IFRS 16 as of January 1, 2019	—	—	—	3,639	—	3,639
Additions	903	38	90	143	—	1,174
Disposals	—	(2)	—	—	—	(2)
At December 31, 2019	**7,456**	**639**	**929**	**3,782**	**317**	**13,123**
Accumulated depreciation						
At January 1, 2019	(5,379)	(508)	(778)	—	(192)	(6,857)
Depreciation charge for the year	(584)	(73)	(78)	(1,247)	(44)	(2,026)
Disposals	—	2	—		—	2
At December 31, 2019	**(5,963)**	**(579)**	**(856)**	**(1,247)**	**(236)**	**(8,881)**
Carrying amount at December 31, 2019	**1,493**	**60**	**73**	**2,535**	**81**	**4,242**

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**

7. Intangible assets

in CHF thousands	IT software
2019	
Cost	
At January 1, 2019	638
Additions	833
Disposals	—
At December 31, 2019	**1,471**
Accumulated depreciation	
At January 1, 2019	(256)
Amortization charge for the year	(443)
Disposals	—
At December 31, 2019	**(699)**
Carrying amount at December 31, 2019	**772**

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**

8. Financial instruments

in CHF thousands	Financial assets at amortized costs
2019	
Cash and cash equivalents	75,712
Trade and other receivables	94
Accrued income	204
Short-term time deposits	19,368
Balance at December 31	**95,378**
2018	
Cash and cash equivalents	98,958
Trade and other receivables	49,393
Balance at December 31	**148,351**

The above mentioned amounts were neither past due nor impaired at the end of the respective reporting period and were of highly rated quality. Please also see note 24.

in CHF thousands	Financial liabilities at amortized cost
2019	
Trade payables	2,019
Accrued project costs and royalties	3,343
Lease liabilities	2,545
Other non-employee related accrued expenses	507
Balance at December 31	**8,414**
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**

The carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of fair value.

9. Prepaid Expenses and Accrued Income

in CHF thousands	2019	2018
Prepayments	2,293	2,746
Accrued income	204	—
Balance at December 31	**2,497**	**2,746**

10. Trade and Other Receivables

in CHF thousands	2019	2018
Trade receivables	23	49,323
Value added tax	653	835
Withholding tax	486	256
Other receivables	1,182	1,201
Balance at December 31	**2,344**	**51,615**

Trade receivables at December 31, 2018 include an amount of TCHF 49,290 in relation to the signed collaboration agreement with Amgen Inc. The payment was received in January 2019.

Trade receivables are denominated in the following currencies:

in CHF thousands	2019	2018
CHF	21	29
USD	2	49,294
Balance at December 31	**23**	**49,323**

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

in CHF thousands	2019	2018
Cash at bank in CHF	11,450	33,574
Cash at bank in EUR	12,803	15,207
Cash at bank in USD	47,220	50,177
Cash at bank in GBP	4,239	—
Total cash at bank at December 31	**75,712**	**98,958**
Short-term time deposits in USD	19,368	—
Total short-term time deposits at December 31	**19,368**	**—**

The short-term time deposits in USD at December 31, 2019 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, 2019, the Company's share capital consisted of 21,601,192 fully paid registered shares with a par value of CHF 0.10 each. 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. 372,599 new registered shares were issued in 2019 largely as a result of the option exercises and the vesting of Performance Share Units or "PSU" and Restricted Share Units or "RSU", from the PSU and RSU plans of 2016. The corresponding capital increase was registered with the commercial register on February 10, 2020.

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, 2019 the Company's share capital was allowed to be increased by an amount not to exceed CHF 203,926 through the issuance of up to 2,039,258 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 2019, the share capital was increased out of conditional capital. As a result, the available conditional capital was reduced by CHF 37,260 from CHF 241,186 to CHF 203,926.

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.

In 2019, the cash proceeds from the exercise of share options and the vesting of performance share units ("PSUs") amounted to TCHF 1,020 and was all serviced from the issuance of new shares (conditional share capital).

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

Significant Shareholders

As of December 31, 2019, 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	2019	2018
Hansjoerg Wyss	9.62%	9.70%
Essex Woodlands Health Health Ventures VIII, LLC	7.63%	7.70%
UBS Fund Management (Switzerland) AG[1]	5.16%	3.00%
Federated Investors Inc.[2]	5.14%	—%
Andreas Plückthun[3]	4.80%	4.84%
Pictet Asset Management (Direction de Fonds)	4.06%	4.10%
Johnson &Johnson	4.15%	4.18%
Michael Tobias Stumpp	3.32%	3.34%
Patrick Amstutz	3.12%	3.15%
Patrik Forrer[4]	3.03%	2.99%
GAM Holding AG	3.03%	3.05%
Index Ventures Associates IV Limited	—%	8.06%

[1] On February 19, 2020, UBS Fund Management notified that they had fallen below the 5% threshold.
[2] On February 14, 2020, Federated Investors, Inc. notified its name change to Federated Hermes, Inc.
[3] On February 7, 2020, Andreas Plückthun notified that he had fallen below the 3% threshold.
[4] On January 25, 2020, Patrik Forrer notified that he had fallen below the 3% threshold.

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, 2019, 21,228,593 common shares, which is the share capital registered with the commercial registry on December 31, 2018 (December 31, 2018, 21,044,062 common shares).

13. Trade and Other Payables

in CHF thousands	2019	2018
Trade payables	2,019	2,108
Social security	391	537
Balance at December 31	**2,410**	**2,645**

Trade payables are denominated in the following currencies:

in CHF thousands	2019	2018
CHF	617	313
EUR	1,092	208
USD	172	360
GBP	138	1,227
Balance at December 31	**2,019**	**2,108**

14. Accrued Expenses

in CHF thousands	2019	2018
Accrued project costs and royalties	3,343	2,982
Accrued payroll and bonuses	2,751	3,020
Other	524	384
Balance at December 31	**6,618**	**6,386**

15. Contract Liability

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

in CHF thousands	Contract liability
Expected revenue recognition in year one after balance sheet date	18,310
Expected revenue recognition in year two after balance sheet date	9,530
Expected revenue recognition in year three after balance sheet date	487
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, 2019	**28,327**

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**

An amount of TCHF 20,383 included in the contract liability at December31, 2018 has been recognized as revenue in 2019. Please also refer to note 5.

16. Additional Information on the Nature of Expenses

Research and development expenses

in CHF thousands	2019	2018
Research consumables and external research and development expenses	(20,314)	(13,500)
Personnel expenses (1), see also note 18	(19,722)	(19,323)
Depreciation and amortization (3)	(2,088)	(824)
Intellectual property	(568)	(200)
Facility expenses (3)	(565)	(1,450)
Other research and development expenses	(191)	(804)
Royalties and license fees, see also note 17	(50)	(2,102)
Total year ended December 31	**(43,498)**	**(38,203)**

Selling, general and administrative expenses

in CHF thousands	2019	2018
Personnel expenses (2), see also note 18	(7,870)	(5,745)
Other administrative expenses	(5,231)	(3,541)
Depreciation and amortization (3)	(381)	(100)
Facility expenses (3)	(63)	(176)
Total year ended December 31	**(13,545)**	**(9,562)**
Total operating expenses	**(57,043)**	**(47,765)**

(1) Research and development non-cash effective pension and share-based compensation costs were TCHF 1,549 in 2019 and TCHF 2,282 in 2018.
(2) Selling, general and administrative non-cash effective pension and share based compensation costs were TCHF 1,351 in 2019 and TCHF 2,009 in 2018
(3) The decrease in facility expense and the increase in Depreciation and amortization during 2019 is related to operating lease charges in 2018, that under IFRS 16 are now recognized as Depreciation and interest from January 1, 2019 onwards

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	2019	2018
Salaries	(18,868)	(16,391)
Share-based compensation (non-cash effective)	(2,438)	(3,716)
Pension costs	(2,043)	(1,896)
Social security costs	(1,869)	(1,571)
Other personnel expenses	(2,374)	(1,494)
Total year ended December 31	**(27,592)**	**(25,068)**

Full-time equivalents and head count	**2019**	**2018**
Average number of full-time equivalents	127.1	113.5
Full-time equivalents at year end	135.2	117.7
Headcount at year end	147	129

18.1 Pension Costs and Liabilities

in CHF thousands	2019	2018
Defined benefit pension plans		
Actuarial assumptions		
Discount rate at January 1	0.90%	0.70%
Discount rate at December 31	0.20%	0.90%
Future salary increases at December 31	2.00%	2.00%
Mortality tables	BVG2015 GT	BVG2015 GT
Date of last actuarial valuation	31.12.2019	31.12.2018
Reconciliation of the amount recognized in the statement of financial position		
Defined benefit obligation at December 31	48,455	36,609
Fair value of plan assets at December 31	37,799	31,127
Net defined benefit liability at December 31	**10,656**	**5,482**
Components of defined benefit cost in profit or loss		
Current service cost (employer)	2,053	1,890
Past service cost	(105)	(36)
Interest expense on defined benefit obligation	356	219
Interest (income) on plan assets	(304)	(190)
Administrative cost excl. cost for managing plan assets	18	13
Defined benefit cost recognized in profit or loss	**2,018**	**1,896**
thereof service cost and administrative cost	1,966	1,867
thereof net interest expense on the net defined benefit liability	52	29

in CHF thousands	2019	2018
Reconciliation of net defined benefit liability		
Net defined benefit liability at January 1	5,482	3,832
Defined benefit cost recognized in profit or loss [1]	2,018	1,895
Remeasurement of net pension liabilities	4,711	1,075
Contributions by the employer[1]	(1,555)	(1,320)
Net defined benefit liability at December 31 [2]	**10,656**	**5,482**
Reconciliation of defined benefit obligation		
Defined benefit obligation at January 1	36,609	25,824
Interest expenses on defined benefit obligation	356	219
Current service cost (employer)	2,053	1,890
Contributions by plan participants	967	826
Benefits (paid)/deposited	2,819	1,189
Past service cost	(105)	(36)
Administrative cost (excl. cost for managing plan assets)	19	13
Actuarial (gain)/loss on defined benefit obligation	5,737	6,684
Defined benefit obligation at December 31	**48,455**	**36,609**
Reconciliation of amount recognized in OCI		
Actuarial (gain) / loss on changes in financial assumptions	4,774	(805)
Actuarial (gain) / loss on changes in demographic assumptions	—	(395)
Actuarial (gain) / loss arising from experience adjustments	963	7,884
Actuarial (gain)/loss on defined benefit obligation	**5,737**	**6,684**
Return on plan assets excluding interest income	(1,026)	(5,609)
Remeasurement of net pension liabilities	**4,711**	**1,075**
Reconciliation of fair value of plan assets		
Fair value of plan assets at January 1	31,127	21,992
Interest income on plan assets	304	190
Contributions by the employer	1,556	1,320
Contributions by plan participants	967	826
Benefits (paid)/deposited	2,819	1,189
Return on plan assets excl. interest income	1,026	5,609
Fair value of plan assets at December 31	**37,799**	**31,127**
Best estimate of contributions of next year		
Contributions by the employer	1,724	1,380
Plan asset classes		
Cash and cash equivalents	6,836	6,424
Equity instruments	14,845	12,636
Debt instruments (e.g. bonds)	5,466	4,760
Real estate funds	4,565	4,227
Others	1,291	417
Total plan assets at fair value (quoted market price)	**33,003**	**28,464**
Others	4,796	2,663
Total plan assets at fair value (non-quoted market price)	**4,796**	**2,663**
Total plan assets at fair value at December 31	**37,799**	**31,127**

in CHF thousands	2019	2018
Total plan assets at fair value at December 31	**37,799**	**31,127**
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%	51,038	38,432
Defined benefit obligation at December 31 with discount rate +0.25%	46,077	34,931
Defined benefit obligation at December 31 with salary increases -0.25%	48,017	36,281
Defined benefit obligation at December 31 with salary increases +0.25%	48,887	36,938
Defined benefit obligation at December 31 with life expectancy +1 year	47,691	36,144
Defined benefit obligation at December 31 with life expectancy -1 year	49,222	37,074
Maturity profile of defined benefit obligation		
Weighted average duration of defined obligation in years at December 31	20.2	19.0

(1) The sum of these two positions represent the non-cash effective pension costs recognized in the income statement, of which TCHF 358 are research and development costs (2018: TCHF 477) and TCHF 104 are selling, general and administrative costs (2018: TCHF 98).
(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, 2019, an aggregate of 560,250 options were outstanding under the ESOP 2009 and ESOP 2014. All these options are fully vested at the reporting date. Additionally, there were no outstanding options under the ESOP 2007.

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 further 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
- LTI plans 2019 established in March 2019

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 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, 2019, 363,165 PSUs and 81,840 RSUs were outstanding.

As of December 31, 2018, 251,555 PSUs and 68,911 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	2019	2018
Nature of arrangement	Grant of PSU/ RSU	Grant of PSU/ RSU
Grant dates	Jan 1 - Oct 1	Jan 1 - Oct 1
Number of rights granted	291,094	143,355
Weighted average exercise price (CHF)	0.10	0.10
Share price (CHF)	14.56 - 19.06	21.60 - 26.50
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 on Common shares	42.24 - 42.98	38.28 - 40.58
Risk-free interest rate p. a. (%) / CHF LIBOR / Common shares	(-0.50) - (-0.71)	(-0.52) - (-0.75)
Expected volatility on NBI	21.67 - 23.37	
Risk-free interest rate p. a. (%) / USD LIBOR / NBI	2.03 - 2.76	
Expected volatility on SPI	11.11 - 12.37	
Risk-free interest rate p. a. (%) / CHF LIBOR / SPI	(-0.50) - (-0.71)	
Expected dividend (CHF)	—	—
Weighted average fair value of rights granted (CHF)	19.13	27.97
Latest expiry date	Sep 30, 2022	Sep 30, 2021
Valuation model	Monte Carlo	Monte Carlo

Additional comments:

- Expected volatility: Historical share prices of the Company have been used.
- The indices NBI and SPI were introduced as assumptions in determining the fair values for the 2019 PSU Plans

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, 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**
Granted	291,094	0.10	—	—	291,094	0.10
(Performance adjustment)	(13,309)	0.10	—	—	(13,309)	0.10
(Forfeited)	(84,594)	0.10	—	—	(84,594)	0.10
(Expired)	—	—	—	—		—
(Exercised)[1]	(372,599)	2.74	(303,947)	3.33	(68,652)	0.10
Balance outstanding at December 31, 2019	**1,005,255**	**3.32**	**560,250**	**5.87**	**445,005**	**0.10**

(1) The weighted average share price at the dates of the exercise during the year ended 2019 amounted to CHF 15.95 (2018: CHF 24.37).

The following table applies to all share options, PSUs and RSUs outstanding at December 31, 2019:

Exercise price CHF	Options / PSU/RSU (number)	Remaining life (years)	Exercisable options
Options			
2.31	123,817	1.1	123,817
6.05	5,400	3.3	5,400
6.06	21,302	4.3	21,302
6.94	409,731	4.7	409,731
PSU/RSU			
0.10	445,005	1.6	—
Total	**1,005,255**		**560,250**

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 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	2019	2018
Research and development	1,192	1,805
Selling, general and administrative	1,246	1,911
Total year ended December 31	**2,438**	**3,716**

19. Financial Income and Financial Expense

Financial Income

in CHF thousands	2019	2018
Interest income on financial assets held at amortized costs	1,599	693
Net foreign exchange gain (1)	—	—
Total year ended December 31	**1,599**	**693**

Financial Expense

in CHF thousands	2019	2018
Net foreign exchange loss (1)	(1,110)	(217)
Interest expense on leases	(27)	—
Other financial expenses	(73)	(102)
Total year ended December 31	**(1,210)**	**(319)**

(1) The foreign exchange gain of TCHF 111 for the twelve months in 2018 was reclassified to and netted with the gross foreign exchange loss of TCHF 328 to a net foreign exchange loss of TCHF 217.

20. Taxes

Income Taxes

Molecular Partners AG did not have to pay or accrue any income taxes in the reporting periods. In 2019 and 2018, 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% (2018: 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. For the year ended December 31, 2019 Molecular Partners Inc recorded a tax expense of TCHF 17 (TUSD 17). The applicable income tax rates are 21% federal tax plus 6.32% state tax. As there were no operations in this entity during 2018 there were no income taxes recorded.

Deferred Taxes

The Company's net operating losses for tax purposes amounted to TCHF 33,446 in 2019 and TCHF 23,767 in 2018. The total tax losses of TCHF 99,269 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 positions were recognized on other temporary differences (e.g. pension liabilities) due to the significant tax losses carried forwards.

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

in CHF thousands	**2019**	**2018**
2021	(4,314)	(4,314)
2022	—	—
2023	(15,976)	(15,976)
2024	(21,766)	(21,766)
2025	(23,767)	(23,767)
2026	(33,446)	—
Thereafter	—	—
Total tax loss carry forwards as at December 31	**(99,269)**	**(65,823)**

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. For the periods ended December 31, 2019 and 2018 there are no dilutive effects.

	2019	2018
Weighted average number of shares used in computing basic and diluted profit / (loss) per share	21,413,375	21,168,159

22. Related Party Disclosures

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

in CHF thousands	2019	2018
Short-term employee benefits	2,392	2,334
Post-employment benefits	173	158
Share-based compensation	1,220	2,155
Total year ended December 31	**3,785**	**4,647**

Prior to her appointment to the Management Board as Chief Scientific Officer in June 2018, Pamela 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.

Pamela Trail departed from her role as Chief Scientific Officer effective July 1, 2019 and was employed by the Group until July 9, 2019. Pamela Trail has continued to support the Group as a consultant after this date. For the period from July 10 to December 31, 2019, Pamela Trail's consulting fees amounted to TCHF 70.

In March 2019 the Group entered into a scientific evaluation agreement with Gilead Sciences; William Lee, member of the Board of Directors of Molecular Partners is also member of the senior management team of Gilead Sciences. This transaction does not have a material impact on the consolidated financial statements.

23. Commitments

Operating Lease Commitments

The Group has facility lease contracts in place for its facilities in Schlieren, Switzerland . From January 1, 2019 the Group has recognized right-of-use assets and lease liabilities for these leases that were classified as operating leases under IAS 17, except for short-term leases and low-value lease. See note 2 on the implementation as per January 1, 2019 of IFRS 16 Leases.

The following net future minimum lease payments existed as of the 2018 balance sheet date.

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

Leasing costs charged to profit or loss amounted to TCHF 177 (2018: TCHF 1,273). These costs in 2019 related to the costs of leasing business premises that were not in scope of IFRS 16.

Finance Lease Commitments

As of December 31, 2018, the Group did not have any finance lease commitments.

Capital Commitments

As of December 31, 2019 and 2018, 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) if market conditions allow to consider hedging certain of the remaining expected net currency exposure as the need arises. However, due to market volatilities, the impact of negative interest rates in Switzerland and uncertainties in the cash flows, a 100% hedging of the currency exposure is impossible or not appropriate. Molecular Partners does not engage in speculative transactions.

During 2019 and 2018, the Group did not enter into any forward currency transactions. No forward currency transactions were outstanding as of December 31, 2019 and 2018.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR and GBP 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. exchange rate	Effect on result before tax (in TCHF)
USD Positions		
2019	+10%	6,659
	-10%	(6,659)
2018	+10%	5,018
	-10%	(5,018)
EUR Positions		
2019	+10%	1,280
	-10%	(1,280)
2018	+10%	1,521
	-10%	(1,521)
GBP Positions		
2019	+10%	424
	-10%	(424)

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 Groups strives to optimize the net balance of interest paid and interest received by monitoring the interest rates applicable over the various currencies the Group holds as well as the offered holding periods.

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		
2019	+0.5%	57
	-0.5%	(57)
2018	+0.5%	168
	-0.5%	(168)
USD Positions		
2019	+0.5%	333
	-0.5%	(333)
2018	+0.5%	251
	-0.5%	(251)
EUR Positions		
2019	+0.5%	64
	-0.5%	(64)
2018	+0.5%	76
	-0.5%	(76)
GBP Positions		
2019	+0.5%	21
	-0.5%	(21)

Credit Risk

The maximum credit risk on financial assets corresponds to the carrying amounts of the Group's cash and cash equivalents, short-term time deposits 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 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	2019	2018
Cash and cash equivalents	75,712	98,958
Trade and other receivables	94	49,393
Accrued income	204	—
Short-term time deposits	19,368	—
Total credit risk as at December 31	**95,378**	**148,351**

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

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, 2019 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 76-115) give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, 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: 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: License and collaboration agreement with Amgen

Key Audit Matter

In December 2018, the Group entered into a license and collaboration agreement with Amgen Inc. As part of the agreement, Molecular Partners was entitled to receive an upfront payment of $50 Mio, which was received in January 2019.

In 2019, the total revenue recognized related to the collaboration agreement amounted to MCHF 20,383. The related contract liability as of December 31, 2019 amounted to MCHF 28,327.

In 2019, the overall project completion timing was extended. Additionally, in the fourth quarter of 2019, patient dosing relating to the project began, providing new information regarding the expected timing of estimated project costs to be incurred to satisfy the performance obligation. The Group determined that the inputs would no longer be evenly expended throughout the performance period and as such, no longer expect revenue to be recognized evenly over the contract period under the cost based method.

The Group's estimate of total costs to be incurred on the project is based on actual project-related contracts and history of similar contracts of other collaborations as well as industry experience. Estimated costs are reviewed and updated regularly to reflect any changes of which the Group becomes aware. The cumulative effect of any change in estimate is recorded in the period when the change in estimate is determined.

The Group's estimation of the progress of the project, including assessing whether the estimated future costs to be incurred are appropriate, requires complex judgment. Specifically, the Group is required to evaluate whether any changes in operational and/or technical collaboration and project requirements could lead to a change in the timing of estimated project completion or to a change in the timing and/or amount of estimated project costs, and how such changes, if any, affect the recognition of revenue.

Our response

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

- We obtained the Group's documented accounting analysis in relation to the revenue recognized.
- We assessed the Group's total estimated project costs by:
  - Obtaining the Group's collaboration project plan and budget supporting the actual project progress and revenue recognized in the period.
  - Performing inquiry of project leads to assess the Group's assertions made in the accounting analysis, collaboration project plan, and budget.
  - Obtaining the minutes of the joint collaboration project steering committee to assess the project progress to date and forecasted project completion.
  - Evaluating the Group's assessment of project costs incurred to date relative to the Group's estimate to complete collaboration project budget. For the costs incurred to date, we agreed to supporting evidence obtained on a sample basis.
  - Obtaining an understanding of how the Group developed the collaboration budget and the methodology used to determine the estimated remaining expenses over the duration of the project. We also obtained evidence supporting the future estimated cost amounts included in the project budget.
  - Understanding and evaluating the timing and appropriateness of updates to the estimate based on new information, and agreeing such information to the steering committee minutes and the patient dosing schedule.
- We recalculated the contractual revenue recognized in 2019 and the related contract liability as of December 31, 2019.
- We evaluated the adequacy of the Group's disclosures of key assumptions and amounts recorded in relation to the license and collaboration agreement.

For further information on Revenue recognition: License and collaboration agreement with Amgen refer to the following:

- Note 2 Summary of Significant Accounting Policies: Revenue Recognition (page 80)
- Note 4 Critical Accounting Estimates and Judgements
- Note 5 Revenues and entity-wide disclosures
- Note 15 Contract liability

KPMG

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

Michael Blume
Licensed Audit Expert
Auditor in Charge

Judith Herold
Licensed Audit Expert

Zurich, March 18, 2020

Company Only Financial Statements

Balance sheet as of December 31,		**2019**	**2018**
in CHF thousands	note		
Assets			
Cash and cash equivalents	3	75,698	98,958
Trade accounts receivable		23	49,323
Other short-term receivables	4	2,301	2,274
Prepaid expenses and accrued income	5	2,481	2,746
Short-term time deposits	3	19,368	—
Total current assets		**99,871**	**153,301**
Investments	1	—	—
Property, plant and equipment:			
- Right-of-use asset for leased office buildings	2, 6	2,535	—
- Other property, plant and equipment	6	1,705	1,455
Total property, plant and equipment		4,240	1,455
Intangible assets	7	772	382
Total non-current assets		**5,012**	**1,837**
Total assets		**104,883**	**155,138**
Shareholders' equity and liabilities			
Trade accounts payable		2,018	2,089
Other short-term payables	8	493	537
Accrued expenses	9	6,510	6,386
Contract liability	10	18,310	27,834
Lease liability	2	1,267	—
Total current liabilities		**28,598**	**36,846**
Contract liability	10	10,017	20,876
Lease liability	2	1,278	—
Long-term provisions		240	229
Total non-current liabilities		**11,535**	**21,105**
Total liabilities		**40,133**	**57,951**
Share capital		2,160	2,123
Legal capital reserves			
- Reserves from capital contributions		161,859	160,887
Cumulative losses:			
- Loss carried forward		(65,823)	(42,056)
- Net result for the year		(33,446)	(23,767)
Total cumulative losses		(99,269)	(65,823)
Total shareholders' equity	**11**	**64,750**	**97,187**
Total liabilities and shareholders' equity		**104,883**	**155,138**

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

Income statement for the year ended December 31,		**2019**	**2018**
in CHF thousands	note		
Revenues			
Revenues from research and development collaborations	2,12	20,383	10,355
Total revenues		**20,383**	**10,355**
Operating expenses:			
Research and development expenses	13	(42,209)	(35,921)
Selling, general and administrative expenses	14	(12,010)	(7,553)
Total operating expenses		**(54,219)**	**(43,474)**
Operating result		**(33,836)**	**(33,119)**
Financial income	15	1,599	693
Financial expenses	15	(1,209)	(320)
Extraordinary income	12	—	8,979
Result before income taxes		**(33,446)**	**(23,767)**
Income taxes		—	—
Net result		**(33,446)**	**(23,767)**

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

Cash flow statement for the year ended December 31,

in CHF thousands	note	2019	2018
Net result attributable to shareholders		(33,446)	(23,767)
Adjustments for:			
Depreciation and amortization		2,469	924
Non-cash personnel expenses		11	47
Financial income		(1,599)	(693)
Financial expenses	15	1,209	320
Changes in working capital:			
Change in prepaid expenses and accrued income		469	(2,435)
Change in trade and other receivables		49,570	(50,811)
Change in trade and other payables		(151)	1,370
Change in contract liability	10	(20,383)	30,291
Change in accrued expenses		126	2,415
Exchange gain/(loss) on working capital positions		619	(33)
Interest paid		(91)	(95)
Other financial expense		(8)	(7)
Net cash used in operating activities		**(1,205)**	**(42,474)**
Proceeds from investments in short term time deposits		56,630	39,973
Investments in short term time deposits		(75,998)	(30,228)
Acquisition of property, plant and equipment		(1,029)	(456)
Acquisition of intangible assets		(833)	(411)
Net proceeds from disposal of property, plant and equipment		—	4
Interest received		1,396	731
Net cash from (used in) investing activities		**(19,834)**	**9,613**
Proceeds from exercise of stock options, net of transaction costs		1,010	392
Payment of lease liabilities	11	(1,237)	—
Net cash from (used in) financing activities		**(227)**	**392**
Exchange gain/(loss) on cash positions		(1,994)	111
Net decrease in cash and cash equivalents		**(23,260)**	**(32,358)**
Cash and cash equivalents at January 1		98,958	131,316
Cash and cash equivalents at December 31	3	**75,698**	**98,958**

See accompanying notes, which form an integral part of these financial statements.
To provide more relevant information, the Group now presents all changes in contract liabilities in the line item change in contract liability as part of changes in working capital. The comparative period contract liability recognized in profit or loss (TCHF 10,355), previously disclosed separately as an adjustment to net result, has been reclassified to conform with the current period presentation. The reclassification has no impact to total operating activities cash flow.

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 (equals 1 CHF).

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, 2019 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).

In order to provide more relevant and reliable information to the users of the financial statements, during 2019, the Company modified the classification of foreign exchange gains and losses to present amounts on a net basis whereas the amounts previously had been presented on a gross basis. Prior period amounts have been reclassified to the current period presentation. The foreign exchange gains and losses as disclosed under financial income and financial expense are netted in the income statement for all periods presented. These reclassifications have not changed the results of operations; please also refer to note 15.

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

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

Property, Plant and Equipment

With the implementation of a new accounting policy on leases, as described later in this note, the Company introduced a new asset classification category under Property, Plan and equipment, Right-of-use assets.

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. Right-of-use assets are depreciated over 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

As a guiding principle of the new 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 as revenue when (or as) the Company satisfies the performance obligation by transferring the good or service to the customer, which generally is over time for upfront payments or at a point in time for milestone payments 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 Company does not immediately transfer a good or a service to the customer, rather the upfront fee consists of an advance payment for future services and the right to access the underlying intellectual property of the Company. For such arrangements, the Company has determined that the promised goods and services are not distinct and are accounted for as one performance obligation. The Company recognizes revenue for this performance obligation over time using a cost based method to measure its progress towards complete satisfaction of the performance obligation. Accordingly, Revenue is recognized over time based on the percentage of actual costs incurred to date relative to the Company's estimate of total costs expected to satisfy the performance obligation. Estimated costs are

reviewed and updated routinely for contracts in progress to reflect any changes of which the Company becomes aware. The cumulative effect of any change in estimate is recorded in the period when the change in estimate is determined.

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 a non-refundable payment and the customer has typically acquired the right to use the underlying intellectual property, without any remaining performance obligations for 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.

Depending on the complexity of the relevant agreements, judgment (for instance in regards to the performance obligations recognized using the cost based method, where revenue is recognized based on costs incurred in relation to the Company's estimate of total estimated costs to complete satisfaction of the underlying performance obligations) is required to reflect the substance of the arrangement in the recognition of revenues. The Company's estimate of total costs to be incurred on the project is based on actual project-related contracts and history of similar contracts of other collaborations as well as industry experience. The Company is required to evaluate whether any changes in operational and/or technical collaboration and project requirements could lead to a change in the timing of estimated project completion or to a change in the timing and/or amount of estimated project costs, and how such changes, if any, impact the recognition of revenue.

The details of the accounting policy are set out below. Under the new accounting policy, revenue is recognized as or 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**
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. For such arrangements, the Company has determined that the promised goods and services are not distinct and are accounted for as one performance obligation. The Company recognizes revenue for this performance obligation over time using a cost based method to measure its progress towards complete satisfaction of the performance obligation.
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 the 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.
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.

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, 2019, an aggregate of 560,250 options were outstanding under the ESOP 2009 and ESOP 2014. All these options are fully vested at the reporting date. Additionally, there were no outstanding options under the ESOP 2007.

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

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
- LTI Plans 2019 established in March 2019

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 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, 2019, 363,165 PSUs and 81,840 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

In the context of the adoption of IFRS 16 for the consolidated financial statements, management performed a reassessment of the lease arrangements and decided to change effective January 1, 2019 the statutory accounting policies for lease accounting under Swiss Law to be consistent with its lease accounting policies in accordance with IFRS 16.

Policy applicable before January 1, 2019
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.

Policy applicable since January 1, 2019
All leasing transactions are recognized on the balance sheet according to a substance over form basis with exception of short-term agreements (up to 12 months) and low value items. This is considered to provide more relevant and reliable information to the users of the financial statements based on an economic view of the lease arrangements. From the adaption of the new accounting policy no transition effect impacts the income statement.

At the transition date, in the opening balance the right-of-use asset was recognized with the same amount than the corresponding lease liability considering the reclassifications and adjustments arising from the new lease accounting policy.

The new policy on leases sets out the principles for the recognition, measurement, presentation and disclosure of leases. The main effect on the Company was that the new policy introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for almost all leases and therefore increased total assets and total liabilities.

On adoption of the new policy on leases , the Company recognized lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the old policy. The leases as recognized relate to the Company's offices in Schlieren, Switzerland. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The incremental borrowing rate applied to the lease liabilities on January 1, 2019, was 0.85%. The reconciliation from operating lease commitments disclosed as at December 31, 2018 to the lease liabilities recognized at 1 January 2019 is as follows:

Reconciliation of the 2018 disclosure to the new accounting policy, as per January 1, 2019

in TCHF

Operating lease commitments disclosed as at 31 December 2018	3,555
Alignment of periods of contractual commitments to expected lease terms under the new accounting policy	341
Exclusion of certain costs not eligible under the new policy	(209)
Gross lease liability as per January 1, 2019 under the new policy	**3,687**
Discounted using the Company's incremental borrowing rate of 0.85% at the date of initial application	(48)
Lease liability recognized as at 1 January 2019	**3,639**
Of which relate to:	
Current lease liability	1,203
Non-current lease liability	2,436

The recognized right-of-use asset in the amount of TCHF 3,639 as at January 1, 2019 relates to real estate and is presented as part of property, plant and equipment in the statement of financial position.

Practical expedients applied

In applying the new accounting policy for the first time, the Company has used the following practical expedients:

a. the use of a single discount rate to all leases that have reasonably similar characteristics
b. reliance on previous assessments on whether leases are onerous
c. the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
d. the accounting for operating leases for which the underlying asset is of low value as low-value leases (the Company applies a threshold of CHF 5,000)
e. the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
f. the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying the former policies in determining whether an arrangement contains a lease.

The Company has various real estate leases. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. The Company is currently not involved in any sale and leaseback transactions.

For contracts entered into, on or after 1 January 2019, the Company, at inception of the contract, assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets (threshold of CHF 5,000) and short-term leases. Short-term leases are leases with a lease term of 12 months or less. For all other leases the Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Subsequently the right-of-use asset is depreciated using the straight-line method over the shorter of the asset's useful life and the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate, as the interest rate implicit in the lease generally cannot be readily determined. Subsequently, the lease liability is measured at amortized cost using the effective interest method. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

During 2019 the Company leased additional space in one of its existing locations. The Company accounted for this addition (in the amount of TCHF 143) as a separate lease. The carrying amount of the right-of-use assets at the end of the reporting period amounted to TCHF 2,535 (please also see note 6).

For the period ended	**December 31, 2019**
in TCHF	
Depreciation expense for the right-of-use asset	1,247
Interest expense on lease liabilities as presented under financial expense	27
Expense related to lease to short-term leases as presented under operating expenses	2
Expense related to leases of low value assets as presented under operating expenses	—
Total cash outflow in relation to leases	1,237

Contractual maturities of financial liabilities at December 31, 2019

in TCHF	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total contractual cashflows	Carrying Amount lease liabilities
Lease liabilities	1,284	1,284	—	2,568	2,545

Some property leases contain variable payment terms that are linked to a consumer price index. The lease liability for those leases was initially measured using the consumer price index as at the commencement date. The Company remeasures the lease liability if there is a change in future lease payments resulting from a change in the index.

Extension and termination options are included in a number of real estate leases. These terms are used to maximize operational flexibility in terms of managing contracts. The options to extend are held by the Company and the termination options are held both by the Company and the lessor. As of January 1, 2019, and December 31, 2019, the Company has determined it is not reasonably certain that it would exercise any of these options and for that reason these optional payments have not been included in the measurement of the lease liability. The earliest contractual termination date for both the lessor and the lessee on the major real estate lease is December 31, 2020.

The Company does not provide residual value guarantees and does not have any leases not yet commenced to which the lessee is committed.

The Company is presenting lease liabilities separately under current and non-current liabilities.

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

Balance at December 31 in CHF thousands	**2019**	**2018**
Cash and cash equivalents denominated in CHF	11,450	33,574
Cash and cash equivalents denominated in EUR	12,803	15,207
Cash and cash equivalents denominated in USD	47,206	50,177
Cash and cash equivalents denominated in GBP	4,239	—
Total cash at bank and at hand	**75,698**	**98,958**
Short-term time deposits in USD	19,368	—
Total short-term time deposits	**19,368**	**—**

The short-term time deposits in USD at December 31, 2019 contain one position with a major Swiss bank.

4. Other short-term receivables

in CHF thousands	**2019**	**2018**
Value added tax	653	835
Withholding tax	486	256
Other receivables	1,162	1,183
Balance at December 31	**2,301**	**2,274**

5. Prepaid expenses and accrued income

in CHF thousands	**2018**	**2018**
Prepayments	2,277	2,746
Accrued income	204	—
Balance at December 31	**2,481**	**2,746**

6. Property, plant and equipment

in CHF thousands	2019	2018
Lab equipment	1,493	1,174
Office equipment	60	95
IT hardware	71	61
Leasehold improvements	81	125
Other property, plant and equipment	**1,705**	**1,455**
Right-of-use assets	2,535	—
Property, plant and equipment at December 31	**4,240**	**1,455**

7. Intangible assets

in CHF thousands	2019	2018
IT software	772	382
Intangible assets at December 31	**772**	**382**

8. Other short-term payables

in CHF thousands	2019	2018
Social security	392	537
Payables to subsidiary	101	—
Balance at December 31	**493**	**537**

9. Accrued expenses

in CHF thousands	2019	2018
Accrued project costs	3,343	2,982
Accrued payroll and bonuses	2,693	3,020
Other	474	384
Balance at December 31	**6,510**	**6,386**

10. Contract liability

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

in CHF thousands	Contract liability
Expected revenue recognition in year one after balance sheet date	18,310
Expected revenue recognition in year two after balance sheet date	9,530
Expected revenue recognition in year three after balance sheet date	487
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, 2019	**28,327**

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**

An amount of TCHF 20,383 included in the contract liability at December31, 2018 has been recognized as revenue in 2019. Please also refer to note 12.

11. Shareholder's equity

Ordinary share capital
As of December 31, 2019, the Company's share capital consisted of 21,601,192 fully paid registered shares with a par value of CHF 0.10 each. 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. 372,599 new registered shares were issued in 2019 largely as a result of the option exercises and the vesting of Performance Share Units or "PSU" and Restricted Share Units or "RSU", from the PSU and RSU plans of 2016. The corresponding capital increase was registered with the commercial register on February 10, 2020.

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, 2019 the Company's share capital was allowed to be increased by an amount not to exceed CHF 203,926 through the issuance of up to 2,039,258 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 2019, the share capital was increased out of conditional capital. As a result, the available conditional capital was reduced by CHF 37,260 from CHF 241,186 to CHF 203,926.

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.

In 2019, the cash proceeds from the exercise of share options and the vesting of performance share units ("PSUs") amounted to TCHF 1,020 and was all serviced from the issuance of new shares (conditional share capital).

Reserves from capital contributions
From the amount of TCHF 161,859 as presented in the balance sheet as of December 31, 2019, in September 2019 reserves from capital contributions as of December 31, 2017 in the amount of TCHF 149,623 were confirmed by the Federal Tax Administration. For December 31, 2018 and 2019 the amount of the reserves from capital contributions has not yet been confirmed by the Federal Tax Administration.

Capital loss situation in accordance with the Article 725 para 1 CO

The Company only financial statements for the year ended December 31, 2019 present that one-half of the share capital and the legal capital reserves (taking into consideration the totality of the reserves from capital contributions) are no longer covered pursuant to Article 725 para. 1 CO. In order to address this capital loss situation, Molecular Partners will propose to the shareholders at the upcoming Annual General Meeting a reclassification of the reserves from capital contributions in the amount of TCHF 148,000 from the non-blocked legal capital reserves to the free reserves.

12. Revenues and entity-wide disclosures

The Company assesses and estimates the progress of its projects with alliance partners at each reporting date. When the cost based method is applied, the Company recognizes revenue based on the ratio of the associated costs incurred to date and the total forecasted cost to satisfy the performance obligation.

With regard to the license and collaboration agreement with Amgen entered into in December 2018, the Company initially expected its estimated inputs toward satisfaction of the performance obligation to be expended evenly throughout the performance period and thus considered it appropriate to recognize revenue on the same basis.

In 2019, the overall project completion timing was extended. Additionally, in the fourth quarter of 2019, patient dosing relating to the project began, providing new information regarding the expected timing of estimated project costs to be incurred to satisfy the performance obligation. The Company determined that the inputs would no longer be evenly expended throughout the performance period and as such, no longer expect revenue to be recognized evenly over the contract period under the cost based method.

These changes to the Company's estimate resulted in the Company recording TCHF 7,451 less revenue for the twelve month period ended December 31, 2019 relative to the original assessment as determined in December 2018 . The total amount of revenue expected to be recognized for the project remains unchanged. The remaining unrecognized transaction price at December 31, 2019

of TCHF 28,327 will be recognized in line with the recognition of estimated expenses to satisfy the performance obligation. During the twelve month periods ended December 31, 2019 and 2018, the Company recognized revenues as disclosed in the table below.

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	**2019**	**2018**
Revenues USA	20,383	10,355
Total revenues	**20,383**	**10,355**

Analysis of revenue by major alliance partner

in CHF thousands, for the years ended December 31	**2019**	**2018**
Allergan Inc., USA	—	9,440
Amgen Inc., USA	20,383	915
Total revenues	**20,383**	**10,355**

In December 2018, the Company entered into a License and Collaboration Agreement with Amgen for the clinical development and commercialization of MP0310 / AMG 506. 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 / AMG 506 to develop and commercialize MP0310 / AMG 506. The parties will jointly evaluate MP0310 / AMG 506 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 / AMG 506.

The Company has 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 using the cost based method which is measured by actual costs incurred in relation to the Company's best estimate of total expected costs to satisfy the performance obligation. This costs based method is subject to the assessment of the management of the Company. The Company determined using an over time cost based method to measure its progress most faithfully depicts the inputs 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.

The presented revenues from Allergan for 2018 arose 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 presented for the period ended as of December 31, 2018, resulting from the transition effect in relation of the adoption of the revenue accounting policy as of January 1, 2018 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.

13. Research and development expenses

in CHF thousands	**2019**	**2018**
Research consumables and costs	(20,315)	(13,500)
Personnel expenses	(17,661)	(17,041)
Depreciation and amortization	(2,088)	(824)
Research and development expenses charged from subsidiary	(867)	—
Intellectual property	(568)	(200)
Facility expenses	(471)	(1,450)
Other expenses	(189)	(804)
Royalties and license fees	(50)	(2,102)
Total year ended December 31	**(42,209)**	**(35,921)**

14. Selling, general and administrative expenses

in CHF thousands	**2019**	**2018**
Personnel expenses	(6,391)	(3,736)
Other expenses	(5,192)	(3,541)
Depreciation and amortization	(381)	(100)
Facility expenses	(46)	(176)
Total year ended December 31	**(12,010)**	**(7,553)**

15. Financial income

in CHF thousands	**2019**	**2018**
Interest income on loans and receivables	1,599	693
Foreign exchange gain (1)	—	—
Total year ended December 31	**1,599**	**693**

Financial expense

in CHF thousands	2019	2018
Foreign exchange loss (1)	(1,110)	(218)
Other financial expenses	(99)	(102)
Total year ended December 31	**(1,209)**	**(320)**

(1) The foreign exchange gain of TCHF 111 for the twelve months in 2018 was reclassified to and netted with the gross foreign exchange loss of TCHF 329 to a net foreign exchange loss of TCHF 218.

16. Full-time equivalents and headcount

Full-time equivalents and head count

	2019	2018
Average number of full-time equivalents	126.0	113.5
Full-time equivalents at year end	133.2	117.7
Headcount at year end	145	129

17. Commitments

Operating lease commitments
As at the end of 2019 the Company had four lease contracts in place for its facilities in Schlieren, Switzerland. From January 1, 2019 the Company has recognized right-of-use assets and lease liabilities for these leases, that were classified as operating lease under the former lease accounting policy, except for short-term leases and low-value lease. See note 2 on the implementation as per January 1, 2019 of the new accounting policy on leases.

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

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

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

Capital commitments
As of December 31, 2019 and 2018, the Company did not have any capital commitments.

18. Major shareholders

As of December 31, 2019, 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	**2019**	**2018**
Hansjoerg Wyss	*9.62%*	*9.70%*
Essex Woodlands Health Health Ventures VIII, LLC	*7.63%*	*7.70%*
UBS Fund Management (Switzerland) AG[1]	*5.16%*	*3.00%*
Federated Investors Inc.[2]	*5.14%*	*—%*
Andreas Plückthun[3]	*4.80%*	*4.84%*
Pictet Asset Management (Direction de Fonds)	*4.06%*	*4.10%*
Johnson &Johnson	*4.15%*	*4.18%*
Michael Tobias Stumpp	*3.32%*	*3.34%*
Patrick Amstutz	*3.12%*	*3.15%*
Patrik Forrer4	*3.03%*	*2.99%*
GAM Holding AG	*3.03%*	*3.05%*
Index Ventures Associates IV Limited	*—%*	*8.06%*

[1] On February 19, 2020, UBS Fund Management notified that they had fallen below the 5% threshold.
[2] On February 14, 2020, Federated Investors, Inc. notified its name change to Federated Hermes, Inc.
[3] On February 7, 2020, Andreas Plückthun notified that he had fallen below the 3% threshold.
[4] On January 25, 2020, Patrik Forrer notified that he had fallen below the 3% threshold.

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, 2019, 21,228,593 common shares, which is the share capital registered with the commercial registry on December 31, 2018 (December 31, 2018, 21,044,062 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	32,649	570
Total grants to the members of the management	94,514	1,747
Total grants to other employees	163,931	3,054
Total grants in 2019	**291,094**	**5,371**

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**

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	3,883	10,047	70,000
Steven H. Holtzman	3,883	10,047	20,000
William A. Lee	18,326	10,047	20,000
Petri Vainio	3,883	10,047	
Gwen Fyfe	—	10,047	
William Burns	—	20,069	—
Total Board of Directors as of December 31, 2019	**29,975**	**70,304**	**110,000**

Management Board	Shares	PSUs	Options
Patrick Amstutz	695,947	39,891	70,080
Michael Tobias Stumpp	754,446	26,887	36,070
Nicolas Leupin	—	20,120	—
Andreas Emmenegger	239,295	26,887	36,070
Andreas Harstrick	8,184	—	—
Total Management Board as of December 31, 2019	**1,697,872**	**113,785**	**142,220**

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**

21. Auditing and additional fees as incurred from the Statutory Auditor

in CHF thousands	2019	2018
Auditing fees	183	158
Other assurance related services	192	822
Tax related services	—	17
Balance at December 31	**375**	**997**

22. Events After Balance Sheet Date

These financial statements were approved for issuance by the Board of Directors on March 18, 2020.

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.

Proposals to the Annual General Meeting for the Appropriation of the Net Loss and the Reserves

1. The Board of Directors proposes to carry forward the net loss of TCHF 33,446 thereby bringing the loss carried forward position from TCHF 65,823 to TCHF 99,269:

	TCHF
Loss carried forward from 2018	(65,823)
Net result of the year	(33,446)
Cumulative losses	**(99,269)**
Result to be carried forward for 2019	**(99,269)**

2. The Board of Directors further proposes to transfer TCHF 148,000 from the subposition "Reserves from capital contributions" within the legal capital reserves to a new subposition "Reserves from capital contributions" within the free reserves.

Subject to the approval of the proposed appropriation of the net loss and the reserves by the Annual General Meeting, the respective reserves and cumulative losses will develop as follows:

TCHF	**Legal capital reserves**	**Free reserves and cumulative losses**	
	Reserves from capital contributions	Reserves from capital contributions	Cumulative losses
Amounts according to balance sheet as of 31 December 2019	161,859	—	(99,269)
Transfer according to the proposal of the Board of Directors to the Annual General Meeting	(148,000)	148,000	—
Amounts after proposed transfer	**13,859**	**148,000**	**(99,269)**

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, 2019, 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 120 to 139) for the year ended December 31, 2019 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: 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: License and collaboration agreement with Amgen

Key Audit Matter

In December 2018, the Company entered into a license and collaboration agreement with Amgen Inc. As part of the agreement, Molecular Partners was entitled to receive an upfront payment of $50 Mio, which was received in January 2019.

In 2019, the total revenue recognized related to the collaboration agreement amounted to MCHF 20,383 The related contract liability as of December 31, 2019 amounted to MCHF 28,327.

In 2019, the overall project completion timing was extended. Additionally, in the fourth quarter of 2019, patient dosing relating to the project began, providing new information regarding the expected timing of estimated project costs to be incurred to satisfy the performance obligation. The Company determined that the inputs would no longer be evenly expended throughout the performance period and as such, no longer expect revenue to be recognized evenly over the contract period under the cost based method.

The Company's estimate of total costs to be incurred on the project is based on actual project-related contracts and history of similar contracts of other collaborations as well as industry experience. Estimated costs are reviewed and updated regularly to reflect any changes of which the Company becomes aware. The cumulative effect of any change in estimate is recorded in the period when the change in estimate is determined.

The Company's estimation of the progress of the project, including assessing whether the estimated future costs to be incurred are appropriate, requires complex judgment. Specifically, the Company is required to evaluate whether any changes in operational and/or technical collaboration and project requirements could lead to a change in the timing of estimated project completion or to a change in the timing and/or amount of estimated project costs, and how such changes, if any, affect the recognition of revenue.

Our response

Our audit procedures included, amongst others, assessing the revenue recognition methodology applied by the Company for the license and collaboration agreement. More specifically,

- We obtained the Company's documented accounting analysis in relation to the revenue recognized.
- We assessed the Company's total estimated project costs by:
  - Obtaining the Company's collaboration project plan and budget supporting the actual project progress and revenue recognized in the period.
  - Performing inquiry of project leads to assess the Company's assertions made in the accounting analysis, collaboration project plan, and budget.
  - Obtaining the minutes of the joint collaboration project steering committee to assess the project progress to date and forecasted project completion.
  - Evaluating the Company's assessment of project costs incurred to date relative to the Company's estimate to complete collaboration project budget. For the costs incurred to date, we agreed to supporting evidence obtained on a sample basis.
  - Obtaining an understanding of how the Company developed the collaboration budget and the methodology used to determine the estimated remaining expenses over the duration of the project. We also obtained evidence supporting the future estimated cost amounts included in the project budget.
  - Understanding and evaluating the timing and appropriateness of updates to the estimate based on new information, and agreeing such information to the steering committee minutes and the patient dosing schedule.
- We recalculated the contractual revenue recognized in 2019 and the related contract liability as of December 31, 2019.
- We evaluated the adequacy of the Company's disclosures of key assumptions and amounts recorded in relation to the license and collaboration agreement.

For further information on revenue recognition: License and collaboration agreement with Amgen refer to the following:

- Note 2 Summary of Significant Accounting Policies, Revenue Recognition
- Note 10 Contract Liabilities
- 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 further confirm that the proposed appropriation of the net loss and the reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

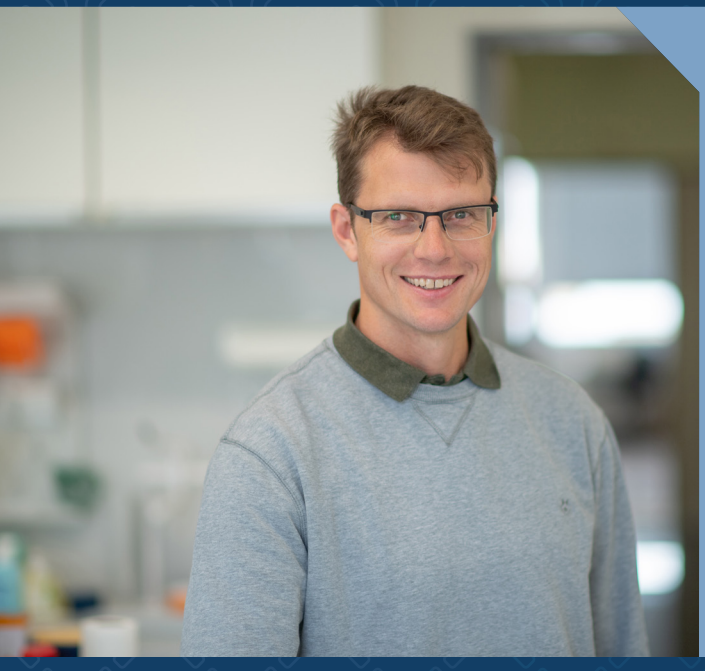
Furthermore, we draw attention to the fact that half of the share capital and legal reserves are no longer covered (article 725 para. 1 CO). In this regard, we refer to note 11 to the financial statements.

KPMG AG

Michael Blume
Licensed Audit Expert
Auditor in Charge

Judith Herold
Licensed Audit Expert

Zurich, March 18, 2020



"My favorite part about Molecular Partners is working together within a team of specialists and seeing the direct impact of my daily work on the development of drugs."

Andreas

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.

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