Molecular Partners AG

Annual Report 2017

MOLECULAR partners

Delivering DARPin® Product Candidates
Powering Future Medicines

At a Glance: Key Milestones, Company Profile & Contents

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

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

2017 R&D, Partnership & Team Milestones

- **MP0250**
  - Phase 2 in multiple myeloma: Promising initial safety and efficacy data from the ongoing Phase 2 study of MP0250
  - MP0250 in EGFR-mutated non-small cell lung cancer (EGFR mut NSCLC): Following FDA approval of IND for Phase 1b/2 study on track to dose first patient in the coming weeks
  - Phase 1 study marks a major milestone for the DARPin® Platform, demonstrating the safety, low immunogenicity and convenience of systemic DARPin® candidates
- **MP0274**
  - First patients dosed in Phase 1 study in patients with HER2-positive solid tumors
- **Immuno-oncology**
  - MP0310 nominated as first DARPin® development candidate in the company's early-stage proprietary immuno-oncology portfolio, with focus on tumor- restricted immune-cell activation
- **Abicipar**
  - In May 2017, Allergan completed patient recruitment in both wet age-related macular degeneration (wet AMD) Phase 3 studies four months ahead of schedule and is on track for one-year Phase 3 efficacy data in H2 2018
  - Allergan expects to start Phase 3 studies in DME (diabetic macular edema) in H2 2018
- **Ophthalmology**
  - Allergan exercised options for the development of three additional DARPin® product candidates
- **Company's first R&D Day in New York:** R&D and pipeline update presented
- **Team**
  - William "Bill" Burns, former CEO of Roche Pharmaceuticals, elected to Board of Directors; to be nominated for election as Chairman at the 2018 Annual General Meeting (AGM)
  - Jörn Aldag, current Chairman, Andreas Plückthun, Board member and Jeffrey Buchalter, Board member have indicated their wish not to stand for re-election at the 2018 AGM
  - Gwen Fyfe, former VP Oncology Development at Genentech, elected to the Board of Directors, further strengthening the company's footprint in oncology
  - Patrick Amstutz appointed Chief Executive Officer and elected to the Board of Directors
- **Talent base** with 108 full-time employees (+5%), thereof 90% in R&D activities, with further build-out of clinical team in oncology

2017 Financial Milestones

- 2017 financial performance in-line with expectations and guidance
- Ongoing strong financial position with CHF 141.1 million in cash and short-term time deposits as of December 31, 2017 – Financed into 2020
- Net cash used in operating activities of CHF 40.0 million in 2017, reflecting ongoing scale-up of R&D, pipeline growth and progress of proprietary clinical programs
- Operating loss of CHF 25.8 million and net loss of CHF 25.4 million in 2017
- Venture capital holdings reduced from 42% to 23%; shareholder base diversified as private investors acquired those shares in secondary block trades

Company Profile

Molecular Partners AG is a clinical-stage biopharmaceutical company that is developing a new class of therapies known as DARPin® therapies. With a management team that includes some of the founding scientists, 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 pre-clinical development and several more in the research stage, with a current focus on ophthalmology and oncology. The company establishes research and development partnerships with leading pharmaceutical companies and is backed by established biotech investors.

For more information regarding Molecular Partners AG, go to: **www.molecularpartners.com**.

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To Our Shareholders:

We continue to make significant progress in advancing our portfolio of DARPin® product candidates. With promising clinical data in oncology and attainment of key milestones in studies in ophthalmology, our accomplishments illustrate the promise of the DARPin® Difference.

In 2017, we reached several milestones that further elucidated the promise of the "DARPin® Difference", translating novel modes of action of innovative therapeutic candidates into potential patient benefit. In addition to continued progress with our DARPin® pipeline, both in oncology and immuno-oncology, our strategic partner Allergan completed patient recruitment in the abicipar Phase 3 trials ahead of schedule. For our lead oncology asset, MP0250, we reached a key milestone by presenting positive initial safety and efficacy data from our ongoing Phase 2 study in patients with relapsed refractory multiple myeloma (rr MM). We are also on track to initiate dosing in our Phase 2 trial of MP0250 in EGFR-mutated non-small cell lung cancer (NSCLC), a study that will allow us to test the potential of this promising drug in patients with solid tumors. Additionally, we welcomed Gwen Fyfe and Bill Burns to our Board of Directors; their expertise and experience support the evolution of Molecular Partners from a DARPin® technology platform to a clinical oncology product company.

With the one-year abicipar Phase 3 efficacy data read-out expected later this year, along with additional safety and efficacy data for MP0250 in patients with rr MM and EGFR-mutated NSCLC, 2018 promises to be a transforming year for Molecular Partners, one that will mark a new chapter in our continuing story of substantial growth and success. In the meantime, we are pleased to report on our ongoing progress with several initiatives, each of which underscores our commitment to advancing modern medicine and improving the treament of serious diseases.

Left to right: **A. Emmenegger, Dr. Stumpp, Dr. Harstrick, Dr. Amstutz**

In 2017, Molecular Partners attained several important milestones in the research and development of novel compounds generated from our DARPin® technology platform.

- We presented promising initial safety and efficacy data from the ongoing Phase 2 trial of our lead oncology asset, MP0250, in patients with rr MM. This is the first demonstration of multi-DARPin® activity in a defined indication.
- We submitted an Investigational New Drug (IND) application to the US Food and Drug Administration (FDA) for a Phase 1b/2 trial of MP0250 in combination with osimertinib (Tagrisso®) in patients with EGFR-mutated NSCLC. The FDA subsequently approved the IND, putting Molecular Partners on track to dose the first patient in this study in the coming weeks.
- We completed enrollment into the dose-expansion cohorts of the Phase 1 study of MP0250 – our first oncology study, which has demonstrated the safety, low immunogenicity and convenience of systemic DARPin® candidates.
- We dosed the first patients in a Phase 1 study of MP0274, a proprietary, multi-DARPin® drug candidate for the treatment of HER2-positive solid tumors.
- We nominated MP0310 as the first DARPin® development candidate in our early-stage, proprietary immuno-oncology portfolio, focusing on tumor-restricted immune-cell activation.
- Our strategic partner Allergan completed patient recruitment in each of two pivotal Phase 3 trials of abicipar in wet age-related macular degeneration (AMD) four months ahead of schedule. Allergan expects to present one-year Phase 3 efficacy data in the second half of 2018, and plans to initiate Phase 3 studies in patients with diabetic macular edema (DME) before the end of this year. Both wet AMD and DME are leading causes of blindness in the western world. Allergan also excercised options for the development of three additional DARPin® product candidates.
- At the first Molecular Partners R&D Day in New York in November 2017, our investigators presented an extensive update on our R&D initiatives and progress with our pipeline of DARPin® product candidates.
- We maintained our strong financial position as we incurred increased development expenses, reflecting the ongoing scale-up of our R&D activities, pipeline growth and the progress of our proprietary clinical programs, in line with management's expectations and guidance.

2017 Milestones

The continued development of MP0250, our most advanced systemic DARPin®, was one of the major highlights of 2017. The ongoing Phase 2 study of MP0250 is evaluating this agent in combination with bortezomib (Velcade®) – a backbone of therapy for relapsed refractory multiple myeloma (rr MM) – and dexamethasone in patients with rr MM who have failed standard therapies; this study is being conducted at centers in Germany, Poland and Italy. In January 2018, Molecular Partners presented data from the first eight patients within the first dose cohort (8 mg/kg), which showed a favorable initial safety profile as well as promising initial responses. No dose-limiting toxicities (DLTs) have been reported. Of seven response-evaluable patients who had received MP0250 in combination with bortezomib and dexamethasone, three patients showed a partial response (PR; equivalent to >90% urinary M-protein reduction) and one patient exhibited a minor response (MR; >50% reduction). This is the first demonstration of multi-DARPin® activity in a defined indication.

Molecular Partners looks forward to evaluating additional patients at higher doses of MP0250 in combination with bortezomib and dexamethasone. The Company plans to present additional safety and efficacy data before year-end 2018, followed by complete efficacy data in 2019.

In the third quarter of 2017, Molecular Partners submitted to the US Food and Drug Administration (FDA) an Investigational New Drug (IND) application for a Phase 1b/2 study of MP0250 in combination with osimertinib (Tagrisso®) in patients with EGFR-mutated non-small cell lung cancer (NSCLC) previously treated with osimertinib. The FDA has approved the IND and enabled the Company's first systemic oncology study in the United States. This second Phase 2 clinical trial of MP0250 is the first study of this agent in a solid tumor indication. Molecular Partners is on track to dose the first patient in this trial in the coming weeks. The Company expects to present initial safety data later this year and initial efficacy data in 2019.

Also in 2017, Molecular Partners completed enrollment into the dose-expansion cohorts of the Phase 1 study of MP0250, which evaluated a shorter infusion duration and a longer dosing interval. The data from dose-expansion cohorts are consistent with the results from the completed dose-escalation part of the Phase 1 study, which were presented at the 2016 European Society of Medical Oncology (ESMO) congress in Copenhagen.

These data marked an important milestone in the development of DARPin® drugs as systemic therapy in humans. In the Phase 1 study, MP0250 was shown to be well tolerated, with a side effect profile consistent with profound inhibition of the VEGF pathway. The results show that DARPin® proteins, which bind to human serum albumin (HSA) to increase systemic half-life and potentially enhance tissue penetration, can be engineered to have a systemic half-life of around two weeks. Further, there were no clearing or neutralizing anti-drug antibodies detected. The Phase 1 findings thus underscore the potential value of MP0250 as a new therapeutic for various tumor types and are a strong validation of the DARPin® platform.

In the fourth quarter of 2017, we initiated enrollment in the Phase 1 study of MP0274, a multi-specific DARPin® candidate being developed for the treatment of HER2-positive solid tumors. MP0274, our second-leading oncology drug candidate, acts via a completely new mode of action as compared to current standard-of-care antibodies. MP0274 binds HER2 as a molecular "handcuff," inducing a profound inhibition of specific downstream signaling pathways; MP0274 directly kills HER2-addicted tumor cells through the induction of apoptosis, without depending on antibody-dependent cell-mediated cytotoxicity (ADCC). The first patients have been dosed in the Phase 1 trial, and possible signs of pharmacological activity were seen in one patient at a very low dose of MP0274. Consequently, Molecular Partners is reviewing and amending the Phase 1 protocol to accommodate more patients at lower doses. We expect initial safety data from this study in the fourth quarter of 2018, with the first efficacy data expected in 2019.

In November 2017, at the Company's first R&D Day in New York, Molecular Partners disclosed the development of MP0310, the first early-stage immuno-oncology (I/O) compound originating from the Company's DARPin® modular toolbox. This early-stage proprietary I/O portfolio focuses on tumor-restricted immune-cell activation, by which immune checkpoint inhibitors block tumors from escaping the effects of the body's immune cells. MP0310 is the first of many potential DARPin® I/O candidates to advance into pre-clinical development.

In ophthalmology, we eagerly await the presentation by our strategic partner Allergan of one-year efficacy data from the Phase 3 trial of abicipar in patients with wet age-related macular degeneration (wet AMD). Baldo Scassellati Sforzolini, MD, PhD, MBA, Senior Vice President of Clinical Development at Allergan, gave a comprehensive update on abicipar, our most advanced DARPin® compound and our first partnered product candidate. Allergan expects to present the Phase 3 wet AMD data in the second half of 2018, and to initiate Phase 3 studies of abicipar in patients with diabetic macular edema (DME) at around the same time.

Our partnered ophthalmology programs were further bolstered by the January and February 2018 announcements that Allergan has exercised all three options to develop and commercialize DARPin® product candidates from its 2012 discovery alliance agreement with Molecular Partners, which the two companies entered into to spur the development of novel multi-DARPin® molecules for diseases with high unmet medical need. As a result of the options exercise, Molecular Partners granted Allergan an exclusive license to the selected DARPin® molecules for use in ophthalmologic indications. The agreement thus broadens the two companies' initial collaboration on abicipar and entitles Molecular Partners to certain success-based development, regulatory and sales milestone payments aggregating up to USD 960 million, as well as tiered royalty payments (up to low double-digit percentage range) on any future product sales. Allergan will be responsible for all future development costs.

As noted above, on November 9, 2017, Molecular Partners held its first R&D Day, entitled "The DARPin® Difference — Offering Patients a New Dimension of Protein Therapeutics". The event, held in New York, drew an audience of several dozen institutional investors, sell-side analysts, investment bankers, and business development professionals who were briefed on the continued progress of Molecular Partners' robust pipeline of therapeutic candidates in oncology and ophthalmology as well as the expansion of the Company's early-stage immuno-oncology portfolio. In a series of presentations, Molecular Partners' management and several prominent medical and scientific experts highlighted the scientific rationale and the potential clinical impact of the DARPin® approach, as well as the firm's continued forward integration and evolution towards becoming a fully integrated biopharmaceutical company.

Financial Information

Molecular Partners remains solidly funded to capture upcoming value inflection points. In the financial year 2017, Molecular Partners recognized total revenues of CHF 20.0 million (2016: CHF 23.0 million) and incurred

“During 2017, Molecular Partners’ financial position continued to develop in line with our expectations,” said Andreas Emmenegger, Chief Financial Officer of Molecular Partners. “Our strong cash position provides us with the required financial flexibility and strong negotiation position to achieve multiple value-creating inflection points into 2020.”

total expenses of CHF 45.8 million (2016: CHF 42.5 million). This led to an operating loss of CHF 25.8 million for 2017 (2016: operating loss of CHF 19.5 million). The Company recognized a net financing income of CHF 0.4 million in 2017, primarily representing interest income on the cash and time deposit positions (2016: CHF 0.9 million, mainly driven by foreign exchange effects). This resulted in a 2017 net loss of CHF 25.4 million (2016: net loss of CHF 18.6 million).

As of December 31, 2017, the Company's cash balance (including short-term time deposits) was reduced by CHF 39.1 million, compared to year-end 2016, to a level of CHF 141.1 million (December 31, 2016: CHF 180.2 million). The cash balance remains on a very solid level and the Company's balance sheet continued to be debt-free in 2017. The total shareholders' equity position decreased year-over-year to CHF 116.7 million as of December 31, 2017 (December 31, 2016: CHF 135.8 million).

As of December 31, 2017, the Company employed 108 full-time employees (FTEs), with approximately 90% of employees in R&D (December 31, 2016: 103 FTEs).

In terms of shareholder base, in the first half of 2017, Molecular Partners disclosed a substantial reduction in the number of the Company's shares held by pre-IPO investors. Several private investors acquired these shares in secondary block trades. As of the end of 2017, venture capital investors own 23% of the Company's share capital, versus 42% at the end of 2016.

"During 2017, Molecular Partners' financial position continued to develop in line with our expectations," said Andreas Emmenegger, Chief Financial Officer of Molecular Partners. "Our strong cash position provides us with the required financial flexibility and strong negotiation position to achieve multiple value-creating inflection points into 2020."

Board of Directors

Molecular Partners made several important additions to its Board of Directors in 2017, underscoring the Company's increased focus on oncology. At the Company's Extraordinary General Meeting in October 2017, shareholders elected William (Bill) Burns, former Chief Executive Officer (CEO) of Roche Pharmaceuticals, and Patrick Amstutz, Ph.D., CEO and co-founder of Molecular Partners, as new members of the Board of Directors.

The Board further appointed Bill Burns Vice-Chairman and will nominate him for election as Chairman of the Board of Directors at the 2018 Annual General Meeting. Bill Burns brings to Molecular Partners vast experience in drug development and commercialization, particularly in oncology, and extensive knowledge of pharmaceutical industry operations. He held various executive positions at Roche for 28 years, culminating in his nomination to the position of CEO of Roche Pharmaceuticals and board seats at Roche, Genentech and Chugai Pharmaceuticals. Since 2010, he has been a Senior Independent Non-Executive Director of Shire Pharmaceuticals plc, a post from which he will step down in April 2018. Bill Burns has also been Vice-Chairman of Mesoblast since 2016. Additionally, he is a Trustee of the Institute of Cancer Research in London, and a member of the Scientific Advisory Board of the Center for Integrated Oncology of the University of Cologne/Bonn.

Patrick Amstutz served as Chief Business Officer and Chief Operating Officer of Molecular Partners before the Board of Directors appointed him as CEO.

At the Molecular Partners Annual General Meeting in May 2017, Gwen Fyfe, M.D., was elected as a new member of the Board of Directors. A board-certified pediatric oncologist, Gwen Fyfe has more than 20 years of drug development experience in the oncology sector. From 1997-2009 she held various positions at Genentech, rising to the level of vice president of Oncology Development. She played an important role in developing Genentech's approved antibody therapies Rituxan®, Herceptin®, Avastin® and Tarceva®. Since leaving Genentech in 2009, Gwen Fyfe has been a consultant for a variety of venture capital firms and biotechnology companies. A recognized expert in the broader oncology community, Gwen Fyfe has been an invited member of Institute of Medicine panels, National Cancer Institute working groups and grant committees, and American Society of Clinical Oncology (ASCO) oversight committees. Her addition to the Board of Directors thus strengthens the Molecular Partners footprint in oncology.

Additionally, current Board Chairman Jörn Aldag and Board Members Andreas Plückthun and Jeffrey H. Buchalter have indicated their wish not to stand for re-election at the 2018 Annual General Meeting. A member of the Board of Directors and Chairman since 2007, Jörn Aldag also chaired the Company's Nomination and Compensation Committee. During his tenure on the Board, he has successfully guided Molecular Partners

through all steps of the Company's growth, helping Molecular Partners build a strong pipeline of product candidates and securing several rounds of financing, including the Company's initial public offering (IPO) in 2014.

A co-founder of Molecular Partners, Prof. Andreas Plückthun has been a member of the Board of Directors since the Company's inception in 2004. The DARPin® technology originated from his laboratory, and Prof. Plückthun has significantly contributed to the Company's transition from a technology platform to a clinical oncology Company. Molecular Partners will surely continue to benefit from the scientific input of Prof. Plückthun.

Jeffrey Buchalter has been a member of the Molecular Partners Board of Directors since 2016 and a member of the Audit and Finance Committee. He materially contributed to the Company's development with his broad managerial expertise and knowledge of the oncology marketplace.

The Molecular Partners Board of Directors and management team thank these individuals for their significant contributions and dedication during their years of service on the Board.

Business Outlook and Priorities for 2018 and Beyond

For the Company's proprietary **oncology** pipeline, our expectations for 2018 include reporting additional safety data and initial efficacy data from the Phase 2 study of MP0250 in patients with relapsed refractory MM. We also expect initial safety data from the Phase 1b/2 study of MP0250 in EGFR-mutated NSCLC in 2018. For MP0274, the proprietary, single-pathway DARPin® drug candidate for the treatment of HER2-positive cancer, we expect initial safety data in the fourth quarter of 2018 and first efficacy data in 2019.

Advancement of our **immuno-oncology pipeline** will continue to be a priority in 2018. This year we plan to present further research and pre-clinical data for MP0310, our first I/O DARPin® candidate. As we continue to advance our programs in this highly promising avenue of medical research, we will increasingly focus on activating agonists in a tumor-restricted manner.

In **ophthalmology**, we will continue to support our strategic partner Allergan in advancing abicipar through Phase 3 studies in patients with wet AMD, and in initiating the Phase 3 studies of abicipar in patients with DME. Allergan is on track for presenting one-year Phase 3 efficacy data in wet AMD in the second half of 2018 and anticipates launching abicipar in this indication in the year 2020.

For the full year 2018, at constant exchange rates, we expect total expenses of CHF 50-60 million, of which around CHF 7 million will be non-cash effective costs for share-based payments, IFRS pension accounting and depreciations. However, 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.

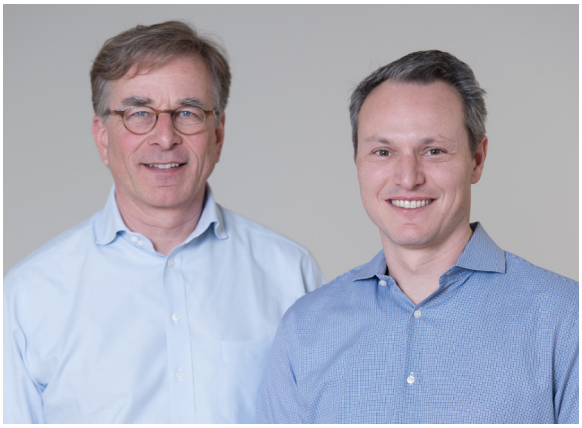
Thank You to Our Supporters

We extend our deep gratitude to our employees, our strategic partners, our investors, and the researchers and patients who have contributed to our steady progress. The advancement of our investigational DARPin® therapies throughout 2017 would not have been possible without their commitment and support, which leave us well-positioned for further success in 2018 and beyond. Each data readout from our clinical studies provides additional validation for the Molecular Partners technology platform, bringing us closer to offering the "DARPin® Difference" as a potential solution to multiple patient needs. We look forward to sharing additional news of our progress throughout the coming year.

Sincerely,

Jörn Aldag
Chairman of the Board

Patrick Amstutz
Chief Executive Officer



J. Aldag (left), P. Amstutz (right)

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 Annual 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 and FTE data)*	**FY 2017**	**FY 2016**	**Change**
Total revenues	**20.0**	**23.0**	**-3.0**
R&D expenses	-37.4	-35.2	-2.2
G&A expenses	-8.4	-7.3	-1.1
Total operating expenses (incl depr. & amort.)	**-45.8**	**-42.5**	**-3.3**
Operating result	**-25.8**	**-19.5**	**-6.3**
Net finance result	0.4	0.9	-0.5
Income taxes	-	-	-
Net result	**-25.4**	**-18.6**	**-6.8**
Basic and diluted net result per share (in CHF)	-1.22	-0.91	-0.31
Net cash from (used in) operating activities	-40.0	-35.4	-4.6
Net cash from (used in) investing activities	20.9	-11.3	32.2
Net cash from (used in) financing activities	0.8	0.4	0.4
Exchange gain/(loss) on cash positions	-0.1	0.6	-0.7
Net increase (decrease) in cash & cash equivalents	-18.4	-45.7	27.3
Cash & cash equivalents at December 31	**131.3**	**149.7**	**-18.4**
Cash & cash equivalents at December 31 (incl. short-term time deposits)	**141.1**	**180.2**	**-39.1**
Total non-current assets	1.9	2.5	-0.6
Total current assets	142.5	181.6	-39.1
Total shareholders' equity at December 31	116.7	135.8	-19.1
Total non-current liabilities	13.5	32.5	-19.0
Total current liabilities	14.1	15.8	-1.7
Number of total FTE at December 31	**107.8**	**102.5**	**5.3**
- thereof in R&D	96.5	91.7	4.8
- thereof in G&A	11.3	10.8	0.5

Financial Highlights

During 2017, Molecular Partners' financial position developed in line with management's expectations. The Company continued and is continuing to increase its investments in its clinical and pre-clinical programs as well as in research and development in order to rapidly progress its proprietary oncology DARPin® candidates towards value creating milestones.

Molecular Partners closed 2017 with an ongoing strong cash position that continues to provide the Company with financial flexibility and a forecasted cash runway into 2020 - well beyond the envisaged key value inflection points expected in 2018 and 2019.

Molecular Partners' broad pipeline across multiple indications, its powerful partnership with bluechip pharma company Allergan, and its strong financial position combine to provide the Company a uniquely robust position within the biotech sector. As the Company looks to 2018, Molecular Partners is investing in the continuous evolution of the Company's proprietary DARPin® technology, continuing its R&D commitments to grow and develop its rich pipeline and proprietary drug candidates in clinical development targeting high-value indications.

A summary of the **financial highlights of the year 2017**:

- 2017 accounting revenues were CHF 20.0 million, with R&D expenses of CHF 37.4 million and G&A expenses of CHF 8.4 million
- This constitutes a net operating loss of CHF 25.8 million, in line with management's expectations and the guidance provided
- The Company incurred a net loss of CHF 25.4 million in 2017
- Cash-wise the Company recorded an operating cash outflow of CHF 40.0 million in 2017
- As at December 31, 2017, the Company held CHF 141.1 million cash and short-term time deposits
- Molecular Partners maintains a strong, debt-free balance sheet to advance the Company's proprietary pipeline
- As at December 31, 2017, the Company employed 108 full-time equivalents, another 5% increase
- As at December 31, 2017, there were 21,044,062 shares outstanding

Revenues

In 2017, the Company recognized total revenues of CHF 20.0 million, a decrease of 13% compared to the previous year (2016: CHF 23.0 million). Virtually all revenue recognized in 2017 was recorded with Allergan (CHF 19.9 million) and CHF 0.1 million were other revenues. The revenues include accelerated revenue recognition in the amount of CHF 8.5 million relating to the MP0260 project in collaboration with Allergan. In December 2017, the Joint Steering Committee decided to terminate this project and therefore it is expected to be handed back to the Company. As of December 31, 2017, the Company had CHF 18.4 million in deferred revenues on the balance sheet. Under the current IAS standard, these funds are expected to be recognized as revenues as follows: CHF 8.9 million in 2018, CHF 7.5 million in 2019, CHF 1.3 million in 2020 and CHF 0.7 million in 2021. See note 15 of the IFRS Financial Statements on page 88 of this Annual Report.

Molecular Partners has entered into partnerships pursuant to which the Company generally has been and will be entitled to upfront fees and milestone payments upon the achievement of pre-determined development, regulatory and sales events. The Company's revenues to date primarily consisted of amounts received under our collaboration agreements with Allergan, Roche (until 2015) and Janssen (until 2016), including upfront fees, option exercise fees, milestone payments and sponsored research payments. In addition, under the collaboration agreements, the Company will be generally entitled to royalty payments on the net sales of

products ultimately developed and commercialized under our partnerships. For any of Molecular Partners' proprietary product candidates, the Company may decide to retain all or a portion of the commercialization rights. To date, Molecular Partners has not generated any revenue from commercial product sales and management does not expect to generate any product revenues until 2020.

Revenues under collaborative long-term research and development agreements are recognized when earned, based upon the performance requirements of the respective agreements. For revenue arrangements with separately identifiable components the revenue recognition criteria are applied separately. The consideration received is allocated among the separate components based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate components. Payments received in excess of amounts earned are recorded as deferred revenue.

Operating Expenses (incl. depreciation and amortization)

The Company's operating expenses consist primarily of costs associated with research, pre-clinical 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 3.3 million (+8%) to CHF 45.8 million (compared to CHF 42.5 million in 2016). These costs included CHF 4.9 million in non-cash effective share-based compensation and pension costs. The two major expense categories were personnel expenses of CHF 21.9 million (48% of total operating expenses) and research consumables and costs totaling CHF 17.8 million (39% of total operating expenses).

Total R&D expenses increased by CHF 2.2 million (+6%) to CHF 37.4 million (2016: CHF 35.2 million), mainly due to the growing proprietary pipeline of the Company. The Company charges all R&D expenses, including internal patent filing and patent maintenance costs, to the income statements when incurred.

Total G&A expenses went up by CHF 1.1 million (+15%) to CHF 8.4 million (2016: CHF 7.3 million), mainly due to the cost related to the Company's first investors' day in New York, higher legal and personnel cost, primarily driven by the further increase in personnel as well as the non-cash effective share-based compensation costs.

In 2018, operating expenses are expected to increase further, particularly related to the ongoing clinical and pre-clinical studies and the development of the Company's proprietary product candidates. The Company continues to expand its proprietary product pipeline and further invests in the DARPin® technology. Further, hiring additional personnel (mainly in R&D) and, potentially, expanding existing facilities will generate additional costs.

As of December 31, 2017, the Company had 107.8 full-time employees (FTEs) on its payroll, including 96.5 FTEs (ca. 90%) in R&D and 11.3 FTEs (ca. 10%) in G&A. By comparison, the Company had 102.5 total FTEs on its payroll as of December 31, 2016.

Operating Profit (loss)

In 2017, the Company generated an operating loss of CHF 25.8 million (compared to an operating loss of CHF 19.5 million in 2016). The decline versus the previous year mainly reflects both the lower recognized revenues, as well as further intensified R&D activities for the benefit of long-term value creation.

Financial Income and Expenses

In 2017, Molecular Partners recorded a financial income of CHF 0.4 million, a decline of CHF 0.5 million versus the previous year (2016: net financial income of CHF 0.9 million). Net financial income mainly reflects the interest income on the cash and time deposit positions of the Company, which was the main income contributor in 2017, as well as exchange gains on cash and on working capital positions held in USD and in EUR, mainly responsible for the 2016 financial income position. The Company is not hedging for translation risks as it pursues a stringent natural hedging policy by maximizing the matching of cash in/out flows in the respective currencies. For more information reference is made to note 24 of the IFRS Financial Statements.

Income and Deferred Taxes

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

After adding the net operating loss of 2017, remaining tax losses of CHF 42.1 million (CHF 4.3 million to expire in 2021) may be used as tax loss carry forwards to offset future taxable income over a period of seven years. No deferred tax assets have been recognized for these tax loss carry forwards, because it is unlikely that such loss carry forwards can be utilized in the foreseeable future. In addition, no deferred tax assets were recognized on the temporary difference on pension liabilities for the same reason.

Net Profit (loss)

In 2017, the Company recorded a net loss of CHF 25.4 million, basically mirroring the effects and the magnitude of the increased operating loss recorded (2016: net loss of CHF 18.6 million).

Balance Sheet and Capital Resources

As of December 31, 2017, the Company's cash balance (including short-term time deposits) was reduced by CHF 39.1 million compared to year-end 2016 to a level of CHF 141.1 million (December 31, 2016: CHF 180.2 million). The Company's total cash balance continued to be very strong and still represented 98% of the total balance sheet.

Compared to year-end 2016, the total shareholders' equity position decreased to CHF 116.7 million as of December 31, 2017 (December 31, 2016: CHF 135.8 million). The Company's balance sheet continued to be debt-free in 2017. Liabilities in the balance sheet are made up of deferred revenues, trade payables and accrued expenses from our operations as well as pension liabilities as per IAS19. Total liabilities came back to CHF 27.6 million (2016: CHF 48.3 million), mainly driven by the lower amount of deferred revenues. Deferred revenues remain clearly the most important item on the liability side with a decreased total of CHF 18.4 million as per end 2017 (2016: CHF 37.3 million). These deferred revenues stem from our agreements with the Company's strategic partners and are recognized on a straight line or contractual basis, in line with the substance of the underlying agreement. For more details reference is made to note 15 of the IFRS Financial Statements.

In 2017, liquidity requirements arose primarily from the need to fund ongoing clinical and R&D activities and advance the Company's proprietary pipeline.

Cash Flow Statement

In 2017, Molecular Partners generated a net cash outflow from operations of CHF 40.0 million, comparing to the net cash outflow from operations of CHF 35.4 million in 2016. The operating cash flow reflects the Company's increased expenses for clinical activities as well as investments in research and development

in order to rapidly progress its proprietary oncology DARPin® candidates towards value creating milestones.

Cash inflow from investing activities was CHF 20.9 million, compared to a CHF 11.3 million cash outflow from investment in 2016. The positive amount in 2017 reflects the CHF 20.7 million reduction of short-term time deposits, whereas additional investments into short-term time deposits in 2016 were CHF 10.5 million. A CHF 0.5 million outflow was recorded for capital expenditure in equipment and a CHF 0.6 million inflow from interest. Net cash inflow from financing activities was CHF 0.8 million. Overall, this resulted in a net decrease of the Company's total cash balance and short-term time deposits by CHF 39.1 million from CHF 180.2 million at the end of 2016 to CHF 141.1 million at the year-end 2017.

Financial Risk Management

The Company 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 Company to financing risks in the medium term. Risk management is carried out centrally under policies approved by the Board of Directors. Furthermore, management controls financial risks such as foreign exchange risk and liquidity.

Molecular Partners conducts R&D activities primarily in Switzerland, EU and USA. As a result, the Company 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 Company'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 Company. The Company 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 Company's primary exposure to financial risk is due to fluctuation of exchange rates between CHF, EUR and USD. The Company's hedging policy is (1) to maximize natural hedging by matching expected future cash flows in the different currencies and (2) to consider hedging some of the remaining expected net currency exposure as the need arises (i.e. hedge budgeted currency rates). However, due to market volatilities and uncertainties in the cash flows, a 100% hedging of the currency exposure is impossible. Molecular Partners does not engage in speculative transactions.

- 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 Company 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 Company's cash and cash equivalents and receivables. The Company 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 Company 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 Company's Business Plan 2018-2022 and excluding any revenues at risk, management estimates that the Company is financed into the financial year 2020.

Outlook 2018

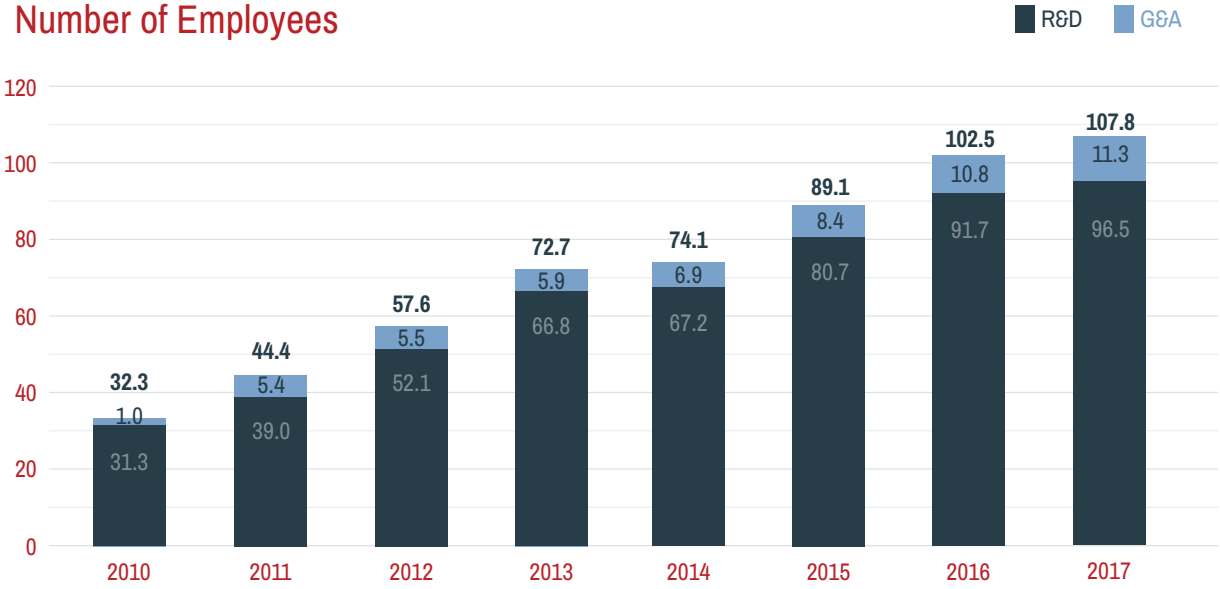
For the full year 2018, at constant exchange rates, the Company expects total expenses of around CHF 50-60 million, of which around CHF 7 million will be non-cash effective costs for share-based payments, IFRS pension accounting and depreciations. However, this guidance is subject to the progress of the pipeline, mainly driven by manufacturing costs, the speed of enrollment of patients in clinical trials and data from research and development projects. Additionally, the Company expects around CHF 3 million of capital expenditures, mainly for laboratory equipment.

No guidance can be provided with regard to net cash flow projections. Timelines and potential milestone payments for existing and potentially new partnerships are not disclosed.

Financial Calendar 2018

Date:	Event:
March 21, 2018	Expected Publication of Annual General Meeting Invitation 2018
April 18, 2018	Annual General Meeting of Molecular Partners AG
April 26, 2018	Publication of Quarterly Management Statement Q1 2018
August 30, 2018	Publication of Half-Year Results 2018
November 01, 2018	Publication of Quarterly Management Statement Q3 2018

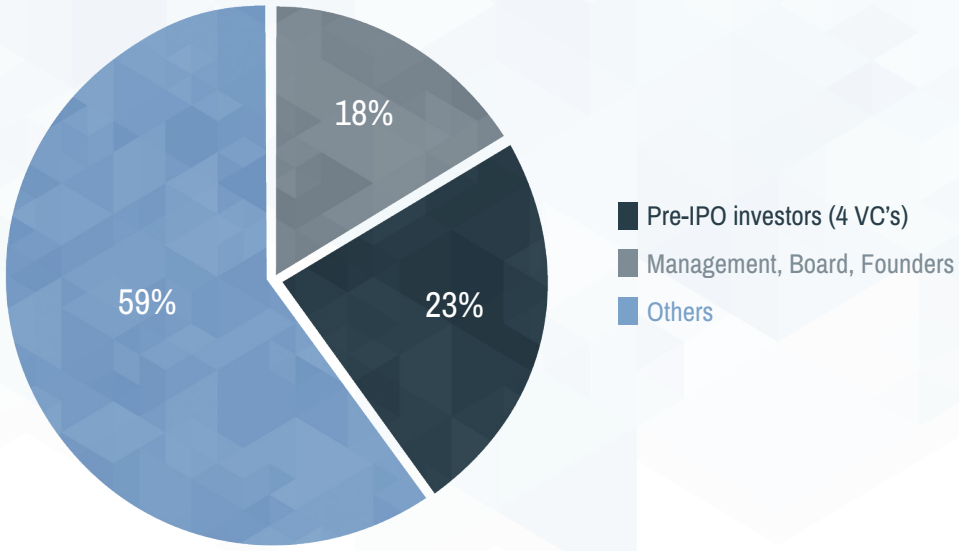
Number of Employees



Shareholders & Share Price

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
- 21,044,062 shares outstanding[1] as of December 31, 2017
- CHF 553 million market cap. as of December 31, 2017
- Formal free float as per SIX Swiss Exchange definition of 84%



The Molecular Partners share is 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 21.0 million registered shares *(Namenaktien)* with a nominal value of CHF 0.10 each. On April 6, 2017, Molecular Partners disclosed a substantial reduction in the number of the Company's shares held by pre-IPO investors. Several private investors acquired these shares in secondary block trades. As of end of 2017, venture capital investors owned 23% of the Company's share capital, versus 42% at the end of 2016. 18% of the share capital was held by the Management, Board and founders of the Company.

1 The corresponding share capital increase was registered in the Commercial Register on January 30, 2018.

As of December 31, 2017, the largest shareholders in Molecular Partners, holding each per year-end 2017 more than 3% of shares outstanding as recorded on the corresponding website of the SIX Swiss Exchange, were Hansjoerg Wyss (9.9%), Index Ventures Associates IV Limited (8.2%), Essex Woodlands Health Ventures VIII, LLC (7.8%), Mark N. Lampert (Biotechnology Value Funds) (4.3%), Johnson & Johnson (4.3%), Endeavour Partners GP Limited (4.1%) and Pictet Asset Management (Direction de Fonds) (3.1%), as well as the founders of the Company Andreas Plückthun (4.9%), Michael Tobias Stumpp (3.4%), Patrick Amstutz (3.2%) and Patrik Forrer (3.1%). These disclosed holding positions of the shareholders owning more than 3% in Molecular Partners summed up to 56.3% of shares outstanding per December 31, 2017, down almost 20% versus year-end 2016 (75%).

As per the definition of the SIX Swiss stock-exchange, the free float of Molecular Partner shares per year-end 2017 was 84%, another increase of about one quarter compared to year-end 2016 (66%). 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 who have a long-term interest in a company.

As per year-end 2017, a total of 9.48 million shares were entered in the Company's share register, representing 45% of the total outstanding capital. Those shares were held by 1,370 shareholders, including nominees, which represents another increase of 16% of the number of registered shareholders compared to the previous year (1,180). Only shares registered in the share register of Molecular Partners possess voting rights at the Molecular Partners, shareholder meetings.

The brokerage firms J.P. Morgan and Cowen & Company continued to provide regular research coverage of Molecular Partners throughout 2017. 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	21,044,062
Nominal value	CHF 0.10
Share register	Molecular Partners c/o AREG AG

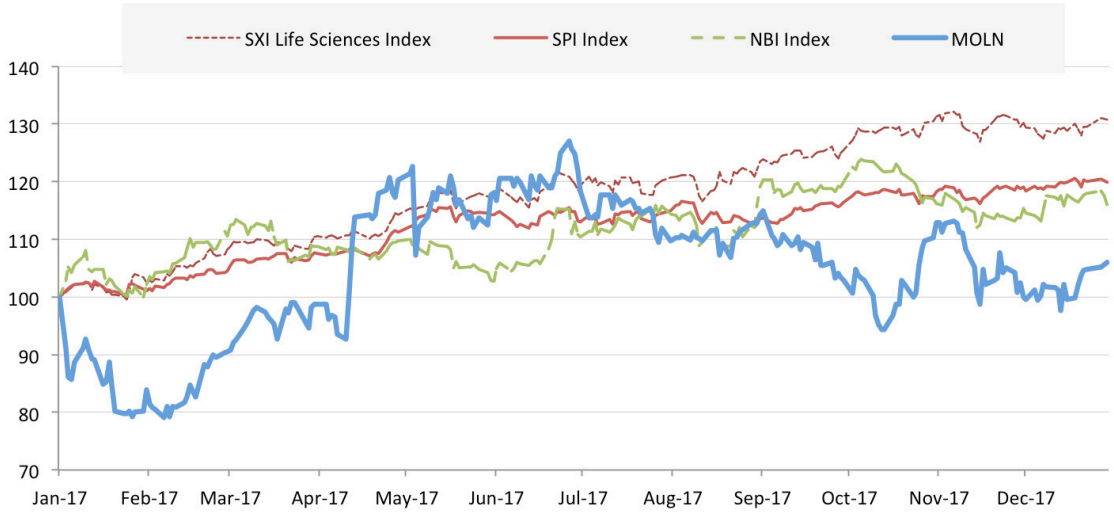
Share Price Development

The Molecular Partners share started negatively into 2017. By the end of January, the share price had retracted ca. 20% and recorded its yearly low of CHF 19.60 on February 6. The sharp drop stood in contrast to global equity markets, but also to the Biotech sector who recorded a positive start into the year. Having marked its lows at the beginning of February, the share started its recovery and ended the first quarter 2017 virtually on the year-end 2016 level.

Supported through the very positive market reception of the announced shareholder rotation in April, the Molecular Partners share recorded a steep increase and outperformed both, the domestic SPI Index as well as the SXI Life Science Index and the Nasdaq Biotech Index (NBI) during the second quarter 2017. The share recorded its yearly high of CHF 31.50 on June 26.

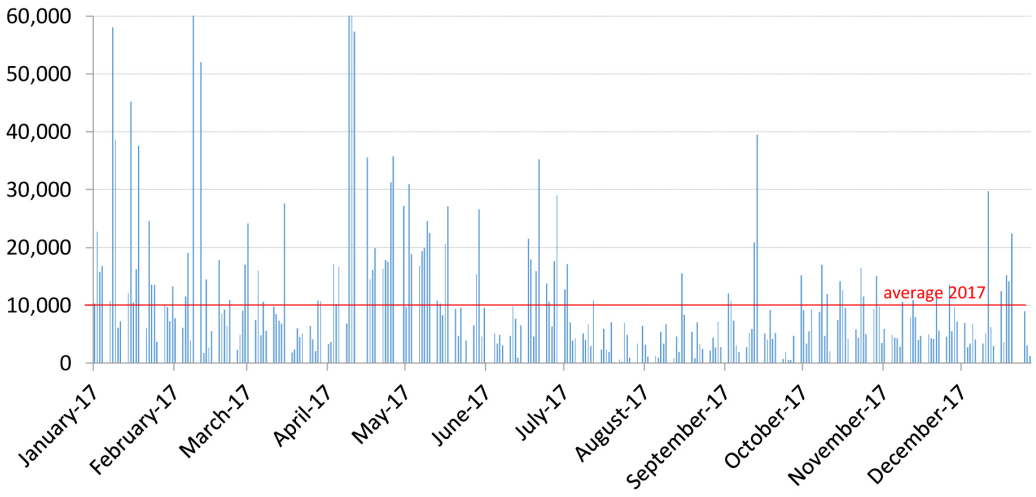
The Molecular Partners share could however not maintain its outperformance during the second half of the year. The share retracted from its yearly highs especially over the course of the third quarter, while national and international indices recorded an ongoing strong positive momentum.

The share closed the financial year 2017 at a price of CHF 26.30, representing an increase of 6% versus year-end 2016. This implies an underperformance versus both, domestic indices as well as the Nasdaq Biotech Index (NBI). The Swiss Performance index (SPI) recorded a strong 20% increase in 2017, while the SXI Life Science index was even up 31 %. Currency-adjusted, the NBI was up 16%, also clearly ahead of the Molecular Partners share.

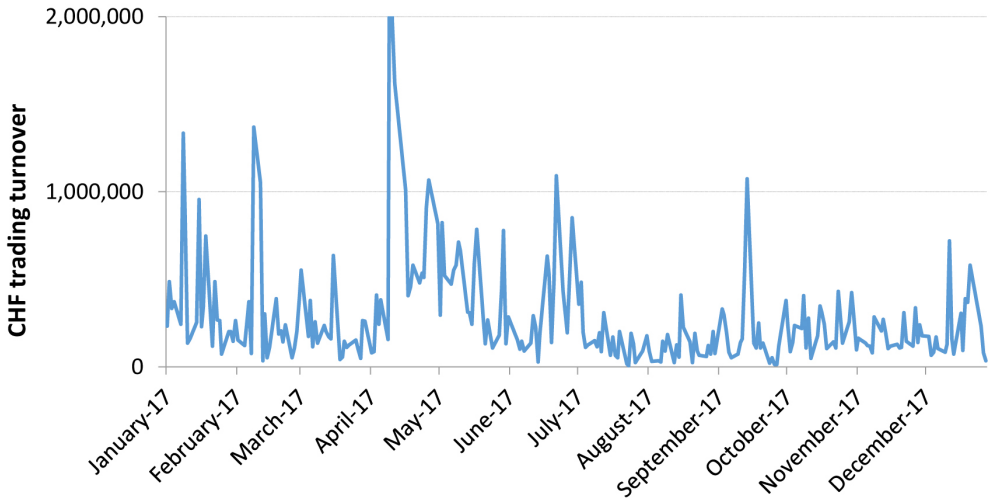


Volume Development

The total volume of Molecular Partner shares traded on the SIX Swiss Exchange during 2017 was 2.82 million shares, ca. 8% above the total volume traded in 2016 (2.63 million shares). This implies that about 13% of all shares outstanding and ca. 16% of the free float as per SIX Swiss Exchange definition changed hands.



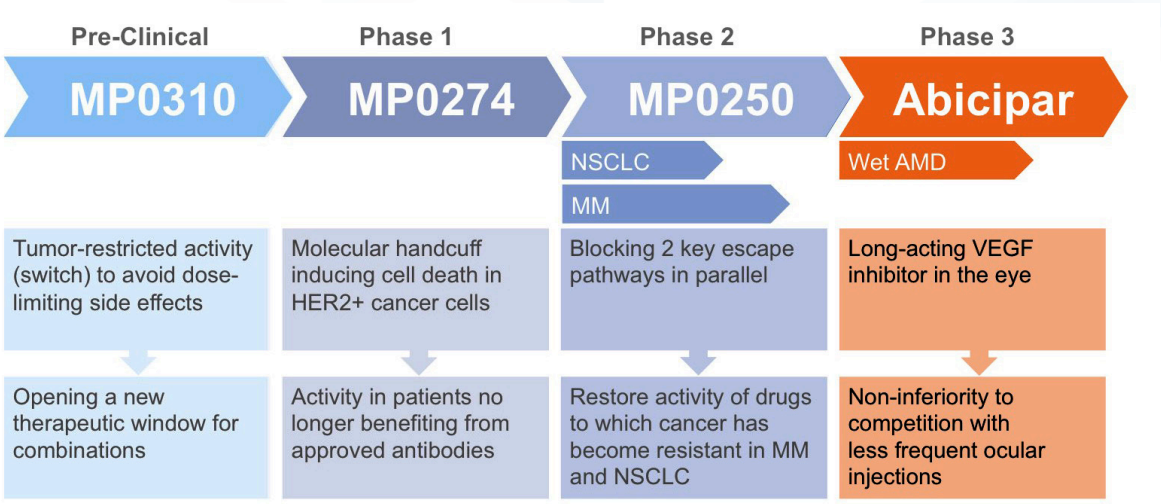
The average daily trading volume in 2017 was 11,200 shares (+ 8% year-over-year) and the average turnover was about CHF 290,000. Ten trading days with a daily turnover above CHF 1.0 million were recorded in 2017. April 11 marked the day with the highest trading turnover of above CHF 2.9 million. The high trading volumes recorded mid-April mostly reflected the shareholder rotation from pre-IPO investors to long-term private investors.



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

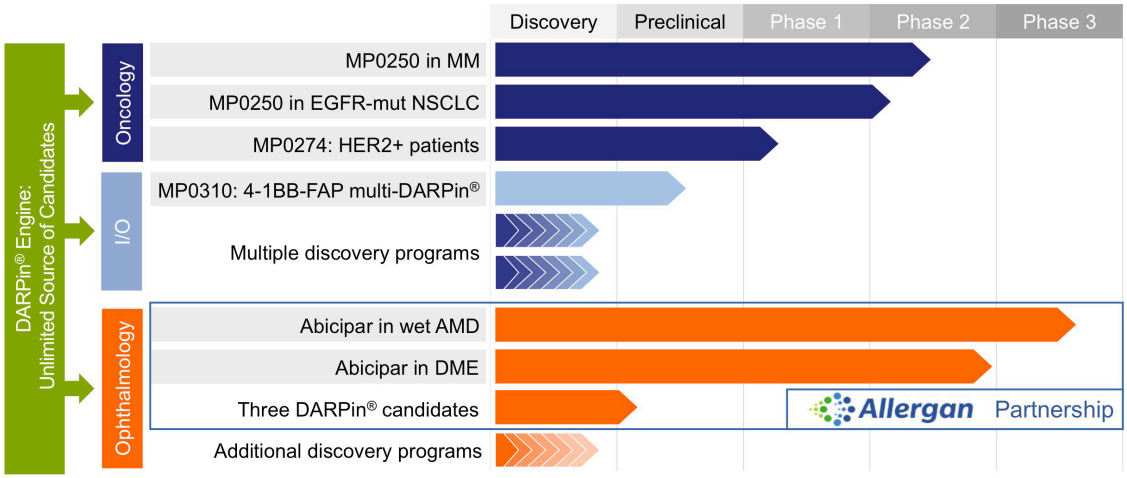
Summary

In 2017, we at Molecular Partners have continued to make substantial progress in advancing our balanced and differentiated pipeline of innovative DARPin® therapies for the treatment of cancer and ophthalmological diseases. The year 2017 also marks our accelerated transformation from a platform to a product company. We shifted our internal focus to oncology and were very encouraged to see the initial safety and efficacy results of MP0250 in our Phase 2 multiple myeloma study. We also made progress on our second Phase 2 study with MP0250 as well as our Phase 1 study with MP0274. On the pre-clinical side, our immuno-oncology portfolio progressed considerably and the first development candidate was chosen. All of this was possible thanks to our internal teams and we continued to build strength by hiring additional talent across all levels. Our partner Allergan is progressing well and has committed to further DARPin® candidate molecules in ophthalmology, again a success due to the combined efforts of teams on both sides of the Atlantic.



Pipeline

Molecular Partners' Product Pipeline as of March 2018



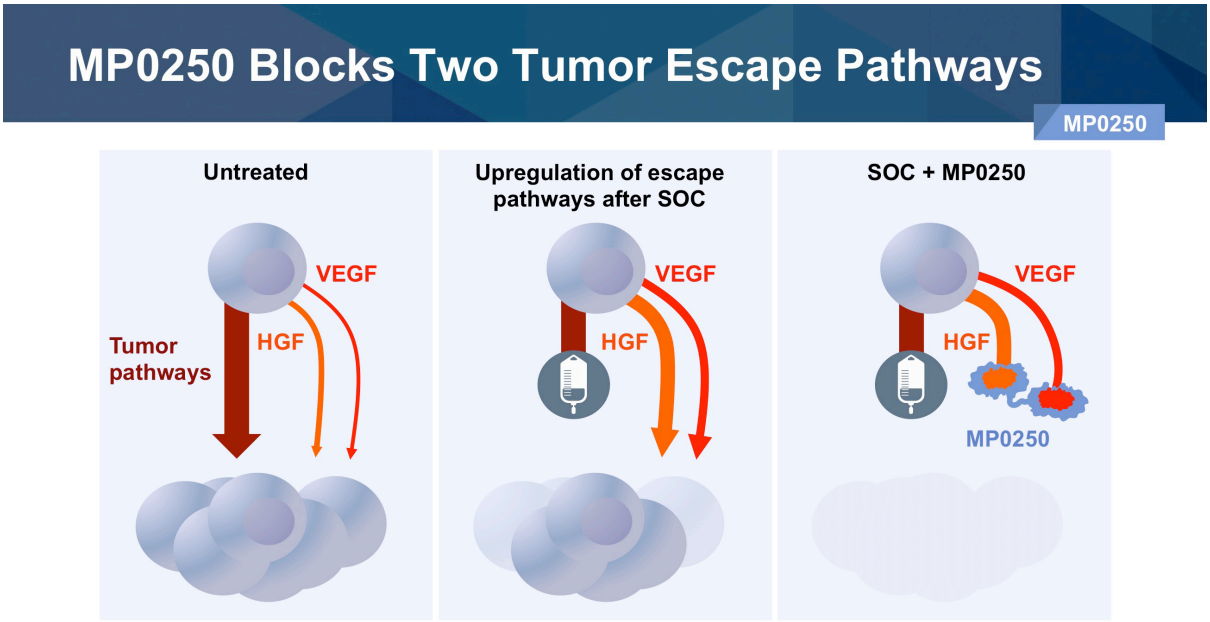
Oncology

Our proprietary oncology pipeline comprises innovative DARPin® candidates with novel modes of action, including multi-DARPin® compounds that target multiple oncologic pathways as well as tumor-restricted multi-DARPin® therapeutics. 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.

MP0250, the most advanced DARPin® product candidate in the Molecular Partners oncology pipeline, is the first bi-specific biologic targeting VEGF and HGF, two growth factors implicated in tumor formation, growth and escape mechanisms. A second compound, MP0274, is a multi-DARPin® product candidate that targets HER2, a key oncogenic protein that drives the growth of several tumor types, including many breast cancers and various other solid tumors. We also continue to advance our growing pipeline of immuno-oncology compounds, an area in which we are leveraging the multi-DARPin® concept to activate potent co-stimulatory and other targets in the immune system in a tumor-restricted way.

MP0250 – Multi-DARPin® Blocking VEGF and HGF (Proprietary)

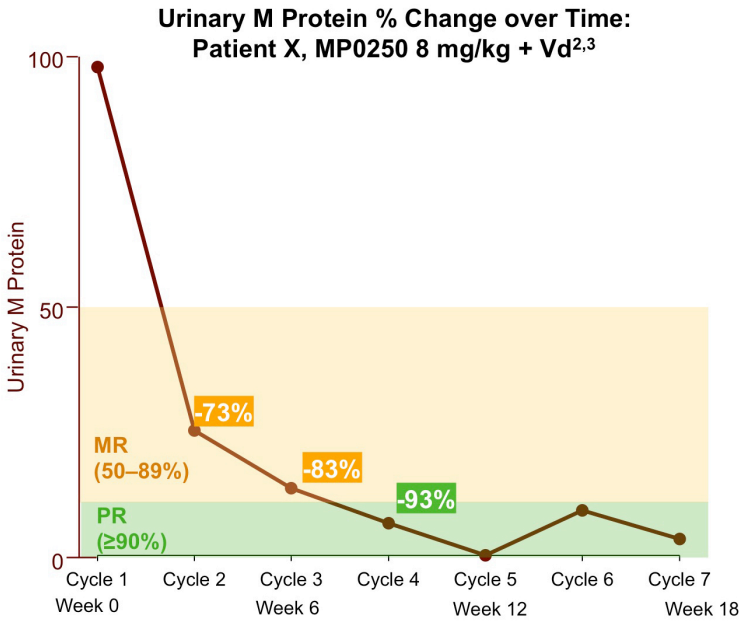
- MP0250 is a multi-DARPin® product consisting of four domains that target both the vascular endothelial growth factor (VEGF) and the hepatocyte growth factor (HGF). It also binds to human serum albumin (HSA) to increase the compound's plasma half-life and potentially enhance tissue penetration.
  - 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.
  - By blocking both VEGF and HGF from binding to their receptors, MP0250 inhibits tumor growth and metastasis (spread). It also overcomes treatment resistance by blocking the VEGF- and/or HGF-mediated escape pathways employed by certain tumors when exposed to standard therapies.
- In pre-clinical models of solid and hematological tumors, MP0250 has demonstrated broad activity as monotherapy and in combination with other anticancer agents.
- MP0250, with its novel, bi-specific mechanism of action, is expected to be ideal 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.



Phase 2 status and initial results

- Molecular Partners is currently running two Phase 2 studies of MP0250, one in multiple myeloma (MM) patients and one in EGFR mutated non-small cell lung cancer (NSCLC) patients.
  - The first Phase 2 study is examining MP0250 in combination with Velcade® (bortezomib) and dexamethasone in patients with MM who have developed resistance to Velcade and have received at least two prior regimens, including Velcade and an immunomodulatory drug (IMiD).
    - Upregulation of both VEGF and HGF pathways has been implicated in loss of response to bortezomib-based therapy, supporting the rationale for studying MP0250 in combination with Velcade and dexamethasone.
  - The first dose cohort (8 mg/kg/3 weeks) was enrolled in 2017 and the initial safety and efficacy results are promising. No DLTs were reported and 4 of 7 patients showed responses to MP0250 with 3 of the 4 patients showing a partial response with M-protein reductions larger than 90 %[1].
  - The second Phase 2 study of MP0250 is being conducted in the US and will test the hypothesis that MP0250 will render patients who have progressed on Tagrisso again sensitive to Tagrisso.

1 Data cut-off January 4, 2018.



Phase 1 development status and results for MP0250

- Results from the first-in-human Phase 1 study of MP0250 in patients with advanced solid tumors provide the first demonstration of the systemic application of a DARPin® protein in oncology patients, and are thus an important milestone in the development of DARPin® proteins as anticancer agents.
- This multi-center, repeated-dose, dose-escalation study investigated the safety, tolerability, pharmacokinetics (PK), immunogenicity and anti-tumor activity of MP0250.
  - Key inclusion criteria included:
    - Histologically confirmed advanced or metastatic solid tumor
    - Refractory to ≥1 prior regimen of standard treatment or for which no curative therapy is available
    - Progressive or stable disease documented radiologically in the 4 weeks prior to screening
    - Presence of a measurable tumor or a tumor evaluable per Response Evaluation Criteria in Solid Tumors (RECIST) version 1.1
- Interim results from the Phase 1 trial, based on data from 24 enrolled patients, had been presented at the annual meeting of the European Society of Medical Oncology (ESMO) in Copenhagen, Denmark, in October 2016.
  - MP0250 was well-tolerated at doses ranging from 0.5 to 8 mg/kg given as intravenous (IV) infusion every two weeks.
    - The 8-mg/kg dose was assigned as the maximally tolerated dose (MTD).
  - The most frequent adverse events (AEs) were hypertension (63%), diarrhea (42%), fatigue (46%), proteinuria, cough, nausea and vomiting (29% each).
    - Four patients experienced dose-limiting toxicities: acute left ventricular failure, nephrotic syndrome and hypertension, gastrointestinal hemorrhage, and thrombotic microangiopathy.
    - Investigators characterized the side-effect profile of MP0250 as consistent with profound inhibition of the VEGF pathway.
  - Two patients showed significant reductions in tumor volume (one confirmed as a partial response, one with signs of response in non-measurable lesions), and six patients had prolonged stable disease (between 22 and 60 weeks).
    - Treatment duration was ≥three months in 18 patients (40%), with four patients (10%) exceeding six months treatment duration.
  - MP0250 exhibited a long half-life of around 12 days, allowing for dosing every three weeks.
    - Repeated dosing led to sustained exposure throughout the treatment periods, the longest to-date being 12 months.
  - Only one of the 24 patients developed anti-drug antibodies (ADAs), suggesting a low immunogenic potential for MP0250.

2 Data cutoff January 4, 2018.
3 Kappa Free Light Chain measurement in line with M-protein. Study details can be found at clinicaltrials.gov/NCT03136653.

MP0274 – Multi-Benefit DARPin® Therapeutic With Broad Anti-HER Activity (Proprietary)

- MP0274 is a multi-DARPin® therapeutic that binds two distinct epitopes of HER2/neu, an oncogenic protein that signals tumor cell survival and proliferation.
- The bi-specific binding action of MP0274 "handcuffs" HER2/neu in an inactive or "locked" conformation, leading to potent inhibition of the following mechanisms of downstream HER2/neu-mediated signaling:
  - Binding of HER2 to other receptors of the HER family (HER1, HER3 - heterodimerization)
  - Binding of HER2 to other HER2 receptors (homodimerization)
- The inhibitory effects of MP0274 lead to apoptosis (programmed cell death) in susceptible tumor cells that overexpress HER2/neu.
  - The direct induction of apoptosis is unique to MP0274, which does not require immune effector cells to exert its effects.
    - Unlike the anti-HER2 monoclonal antibodies (mAbs) 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.
- The novel mechanism of action of MP0274 may therefore help patients who do not adequately respond to current therapies.

Development status and results for MP0274

- Molecular Partners initiated a Phase 1 study of MP0274 in 2017.
- Among the first patients treated, one of the patients showed possible signs of pharmacological activity at very low dose. The Phase 1 protocol is, therefore, being reviewed and amended accordingly to allow more patients at lower doses.
- The Company expects initial safety data in Q4 2018, with the first efficacy data expected in 2019.

Immuno-Oncology: A revolutionary approach to anticancer treatment

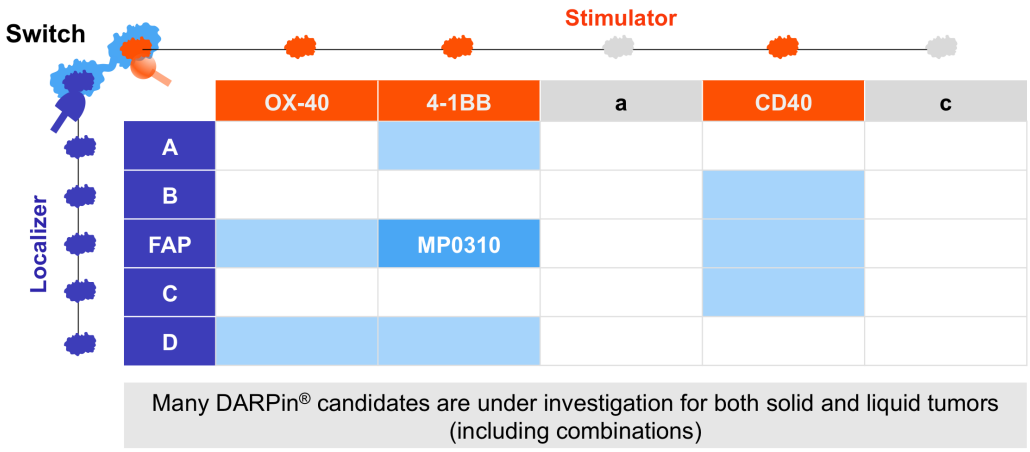
Molecular Partners is making important progress in the growing field of immuno-oncology, a methodology that harnesses the power of the body's immune system to attack cancer cells. This approach involves modulation of immune checkpoints and other regulatory signals to stimulate T-cells, thereby inhibiting tumor growth and promoting tumor destruction.

Although exploration of immuno-oncology is still in the early stages, the approach may yield breakthrough therapies for many different types of cancer. However, many companies that are active in the immuno-oncology field have been slowed by significant side effects and limited efficacy. In general, these companies seek to differentiate their immuno-oncology products either by identifying novel immune checkpoint targets or by combining established immune checkpoint modulators (ICM). Whereas the unpredictability of novel biology can make identification of novel targets a risky proposition, the combination approach is limited by the risk of excessive toxicity.

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

During 2017, we focused our immuno-oncology efforts on developing a "toolbox" of DARPin® molecules

with tumor-restricted action. The first candidate of this "toolbox" approach, called MP0310, was moved into development in 2017, and pre-clinical data were shown at several oncology conferences. Further pre-clinical data of candidate molecules were shown at our R&D day in November 2017.



- Local activation of co-stimulatory agonists: The DARPin® platform enables the development of co-stimulatory agonists, which potently activate T-cells at specific sites in the tumor environment while remaining inactive in the circulation.
  - Whereas other companies seek to develop antibodies against co-stimulatory targets, their utility in several cases has been limited by systemic toxicities.
  - By contrast, Molecular Partners is investigating a novel class of locally activated agonistic co-stimulators that enable more potent activation of T-cells with fewer side effects, thereby opening a wider and "cleaner" therapeutic window.
    - The lack of systemic toxicity enables administration of a higher dose, thereby enhancing potency.
  - Molecular Partners scientists have demonstrated pre-clinical proof of concept for the co-stimulatory agonistic approach *in vitro*.
  - Furthermore, the potential to combine MP0310 was demonstrated in mouse models with the desired increase efficacy.

Ophthalmology

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

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

By contrast, DARPin® molecules offer the potential benefits of less frequent injections and possibly even greater vision gains than those attainable with standard therapies. To that end, Allergan is conducting two pivotal Phase 3 studies to investigate the safety and efficacy of abicipar in patients with wet AMD. The results of the first year of these Phase 3 studies are expected to be disclosed in the second half of 2018.

Abicipar

Abicipar, the first product of the DARPin® technology platform to enter Phase 3 of clinical development, is a mono-DARPin® that inhibits vascular endothelial growth factor A (VEGF-A). Phase 2 data in patients with wet AMD or DME suggest abicipar can be dosed on a quarterly basis after loading doses (at weeks 1, 4 and 8), requiring fewer doses than Lucentis®, which was dosed at weeks 1, 4, 8, 12 and 16 in the Phase 2 studies. Abicipar may also yield higher vision gains than those seen with Lucentis®, although this effect was not statistically significant in the Phase 2 study. Nevertheless, the potential for greater vision gains (as measured by best corrected visual acuity [BCVA]), along with the potential for fewer intravitreal injections, compared to Lucentis®, are being further tested in the Phase 3 CEDAR and SEQUOIA trials, for which the abicipar formulation has been optimized for safety.

The CEDAR and SEQUOIA trials are parallel, double-masked studies comparing abicipar (2 mg) to monthly doses of Lucentis® (0.5 mg). Patients randomized to abicipar treatment are divided into two dosing cohorts: quarterly (after loading doses at weeks 0, 4 and 12) and every two months (after three monthly loading doses). Each study aimed to enroll 900 patients, and both trials were fully enrolled 4 months ahead of schedule. Top line results are expected in the second half of 2018.

In addition to wet AMD, abicipar has shown promising results in the treatment of DME. At the 2016 annual meeting of the American Academy of Ophthalmology (AAO), investigators had presented data from a Phase 2 trial in 151 patients with DME, in which the 2-mg dose of abicipar (administered every 8 weeks and every 12 weeks, following three monthly loading doses) demonstrated functional (BCVA) and anatomical (central retinal thickness, or CRT) effects comparable to monthly Lucentis® treatment, but with fewer injections over the 28-week treatment period. Adverse events were mostly mild to moderate in severity, and resolved with treatment. The Phase 2 data in DME therefore support progression to Phase 3. Allergan expects to start the Phase 3 of abicipar in DME in the second half of 2018.

Discovery Alliance

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

Late 2017, Allergan exercised two options to develop and commercialize DARPin® product candidates from its 2012 discovery alliance agreement with Molecular Partners. Mid 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.

Corporate Governance Report

The information published in this report follows the SIX Swiss Exchange (**SIX**) Directive on Information Relating to Corporate Governance dated April 1, 2016 (Directive on Corporate Governance (**DCG**)).

1. Company Organization and Shareholders

1.1 Group Structure

Molecular Partners AG (the **Company**) does not have any subsidiaries.

1.2 Significant Shareholders and Groups of Shareholders

As of December 31, 2017 the largest shareholders in the Company known to the Company based on the published notifications to SIX are:

Shareholders	Shares held[1]	% of Voting Rights[2]
Hansjoerg Wyss	2,041,347	9.85%
Index Ventures Associates IV Limited	1,695,917	8.18%
Essex Woodlands Health Ventures VIII, LLC	1,620,247	7.82%
Andreas Plückthun	1,018,995	4.92%
Mark N. Lampert (Biotechnology Value Funds)	900,000	4.34%
Johnson & Johnson	880,203	4.25%
Endeavour Partners GP Limited[3]	850,700	4.10%
Michael Tobias Stumpp[4]	703,910	3.40%
Patrick Amstutz[5]	661,900	3.19%
Patrik Forrer	650,679	3.14%
Pictet Asset Management (Direction de Fonds)	643,935	3.11%

1 This table presents the shares held by the shareholders listed therein. The options, performance share units (PSU) and restricted share units (RSU) held by such shareholders are not included. For an overview of the options, PSU and RSU held by members of the Board of Directors and Management Board, please refer to note 20 of Statutory Financal Statement on page 118 of this Annual Report.

2 Based on the share capital registered in the Commercial Register as of December 31, 2017 (i.e. CHF 2,072,434.50, divided into 20,724,345 registered shares).

3 On February 22, 2018, Endeavour Partners GP Limited notified that it had fallen below the 3% threshold.

4 743,049 shares according to share register as of December 31, 2017 (which corresponds to 3.59% of voting rights).

5 687,125 shares according to share register as of December 31, 2017 (which corresponds to 3.32% of voting rights).

As of December 31, 2017, there were no published shareholder lock-up groups or other groups of shareholders in place.

On April 6, 2017, the Company reported changes in ownership of the three long-term venture capital investors Index Ventures Associates IV Limited, Essex Woodlands Health Ventures VIII, LLC and Johnson & Johnson. Private investors have acquired shares from venture capitalist investors in secondary block trades. Index Ventures Associates IV Limited fell below 10% to 8.18%, Essex Woodlands Health Ventures VIII, LLC below 10% to 7.82%, Johnson & Johnson below 5% to 4.25% and Hansjoerg Wyss reached 9.85%.

The individual disclosure notifications published on the reporting platform of the SIX Swiss Exchange Disclosure Office regarding the shareholdings in the Company can be accessed at https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

1.3 Cross-shareholdings

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

2. Capital Structure

2.1 Ordinary Share Capital

On December 31, 2017, the *issued* share capital of the Company's amounted to CHF 2,104,406.20 divided into 21,044,062 fully paid up registered shares with a par value of CHF 0.10 per share.

The Company's share capital *registered with the Commercial Register* as of December 31, 2017, amounted to CHF 2,072,434.50, divided into 20,724,345 fully paid up registered shares with a par value of CHF 0.10 per share.[6]

2.2 Authorized Share Capital

As of December 31, 2017, 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 20, 2018. This authorized capital of CHF 565,986 equates to approximately 27% of the existing share capital.

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

[6] As a result of the exercise of 319,717 stock options exercised throughout the year 2017, the Company's share capital increased (out of conditional capital) by CHF 31,971.70 from CHF 2,072,434.50 to CHF 2,104,406.20. This capital increase was registered with the Commercial Register on January 30, 2018.

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

2.3 Conditional Share Capital

As of December 31, 2017, the conditional share capital available under Article 3b of the Article of Association amounted to CHF 259,638.80 divided into 2,596,388 registered shares with a par value of CHF 0.10 per share. This conditional share capital can be used for the direct or indirect issuance of shares, options or preemptive rights thereof granted to employees and members of the Board of Directors as well as to members of any advisory boards. For more details, please refer to Article 3b of the Company's Articles of Incorporation (the **Articles**)[8]. This conditional capital of CHF 291,610.50 equates to approximately 14% of the existing share capital.

In addition pursuant to Article 3c of the Articles[8], the share capital may be increased in an amount not to exceed CHF 400,000 through the issuance of up to 4,000,000 fully paid up shares with a par value of CHF 0.10 per share through the exercise or mandatory exercise of conversion, exchange, option, warrant or similar rights for the subscription of shares granted to shareholders or third parties alone or in connection with bonds, notes, options, warrants or other securities or contractual obligations by or of the Company. This conditional capital of CHF 400,000 equates to approximately 19% of the existing share capital.

2.4 Changes to Capital Structure

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

As of 31 Dec	Issued Ordinary Capital	Authorized Capital	Available Conditional Capital (Article 3b)[8]	Available Conditional Capital (Article 3c)
2017	CHF 2,104,406.20[7]	CHF 565,986	CHF 259,638.80	CHF 400,000
2016	CHF 2,072,434.50[9]	CHF 565,986	CHF 291,610.50	CHF 400,000
2015	CHF 1,964,045.00	CHF 565,986	CHF 400,000.00	CHF 400,000

7 For more details, please refer to Section 2.1 on page 31 above.

8 Http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20180122-statuten-molecular-partners.pdf

9 On April 14, 2016, the Company placed 1,100,000 secondary shares from employees, consultants, members of the Board of Directors and certain venture capital shareholders in an accelerated book-building transaction at the share price of CHF 27.50. With the exercise of the 1,083,895 options, the Company's nominal share capital increased by CHF 108,389.50 from CHF 1,964,045.00 to CHF 2,072,434.50.

2.5 Participation Certificates and Profit-sharing Certificates

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

2.6 Convertible Bonds and Options

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

Details of the restricted share units (each a **RSU**) and performance share units (each a **PSU**) issued to members of the Board of Directors, the Management Board and other employees or consultants are set out in the Compensation Report of the Company on pages 55 and 118 of this Annual Report.

The table below shows the outstanding options granted to the Board of Directors, the Management Board, other employees and consultants as of December 31, 2017:

No. of options outstanding	Expiry date	Exercise price	Subscription ratio	Amount of share capital concerned (in CHF)
9,580	31.08.2019	CHF 1.15	1:1	958
399,657	30.09.2022	CHF 2.31	1:1	39,966
8,100	19.11.2023	CHF 6.05	1:1	810
21,682	10.07.2024	CHF 6.06	1:1	2,168
515,341	31.10.2024	CHF 6.94	1:1	51,534
954,360				**95,436**

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 Statutory Financial Statements of the Company on page 118 of this Annual Report.

3. Shareholders' Participation

3.1 Shareholders' Voting Rights

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

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

3.2 Limitation on Transferability of Shares and Nominee Registration

Voting rights and appurtenant rights associated therewith may be exercised in relation to the Company by a shareholder, usufructuary of shares or nominee only to the extent that such person is recorded in the share register as a shareholder with voting rights. The Company's shares are freely transferable,

but an acquirer of shares will only be recorded upon request in the share register as a shareholder with voting rights, if such acquirer expressly declares to have acquired the shares in his own name and for his own account.

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

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

In special cases, the Board of Directors may grant exemptions from the rule concerning Nominees. In 2017, no such exemptions were granted.

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

3.3 Shareholders' Dividend Rights

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

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

Ordinary dividends may be paid only if the Company has sufficient distributable profits from previous years or freely distributable reserves to allow the distribution of a dividend, in each case, as presented on the Company's annual statutory standalone balance sheet prepared in accordance with Swiss company law.

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

3.4 Shareholders' Participation Rights

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

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

4. Board of Directors

4.1 Responsibilities, Organization and Working Methods

The Articles[10] provide that the Board of Directors shall consist of a minimum of 3 members and maximum of 11 members. As of December 31, 2017, the Board of Directors consisted of 10 members.

Members (including the chairman of the Board of Directors (the **Chairman**)) are appointed to and removed from the Board of Directors exclusively by shareholders' resolution.

The essential roles and responsibilities of the Board of Directors, the Chairman, and the standing Committees of the Board are defined by the Company's Articles[10] and the Organizational Rules[11] (including Charters for the Nomination and Compensation Comittee[12], the Audit and Finance Committee[13] and the Science Committee[14]). The allocation of tasks within the Board of Directors is determined annually, following the Annual General Meeting and in accordance with the Articles and the Organizational Rules.

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

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

The Chairman or, should he or she be unable to do so, any other member of the Board of Directors shall convene meetings of the Board of Directors if and when the need arises or whenever a member indicating the reasons so requests in writing. Meetings may also be held by telephone or video

10 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20180122-statuten-molecular-partners.pdf
11 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/organizational-rules-v2.pdf
12 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/charter-of-the-compensation-committee-20141003.pdf
13 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/charter-of-the-audit-committee-20141003.pdf
14 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20170920-charter-science-committee.pdf

conference. Notice of meetings shall be given at least 10 days prior to the meeting and the notice shall set forth the agenda. The items on the agenda of the meetings of the Board of Directors shall be determined by the Chairman. Each member may request an item to be put on the agenda.

The Board of Directors meets at least on a quarterly basis. In 2017, the Board of Directors met five times in person, and in addition conducted five meetings by telephone conference. A vast majority (if not all) of the members were present at each Board meeting. Physical Board meetings lasted in average approximately four hours, telephone conference approximately one hour. The Board of Directors held ad hoc meetings or telephone conferences to discuss specific issues, when the situation so required.

The Management Board presents reports and the Board of Directors then takes decisions on the relevant issues, except where the Board of Directors has delegated specific decisions to a Committee[15]. If the Management Board presents its report to a Committee, the Committee takes a preliminary decision, which is reported along with the details of the issue to the entire Board of Directors, which then makes the final decision.

In accordance with Swiss law, the Articles and the Company's Organizational Rules[16], the Board of Directors has delegated the Company's management to the chief executive officer of the Company (the **CEO**).

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

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

An effective system of internal controls has been in place in 2017, designed to (i) safeguard the assets and income of the Company, (ii) assure the integrity of the Company's financial statements and (iii) maintain compliance with the Company's ethical standards, policies, plans and procedures, and with laws and regulations. The quality of this system of internal controls is assessed by the Audit and Finance Committee.

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

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

15 Please refer to Section 4.6 on page 42 of this Corporate Governance Report for more details on areas of responsibilities of each Board committee.

16 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/organizational-rules-v2.pdf

4.3 Elections and Term of Office

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

4.4 Members

The following table sets forth the name, function and committee membership of each member of the Board of Directors as of December 31, 2017, followed by a short description of each member's nationality, birth year, business experience, education and activities.

As of December 31, 2017	Nationality	Function	Committee Membership(s)	First elected	End current period
Jörn Aldag[17]	German	Chairman	Audit and Finance Committee Nomiation and Compensation Committee (Chairperson)	2007	2018
William M. Burns	British	Vice-Chairman	-	2017	2018
Dr. Göran Ando	Swedish	Member	-	2010	2018
Jeffrey H. Buchalter[18]	U.S.	Member	Audit and Finance Committee	2016	2018
Dr. Gwen Fyfe	U.S.	Member	Science Committee	2017	2018
Steven H. Holtzman	U.S.	Member	-	2014	2018
Dr. William A. Lee	U.S.	Member	Nomination and Compensation Committee Science Committee (Chairperson)	2007	2018
Prof. Dr. Andreas Plückthun[19]	German/ Swiss	Member	Science Committee	2004	2018
Dr. Petri Vainio	Finnish	Member	Audit and Finance Committee (Chairperson) Nomination and Compensation Committee	2009	2018
Dr. Patrick Amstutz	Swiss	Member	-	2017	2018

17 Mr. Aldag will not seek re-election at the Annual General Meeting of April 18, 2018.
18 Mr. Buchalter will not seek re-election at the Annual General Meeting of April 18, 2018.
19 Mr. Plückthun will not seek re-election at the Annual General Meeting of April 18, 2018

Gwen Fyfe was appointed to the Board of Directors at the Annual General Meeting on May 11, 2017. William M. Burns and Patrick Amstutz joined the Board of Directors following the Extraordinary General Meeting on October 31, 2017. Christian Zahnd, former CEO of the Company, was member of the Board of Directors until the Annual General Meeting of May 11, 2017.

As of December 31, 2017, all members of the Board of Directors are non-executive, except Patrick Amstutz, CEO of the Company. 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.

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

Jörn Aldag, German national, born in 1959

Jörn Aldag leads the Board of Directors of Molecular Partners. He is CEO of Hookipa Biotech AG, Vienna, a company developing innovative active immunization therapies for infectious diseases and immuno-oncology. Previously, Mr. Aldag was the CEO of Nasdaq-listed uniQure N.V (2009-2015), a company pioneering adeno-associated virus based gene therapy. Under his leadership, uniQure received the first ever approval of a gene therapy product by the European Medicines Agency, built a broad pipeline of gene therapy products across several disease areas, obtained approximately $200 million through its NASDAQ-listing and follow-on, and closed a multi-billion dollar collaboration in cardiovascular gene therapy. Previously, Mr. Aldag was President and CEO of Evotec AG (1997-2008). At Evotec AG, he designed many alliances with leading pharma and biotech companies, listed the company on the Frankfurt Stock Exchange and Nasdaq and managed the acquisition of LSE-listed Oxford Asymmetry and Nasdaq-listed Renovis Inc. Mr. Aldag is also a co-founder of G7 Therapeutics, Zurich, a GPCR company, successfully divested to Heptares in 2016. He is also a board member of Unum Therapeutics (Boston, MA, USA) which is developing next-gen immuno-oncology therapies. Mr. Aldag holds business degrees from the European Business School and Harvard Business School (AMP).

William M. Burns, British national, born in 1947

William “Bill” Burns is the Vice-Chairman of Molecular Partners. Bill 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 will step down from the Shire Board in April 2018. Since 2011, Bill Burns has been a non-executive director of Vestergaard S.A. He became Chairman of Vestergaard in 2017. Bill Burns has been Vice-Chairman of Mesoblast since 2016. He is a Trustee and Governor of the Welcome Trust Ltd. and a Trustee of the Institute of Cancer Research, London. He is also a member of the Novo Holdings Advisory Group and a member of the Scientific Advisory Board Member of the Center for Integrated Oncology of the University of Cologne/Bonn. Bill Burns holds a bachelor’s degree in economics from the University of Strathclyde, Glasgow.

Dr. Göran Ando, Swedish national, born in 1949

Dr. Göran Ando is Chairman of the board of directors of Novo Nordisk A/S, a position for which Dr. Ando will not seek re-election in March 2018. He was CEO of Celltech Group plc, UK, until 2004. Dr. Ando joined Celltech from Pharmacia, now Pfizer, US, where he was Executive Vice President (EVP) and President of Research and Development (R&D) with additional responsibilities in manufacturing, information technology, business development and Mergers & Acquisitions (M&A) (1995-2003). He was Medical Director, moving to deputy R&D Director and then R&D Director of Glaxo Group, UK (1989-1995). Dr. Ando was also a member of the Glaxo Group Executive Committee. He is a specialist in general medicine and a founding fellow of the American College of Rheumatology in the U.S. Dr. Ando serves as Chairman of the board of directors of Symphogen A/S, Denmark, and is a member of the board of directors of EUSA Pharma, UK, ICMEC, U.S. and also serves as a Senior Advisor to EW Healthcare Partners. 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.

Jeffrey H. Buchalter, U.S. national, born in 1957

Jeffrey H. Buchalter is the Chairman and Chief Executive Officer of KBS Healthcare Consulting, Florida, and he serves as Chairman of the board of directors of the UK-based Inivata Ltd. Mr. Buchalter served in various senior executive positions, including being CEO of NASDAQ-listed Enzon (NASDAQ:ENZN) and of Ilex Oncology, as well as a Senior Executive at Pharmacia, Wyeth and Schering-Plough. Mr. Buchalter serves as member of the board of directors of Symphogen A/S, Denmark. He brings many years of strategic and operational experience in the life science industry with a focus in the commercial positioning and development of therapeutics in oncology. Mr. Buchalter graduated from Seton Hall University, Newark, NJ, and he holds Bachelor's degrees in both, Science and Finance. Moreover, he earned an MBA at Temple University, Philadelphia, PA. Mr. Buchalter received the American Cancer Society's Joseph F. Buckley Memorial Award for commitment to cancer control and involvement in the oncology pharmaceutical field. He also served as Collaborating Partner in President's National Dialogue on Cancer (invited by President George Bush).

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

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

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

Steven H. Holtzman joined Decibel Therapeutics as president and chief executive officer in 2016. Decibel discovers and develops novel therapeutic approaches to treat hearing loss and other hearing disorders. Prior to Decibel, he served as executive vice president, corporate development at Biogen, Inc.

At Biogen, Mr. Holtzman created and led the program leadership and management group through six new drug approvals. He also led the business development and M&A group through successful completion of numerous transactions. Prior to Biogen, Mr. Holtzman served as the founder, chief executive officer and chair of the board of directors of Infinity Pharmaceuticals, Inc., a cancer drug discovery and development company. He was also an early leader and the chief business officer of Millennium Pharmaceuticals (now Takeda Oncology), a pioneer in largescale genetics and genomics, and was a founder, member of the board and the executive vice president of DNX Corporation, the first transgenic animal company. Mr. Holtzman is a member of the board of directors of Visterra and Warp Drive Bio. In the not-for-profit arena, Mr. Holtzman is currently a trustee of the Berklee College of Music and previously served as the vice chairman of the board of trustees of the Hastings Center for Ethics and the Life Sciences. From 1996 to 2001, he served 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 (1979) from Corpus Christi College. He attended Oxford University as a Rhodes Scholar.

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

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

Prof. Dr. Andreas Plückthun, German and Swiss national, born in 1956

Prof. Dr. Andreas Plückthun is Full Professor at the Department of Biochemistry at the University of Zurich and a co-founder of Molecular Partners (2004), the German biotechnology company MorphoSys, a leading antibody company (1992), and G7 Therapeutics (2014), a GPCR company, successfully divested to Heptares in 2016. Dr. Plückthun was appointed to the faculty of the University of Zurich as a Full Professor of Biochemistry in 1993. Dr. Plückthun was group leader at the Genzentrum and Max-Planck-Institut für Biochemie in Martinsried, Germany (1985-1993). His pioneering scientific work has made him one of the most highly cited scientists in the protein science field and his work has been honored by a number of international awards. Dr. Plückthun studied chemistry at the University of Heidelberg and received his graduate education at the University of California San Diego, where he obtained a PhD in 1982 in the group of Prof. Edward Dennis. He also worked as a postdoctoral fellow in the Chemistry Department of Harvard University (1982-1985).

Dr. Petri Vainio, Finnish national, born in 1959

Petri Vainio, MD, PhD. has spent his entire career as an investor and board member in rapidly growing healthcare companies. He has been a lead investor in numerous successful healthcare companies in all sectors, including pharmaceuticals, biotechnology, medical devices and healthcare services. Dr. Vainio has served on the board of directors of over 20 private and public healthcare companies and has helped these companies raise over USD 1 billion in private financings and create a combined enterprise value of over USD 60 billion. Petri 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, Petri 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. Petri Vainio holds a Doctor of Medicine and a Doctor of Philosophy degree in Biochemistry from the University of Helsinki and a Master in Business Administration degree from Stanford University.

Dr. Patrick Amstutz, Swiss national, born in 1975

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

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

4.5 Rules Regarding Mandates in the Articles of Association

According to Article 33 of the Articles[20], the number of mandates in the board of directors of legal entities which are to register in the Swiss Commercial Register or a similar foreign register outside the group is limited for each member of the Board of Directors to 15 mandates. Mandates in different legal entities being part of the same group or for the same group are deemed to be one mandate. Mandates in associations, charitable organizations, family trusts and foundations relating to post-retirement benefits are not subject to the above limitations. No member of the Board of Directors shall hold more than 10 such mandates.

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

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

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

c. official functions and political posts.

[20] http://investors.molecularpartners.com/corporate-governance/articles-of-incorporation.aspx

4.6 Board Committees

The Board of Directors has established an Audit and Finance Committee, a Nomination and Compensation Committee and a Science Committee. The duties and objectives of the board committees are set forth in the Articles[21], the charter of the Audit and Finance Committee[22], the charter of the Nomination and Compensation Committee[23] and the charter of the Science Committee.[24]

4.6.1 Audit and Finance Committee

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

The function of the Audit and Finance Committee is to make an independent assessment of the quality of the external auditors, the financial statements and the internal controls of the Company. In particular, the Audit and Finance Committee[25] (i) assesses the quality and effectiveness of the external audit, (ii) assesses the quality of the internal control system, including risk management and the efficiency and state of compliance and monitoring with applicable norms within the Company, (iii) critically reviews the Company's financial statements, discusses them with the CEO and the Company's chief financial officer and, separately, with the head of the external audit and decides whether the year-end financial statements be recommended to the Board of Directors for presentation to the annual shareholders' meeting, (iv) assesses the performance and the fees charged by the external auditors, ascertains their independence and examines compatibility of the auditing responsibilities with any consulting mandates, (v) discusses with the management of the Company any legal matters that may have a material impact on the Company's financial statements and any material reports or inquiries from regulatory or governmental agencies which could materially impact the Company's contingent liabilities or risks and (vi) supports the Board of Directors with regard to the financial planning as well as in establishing principles of accounting and financial control and review finance policy and operation in treasury controlling, insurances, taxes and investment and acquisitions.

The Audit and Finance Committee holds meetings as often as required, but in any event at least twice a year. In 2017, the Audit and Finance Committee held four meetings of about one hour each. The meetings are convened by the chairperson of the Audit and Finance Committee on his or her own initiative or on the initiative of a member of the Audit and Finance Committee.

In 2017, the Audit and Finance Committee consisted of Dr. Petri Vainio (chairperson), Jörn Aldag and Jeffrey H. Buchalter.

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

21 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20180122-statuten-molecular-partners.pdf
22 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/charter-of-the-audit-committee-20141003.pdf
23 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/charter-of-the-compensation-committee-20141003.pdf
24 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20170920-charter-science-committee.pdf
25 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 financial statements of the Company remains subject to the decision of the entire Board of Directors.

Directors and the Management Board. The Nomination and Compensation Committee administers the compensation plans and submits proposals for performance metrics, target values and other compensation-related issues to the Board of Directors. Following a meeting of the Nomination and Compensation Committee, the chairperson of the Nomination and Compensation Committee reports and updates the Board of Directors at the next board meeting on the Nomination and Compensation Committee's activities, decisions taken and considerations which led to such decisions. Important findings arising from the Nomination and Compensation Committee's activities, which are urgent and should be known by the Chairman of the Board of Directors, must be reported immediately by the chairperson of the Nomination and Compensation Committee to the Chairman of the Board of Directors. Upon request of the Chairman, the chairperson of the Nomination and Compensation Committee shall report on any other issue. Please refer to page 51 of the Compensation Report for an overview of the tasks of the Nomination and Compensation Committee regarding compensation and the items which remain subject to the approval of the entire Board of Directors.

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

The Nomination and Compensation Committee holds meetings as often as required, but in any event at least twice a year. In 2017, three meetings of the Nomination and Compensation Committee took place and lasted in average for one hour and a half. The meetings are convened by the chairperson of the Nomination and Compensation Committee on his or her own initiative or on the initiative of a member of the Nomination and Compensation Committee. The chairperson of the Nomination and Compensation Committee reports and updates the Board of Directors at the next board meeting on the recent Nomination and Compensation Committee's activities.

In 2017, the Nomination and Compensation Committee consisted of Jörn Aldag (chairperson), Dr. Petri Vainio and Dr. William Lee.

4.6.3 Science Committee

A new Science Committee was created in 2017. The Science Committee provides (i) strategic advice and bring recommendations to 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 Science Committee is only acting in an advisory capacity.

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

The Science Committee holds meetings as often as required, but in any event at least twice a year. In 2017, four meetings of the Science Committee took place and lasted in average for three hours. The meetings are convened by the chairperson of the Science Committee on his or her own initiative or on the initiative of a member of the Science Committee. The chairperson of the Science Committee reports and updates the Board of Directors at the next board meeting on the recent Science Committee's activities. The Science Committee invited from time to time internal experts or external consultant to join part of the committee meeting.

In 2017, the Science Committee consisted of Dr. William Lee (chairperson), Dr. Gwen Fyfe and Prof. Dr. Andreas Plückthun.

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

Information about compensation of the Board of Directors and loans, credit facilities and post-employment benefits can be found in the Compensation Report of the Company at page 58 of this Annual Report. Information about shareholdings of the Board of Directors can be found in note 20 to the statutory financial statements of the Company at page 118 of this Annual Report.

5. Management Board

5.1 Responsibilities and Organization

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

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

5.2 Election and Term of Office

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

5.3 Members

The following table sets forth the name and principal position of each member of the Management Board as of December 31, 2017, followed by a short description of each member's nationality, birth year, business experience, education and activities.

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

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

Dr. Patrick Amstutz, Swiss national, born in 1975

Please refer to Section 4.4 on page 41 above, for Patrick Amstutz biographic details.

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

Dr. Michael Tobias Stumpp is Chief Scientific Officer and oversees the internal research and development activities including the internal pipeline. He is a co-founder of the Company and a co-developer of the DARPin® technology, for which he received his PhD from the University of Zurich. He started his scientific career at the ETH Zurich and then progressed to the Imperial College London and the Tokyo Institute of Technology. Dr. Stumpp published his research in many international peer reviewed scientific journals and presented his findings at numerous congresses.

Andreas Emmenegger, Swiss national, born in 1966

Andreas Emmenegger is Chief Financial Officer (CFO) and Co-Entrepreneur of Molecular Partners since 2007. Prior to that, he was CFO of Glycart Biotechnology AG where he had a leading role in the CHF 235 million trade sale to F. Hoffmann-La Roche AG in 2005. Mr. Emmenegger was Head of Strategic Alliance Finance (Genentech) for Roche Headquarters, Basel, Switzerland. He has more than 20 years of experience as a CFO of several public and private multinational companies, of which 15 years 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 Echange 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 co-founder and member (since 2011) of the board of directors of Piqur Therapeutics AG, Switzerland, a venture-backed privately held biopharmaceutical company. Since 2016 he has been a member of the board of directors of the Luzerner Kantonalbank, Switzerland, a publicly listed bank. Mr. Emmenegger holds a degree in finance, economics and business administration as well as an Executive MBA degree from IESE Business School, Barcelona.

Dr. Andreas Harstrick, German national, born in 1961

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

5.4 Rules Regarding Mandates in the Articles of Association

According to Article 33 of the Articles[26], the number of mandates of the members of the Management Board in legal entities which are to register in the Swiss Commercial Register or a similar foreign register outside the group is limited for each member of the Management Board to 5 mandates. Mandates in different legal entities being part of the same group or for the same group are deemed to be one mandate. Mandates in associations, charitable organizations, family trusts and foundations relating to post-retirement benefits are not subject to the above limitations. No member of the Management Board shall hold more than 10 such mandates.

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

a. governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law;
b. permanent management and consultancy functions for important Swiss and foreign interest groups; or
c. official functions and political posts.

5.5 Compensation of Management Board and Shareholdings

Information about compensation of the Management Board can be found in the Compensation Report of the Company at page 60 of this Annual Report. Information about shareholdings of the Management Board can be found in note 20 to the statutory financial statements of the Company at page 118 of this Annual Report.

5.6 Management Contracts

The Company may enter into employment agreements with the members of the Management Board for a fixed term or for an indefinite term. The duration of fixed term agreements may not exceed one year. A renewal of a fixed term agreement is permissible. Agreements for an indefinite term may have a termination notice period of a maximum of one year. Finally, the Company may enter into non-competition agreements with members of the Management Board for the period after the termination of the employment agreement. The duration of any such non-competition undertaking by a member of the Management Board must not exceed two years and the consideration paid for a non-competition undertaking must not exceed the sum of the total annual compensation of the respective member of the Management Board last paid. As of December 31, 2017, all four members of the Management Board held employment agreements with an indefinite term.

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

6. Employee Participation Programs

In order to align its employee's interests with those of the Company, the Company operates long-term 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 at page 55ff of this Annual Report.

[26] http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20180122-statuten-molecular-partners.pdf

7. Duty to Make a Public Tender Offer

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

8. Clauses on Change of Control

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

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

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

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

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

9. Auditors

9.1 Auditors

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

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

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

KPMG AG assumed the auditing mandate of the Company in 2009. The auditor in charge and responsible for the mandate, Martin Rohrbach, began serving in this function in respect of the financial year ended December 31, 2016. The lead external auditor is replaced every seven years.

9.3 Auditing and Additional Fees Paid to the Auditor

In CHF 1,000	2017	2016
Auditing fees	149	150
Additional fees[27]	17	8

9.4 Informational Instruments Relating to External Audits

The Audit and Finance Committee is responsible for reviewing the internal control of the accounts and finances of the Company via its supervisory role over both external and internal audit functions (see section 4.2 above).

The Audit and Finance Committee receives and critically reviews statutory and IFRS financial statements as well as the comprehensive report prepared by the external auditor (see section 4.2 above). The Audit and Finance Committee discusses these with the CFO/CEO and, should the occasion warrant, with the external auditors.

The external auditors also provide timely reports to the Audit and Finance Committee on critical accounting policies and practices used, on alternative treatments of financial information discussed with Management Board and on other material written communication between external auditors and 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 2017, 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, on an infrequent basis, assess offers and presentations from several appropriate, independent external audit firms and will then make a proposal to the full Board of Directors, based on pre-defined service level and quality criteria, as to the external auditors to be recommended for election. The shareholders at the annual general meeting will give the final approval of the external auditors.

[27] The additional fees for 2017 and 2016 relate to audit related services and an IFRS training.

10. Information Policy

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

For the financial calendar and events, please refer to the following link: http://investors.moleculARpartners.com/financial-calendar-and-events/2018.aspx

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

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

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

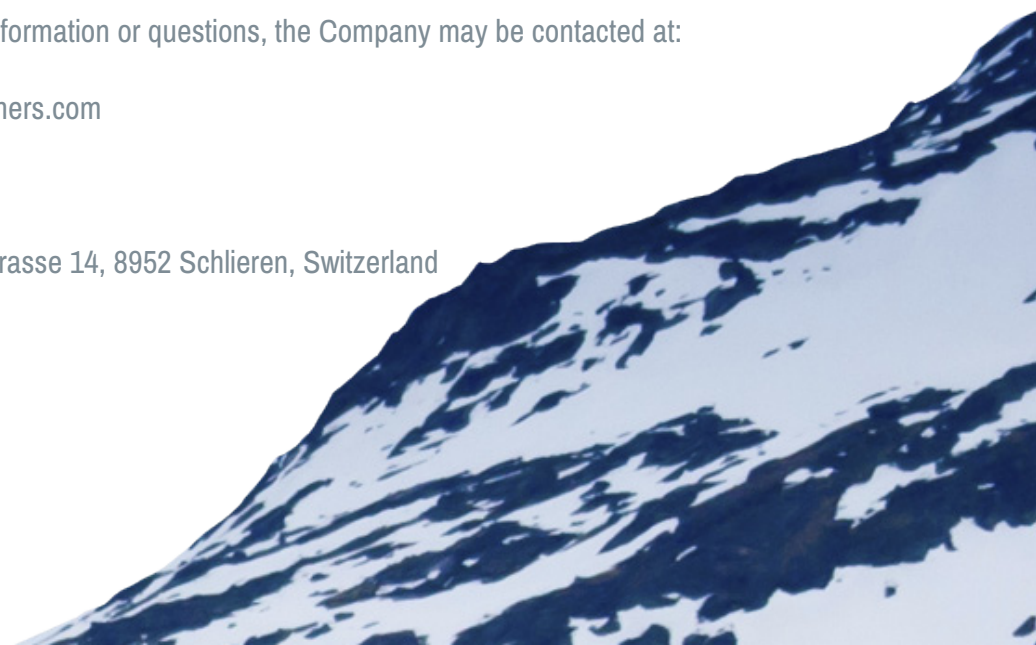
The invitation to the Company's Annual General Meeting may also be sent to registered shareholders by mail.

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

Mail: investors@moleculARpartners.com

Phone: +41 44 755 7700

Molecular Partners AG, Wagistrasse 14, 8952 Schlieren, Switzerland



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 2017 in accordance with section 5 of the Annex to the Directive on Corporate Governance **(DCG)** and the Ordinance Against Excessive Compensation in Public Companies **(Compensation Ordinance)**.

1. Compensation Policy

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

2. Compensation Governance

2.1 Nomination and Compensation Committee

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

For a more detailed description of the Nomination and Compensation Committee please refer to section 4.6.2 of the Corporate Governance Report on page 42.

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

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

Agenda Item	Proposed	Approved
Compensation report to the shareholders	NCC	Board of Directors
Compensation strategy, system and guidelines	NCC	Board of Directors
Adoption of compensation and benefit plans	NCC	Board of Directors
Definition of performance criteria (for cash bonus and PSUs) [2]	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) [2]	NCC	Board of Directors [1]
Determination of the base compensation (cash) of the Management Board	NCC	Board of Directors [1]
Determination of the variable compensation (cash bonus and PSUs) of the Management Board	NCC	Board of Directors [1]
Grant of PSUs and RSUs other than to the Board of Directors and the Managment 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] Final approval of the maximum compensation by shareholders
[2] PSU = performance share units, RSU = restricted share units, more details under section 3.2.3

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

In 2017, the meetings of the Nomination and Compensation Committee and the Board of Directors took place in January, March and June. Two meetings of the Nomination and Compensation Committee and the Board of Directors dealing with 2017 compensation and Compensation Report were held in February and March 2018. At these meetings, the Nomination and Compensation Committee and the Board discussed and approved:

- The fixed compensation of the Board of Directors and the Management Board for 2017;
- The determination and the review of the corporate goals 2017;
- The motions to the Annual General Meeting 2017 regarding compensations;
- The compensation report 2016;
- The long-term equity incentive plans 2017 and the allocation of the related PSUs/RSUs;
- The achievement of the corporate goals 2017.

In addition, the Nomination and Compensation Committee discussed at these meetings compensation topics, such as the performance of a compensation benchmarking study, and dealt with various nomination topics for senior positions.

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

In 2014, in view of Molecular Partners' IPO, a review of the Board of Directors' and Management Board's total compensation was performed by an external consultancy firm to assess market competitiveness of Molecular Partners' compensation levels, to get a benchmarking against industry standards of compensation levels and to better understand market trends. For the analysis, compensation data of 13 companies[1] (including biotechnology, medical technology and pharmaceutical companies) listed on SIX and seven companies listed on the NASDAQ[2] were collected.

In summer 2017, a new compensation benchmarking study was performed by an external consultancy firm to assess market competitiveness of Molecular Partners' compensation levels for the Board of Directors (including Chairman) and the Management Board. This compensation study will be used to benchmark the compensation 2018 of the Board of Directors (including Chairman) and Management Board. In this analysis, compensation data of 13 Swiss companies[3] (including biotechnology, medical technology and pharmaceutical companies) and 17 companies listed on the NASDAQ[4] were collected.

2.4 Rules in the Articles Regarding Compensation

The rules regarding (i) compensation of the Board of Directors and the Management Board (Articles 27 to 29), (ii) agreements regarding compensation of the Board of Directors and the Management Board (Article 30) and (iii) loans and credits, as well as post-retirement benefits (Article 31 and 32) can be found in the Company's Articles[5].

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 28 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 61.

1 Novartis, Basilea, Acino, Siegfried, Evolva, Actelion, Cytos, Tecan Group, Bachem, Newron Pharma, Santhera, Cosmo and Roche.
2 Ophthotech, Epizyme, Macrogenics, Intercept Pharma, Bluebird Bio, Xencor and Uniqure.
3 Actelion, Straumann, Cosmo, Ypsomed, Tecan Group, Siegfried, Basilea, AC Immune, Bachem, Santhera, Newron Pharma, Cassiopea and Kuros.
4 Galapagos, Intercept, Bluebird, Kite, Juno, Clovis, Morphosys, Xencor, AC Immune, Macrogenics, Epizyme, Ablynx, Merrimack, Argen-X, Immunogen, Opthotech and Pieris.
5 http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20180122-statuten-molecular-partners.pdf

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 provides that the shareholders' meeting must, each year, vote separately on the proposals by the Board of Directors regarding the maximum aggregate amounts of:

- the compensation of the Board of Directors for the next term of office (until the next annual general meeting);
- 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* consist of fixed compensation only. The total compensation takes into account the position and level of responsibility of the respective member of the Board of Directors (including Board and Committee chairmanship and membership).

The compensation of the members of the *Management Board* consists of fixed and variable compensation. Fixed compensation comprises the base salary. 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 pre-defined annual corporate goals (see section 3.2.2 below).
- The long-term variable compensation (performance share units, PSUs) is determined based on (i) the achievement of annual corporate goals, (ii) the achievement of value driving milestones outside of such corporate goals and (iii) the development of the share price of the Company (see section 3.2.3 below).

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

- Board of Directors: Approximately 20% fix cash fee (base fee), 0% short-term cash bonus and approximately 80% in form of RSU under the LTI Plan (RSUs with 1 year vesting and 3 year blocking period);

- Management Board: Approximately 45% fix cash salary (base salary), 15% short-term cash bonus and 40% in the form of PSU under the LTI Plan (PSUs with 3 year cliff-vesting).

The overall balance between the fixed 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 fixed 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. Fixed compensation is paid in the form of a base compensation in cash, the variable compensation is paid in the form of a cash bonus and PSUs.

3.2.1 Base Cash Compensation

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

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

3.2.2 Cash Bonus

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

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

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

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

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

The corporate goals 2017 were divided in five categories with each category having a predetermined weighting:

- Goals regarding the achievement of clinical development of Molecular Partners' proprietary pipeline in oncology, such as the advancement of the MP0250 Phase 2 trial in multiple myeloma, MP0250 Phase 2 trial in non-small cell lung cancer and the MP0274 Phase 1;
- Goals regarding the strengthening of Molecular Partners' pre-clinical portfolio;
- Goals regarding partnerships;
- Goals regarding financing; and
- Goals regarding internal organization and advisory networks.

3.2.3 Long-Term Incentive Plans (LTI Plans)

In 2014, the Board of Directors adopted a framework of Long-Term Incentive Plans (LTI Plans). The LTI Plan 2017 were approved by the Board of Directors in March 2017. Under the LTI Plans members of the Board of Directors are eligible to be granted restricted share units (RSUs) and members of the Management Board as well as all employees are eligible to be granted performance share units (PSUs).

Restricted Share Units (RSUs)

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

Performance Share Units (PSUs)

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

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

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

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

- *Achievement of the corporate goals* for the year 2017. Can be between zero and up to a maximum of 80%. Please refer to section 3.2.2 for an overview of the corporate goals 2017.

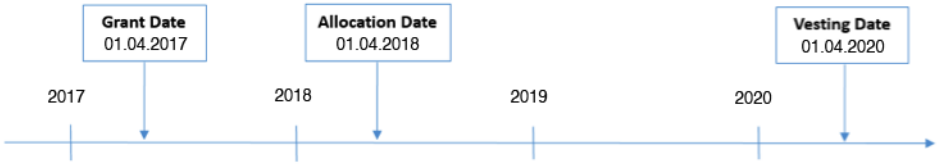
- *Achievement of value driving milestones outside of corporate goals 2017:* Can be between zero and maximum 20%.

- *Share price performance* of Molecular Partners over 12 months since grant date: Can be between zero and maximum 20% (20% is reached if the share price has gone up at least 10%; 0% is reached if share price is less/equal 0%; pro rata if share price has gone up between 0-10%). The relevant share price is the average of the last paid price of the trading days during the two months prior to the start and the end point, respectively.

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

At the beginning of each year, the Nomination and Compensation Committee proposes and the Board of Directors approves the three factors above for the calendar year. In February and March of the following year, the Nomination and Compensation Committee reviews the achievement of those pre-defined goals set for the previous year and the Board of Directors approves such achievement.

From a time perspective the PSU plan 2017 can be summarized as follow:



RSUs and PSUs grants and adoption of LTI Plan for 2017:

- Existing employees received PSU grants on April 1, 2017 and the employees who joined Molecular Partners after April 1, 2017 received PSU grants depending on their entry date on July 1, 2017, October 1, 2017 or January 1, 2018.

- Members of the Management Board and the Board of Directors received their grants of PSUs and RSUs under the LTI Plan 2017 after the ordinary shareholders' meeting of 2017, i.e. after shareholders' approval of the variable compensation amounts for the year 2017.

3.2.4 Stock Options

The Company established three stock option plans in connection with two pre-IPO financing rounds that were closed in 2007 and in 2009: the Employee Stock Option Plan 2007 (the ESOP 2007) and the Employee Stock Option Plan 2009 (the ESOP 2009). In June 2014, the Board of Directors adopted an amended version of the ESOP 2009, the ESOP 2014, which did not anymore provide for accelerated vesting of options in case of an initial public offering of the Company. Options granted under the ESOP 2014 allow participating employees, members of the Board of Directors and members of the Management Board to purchase common shares with 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, 2017, 954,360 options were outstanding under all three option plans together. For additional information reference is made to note 18.2 of the IFRS financial statements on page 92 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 47 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 paid to the members of the Board of Directors in 2017 and 2016:

Year 2017	Base compensation		RSUs		Total Compensation
in CHF 1,000	Base fee (cash gross)	Social security and pension contributions	Number of RSUs	Value of RSUs	Total Compensation
Jörn Aldag Chairman	47	-	5,768	150	197
Dr. Göran Ando Member	16	-	2,884	75	91
Steven Holtzman Member	16	-	2,884	75	91
Dr. William A. Lee Member	21	-	2,884	75	96
Prof. Dr. Andreas Plückthun Member	16	-	2,884	75	91
Dr. Petri Vainio Member	31	-	2,884	75	106
Jeff Buchalter Member	21	-	2,884	75	96
Dr. Gwen Fyfe Member	10	-	2,884	75	85
William Burns Vice-Chairman	3	-	1,445	38	41
Dr. Christian Zahnd[6] Member	-	-	-	-	-
Dr. Patrick Amstutz Member	-	-	-	-	-
Total	**181**	**-**	**27,401**	**713**	**894**

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

Year 2016	Base compensation		RSUs		Total Compensation
in CHF 1,000	Base fee (cash gross)	Social security and pension contributions	Number of RSUs	Value of RSUs	Total Compensation
Jörn Aldag Chairman	47	-	4,930	150	197
Dr. Göran Ando Member	16	-	2,465	75	91
Dr. Francesco De Rubertis [1] Member	-	-	-	-	-
Steven Holtzman Member	16	-	2,465	75	91
Dr. William A. Lee Member	21	-	2,465	75	96
Prof. Dr. Andreas Plückthun Member	16	-	2,465	75	91
Dr. Petri Vainio Member	31	-	2,465	75	106
Jeff Buchalter Member	15	-	2,465	75	90
Dr. Christian Zahnd Member	-	-	-	-	-
Total	**162**	**-**	**19,720**	**600**	**762**

[1] In 2016, Dr. Francesco De Rubertis was a member of the Board of Directors from January 1, 2016 until April 20, 2016 (date of the Annual General Meeting 2016). He waived his entitlement to compensation for this period.

The individual compensation to the members of the Board of Directors has remained unchanged in 2017 compared to 2016. Three new members joined in the course of 2017. Gwen Fyfe joined the Board of Directors in May 2017. William Burns was elected to the Board of Directors in October 2017. Patrick Amstutz, CEO of the Company, also joined the Board of Directors in October 2017[7].

In 2017, the portion of compensation delivered in the form of RSUs (based on the fair value of the RSUs at grant) amounted to 80% (2016: 79%) of the total compensation paid to the members of the Board of Directors.

The compensation paid out to the Board of Directors in 2016 and 2017 does not exceed the respective budgets approved by the annual general meetings 2016 and 2017.

Compensation Paid to Former Members of the Board of Directors

In 2016 and 2017, no compensation to former members of the Board of Directors has been paid.

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

4.2 Compensation to the Management Board in 2017 and 2016

The tables below summarize the compensation paid to the members of the Management Board in 2017 and 2016:

Year 2017	Fixed compensation		Variable compensation			Total Compensation
in CHF 1,000	Base salary (cash gross)	Bonus (cash gross)	Social security and pension contributions	Number of PSUs	Value of PSUs	Total Compensation
Total Management	1,268	370	143	38,457	1,088	2,869
Dr. Patrik Amstutz CEO	344	142	53	12,220	346	885

Year 2016	Fixed compensation		Variable compensation			Total Compensation
in CHF 1,000	Base salary (cash gross)	Bonus (cash gross)	Social security and pension contributions	Number of PSUs	Value of PSUs	Total Compensation
Total Management	1,645	490	194	43,124	1,428	3,757
Dr. Christian Zahnd CEO[8]	382	155	57	11,573	383	977

The decrease of the aggregate fixed compensation of the Management Board is due to the change in its composition (5 members in 2016 and 4 members in 2017).

For the entire Management Board, the variable compensation (cash bonus and PSUs based on the fair value of the PSUs at grant; excluding social security and pension contributions) represented 51% of the total compensation in 2017 (2016: 51%).

The variable compensation paid out to the Management Board in 2016 and 2017 does not exceed the respective budgets approved by the annual general meetings 2016 and 2017.

[8] Christian Zahnd resigned for health reasons from his position as CEO on November 7, 2016. He remained a member of the Board of Directors of Molecular Partners until the Annual General Meeting 2017 (May 11, 2017). The compensation presented in this chart corresponds to Christian Zahnd's compensation as CEO for the full year 2016. Since November 7, 2016, Christian Zahnd continued to receive his compensation as CEO in accordance with Molecular Partners' health insurance policy. He did not perceive any compensation for his Board membership.

Compensation Paid to Former Members of the Management Board

In 2017, the compensation shown in the table below was paid to Christian Zahnd. He resigned for health reasons from his position as CEO on November 7, 2016, but remained a member of the Board of Directors of Molecular Partners until the Annual General Meeting 2017, on May 11, 2017. Christian Zahnd passed away on November 11, 2017[9].

Year 2017	Fixed compensation		Variable compensation			Total Compensation
in CHF 1,000	Base salary[10] (cash gross)	Bonus (cash gross)	Social security and pension contributions	Number of PSUs	Value of PSUs	Total Compensation
Dr. Christian Zahnd	379	64	32	-	-	475

In 2016, no compensation to former members of the Management Board has been paid.

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[11] 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[12] 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, 2017 and 2016, the Company has not granted any loans, credit lines or post-retirements 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 statutory financial statements of the Company on page 118 of this Annual Report.

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

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

11 See Article 31 of the Articles (http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20180122-statuten-molecular-partners.pdf)

12 See Article 32 of the Articles (http://investors.molecularpartners.com/~/media/Files/M/Molecular-Partners/articles/20180122-statuten-molecular-partners.pdf)

Statutory Auditor's Report

To the General Meeting of Molecular Partners AG, Schlieren

Report on the Audit of the Compensation Report

We have audited the accompanying compensation report dated March 14, 2018 of Molecular Partners AG for the year ended December 31, 2017. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in section 4 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation 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 compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

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

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

Opinion

In our opinion, the compensation report for the year ended December 31, 2017 of Molecular Partners AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Martin Rohrbach
Licensed Audit Expert
Auditor in Charge

Kathrin Schünke
Licensed Audit Expert

Zurich, March 14, 2018

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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IFRS Financial Statements

Statement of financial position as of December 31, in CHF thousands	Note	2017	2016
Assets			
Property, plant and equipment	6	1,871	2,496
Intangible assets	7	27	47
Total non-current assets		**1,898**	**2,543**
Short-term time deposits	11	9,745	30,491
Prepaid expenses and accrued income	9	349	531
Trade and other receivables	10	1,115	798
Cash and cash equivalents	11	131,316	149,735
Total current assets		**142,525**	**181,555**
Total assets		**144,423**	**184,098**
Shareholders' equity and liabilities			
Share capital	12	2,104	2,072
Additional paid-in capital		175,349	171,140
Own shares		-	-152
Cumulative losses		-60,724	-37,265
Total shareholders' equity		**116,729**	**135,795**
Deferred revenues (long-term)	15	9,539	26,815
Employee benefits	18.1	4,014	5,723
Total non-current liabilities		**13,553**	**32,538**
Trade and other payables	13	1,291	1,410
Accrued expenses	14	3,971	3,876
Deferred revenues (short-term)	15	8,879	10,479
Total current liabilities		**14,141**	**15,765**
Total liabilities		**27,694**	**48,303**
Total shareholders' equity and liabilities		**144,423**	**184,098**

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

Statement of comprehensive income for the year ended December 31, in CHF thousands	Note	2017	2016
Revenues			
Revenues from research and development collaborations		19,816	22,825
Other revenues		200	215
Total revenues	**5**	**20,016**	**23,040**
Operating expenses			
Research and development expenses	16	-37,453	-35,185
General and administrative expenses	16	-8,407	-7,341
Total operating expenses		**-45,860**	**-42,526**
Operating result		**-25,844**	**-19,486**
Financial income	19	611	963
Financial expenses		-197	-89
Net financial result		**414**	**874**
Result before income taxes		**-25,430**	**-18,612**
Income taxes	20	-	-
Net result, attributable to shareholders		**-25,430**	**-18,612**
Other comprehensive result			
Items that will not be reclassified to profit or loss			
Remeasurement of net pension liabilities, net of tax	18.1	1,970	-637
Other comprehensive result, net of tax		**1,970**	**-637**
Total comprehensive result, attributable to shareholders		**-23,460**	**-19,249**
Basic and diluted net result per share	21	-1.22	-0.91

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	**2017**	**2016**
Net result		-25,430	-18,612
Adjustments to reconcile net loss to net cash from (used in) operating activities:			
Depreciation and amortization	6 / 7	1,145	1,089
Share-based compensation costs	18.2	3,594	2,855
Change in employee benefits	18.1	262	883
Deferred revenues recognized in income		-18,876	-21,810
Financial income	19	-611	-963
Financial expenses		197	89
Changes in working capital:			
Change in prepayments and other assets		174	-359
Change in trade and other receivables		-317	525
Change in trade and other payables		-118	-370
Change in accrued expenses		95	1,366
Exchange gain/(loss) on working capital positions		-51	16
Other financial income/(expense)		-86	-89
Net cash from (used in) operating activities		**-40,022**	**-35,380**
Proceeds from investments in short-term time deposits	11	40,181	40,052
Investment in short-term time deposits	11	-19,435	-50,523
Acquisition of property, plant and equipment	6	-481	-1,033
Acquisition of intangible assets	7	-19	-64
Interest received		618	318
Net cash from (used in) investing activities		**20,864**	**-11,250**
Excercise of stock options, net of transaction costs	12	799	395
Net cash from (used in) financing activities		**799**	**395**
Exchange gain/(loss) on cash positions		-60	600
Net increase (decrease) in cash and cash equivalents		**-18,419**	**-45,635**
Cash and cash equivalents at January 1	11	149,735	195,370
Cash and cash equivalents at December 31		**131,316**	**149,735**

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

Statement of changes in equity in CHF thousands	Share capital	Additional paid-in capital	Own shares	Cumulative losses	Total equity
At January 1, 2016	**1,964**	**169,141**	**-1,295**	**-18,015**	**151,795**
Net result				-18,612	-18,612
Remeasurement of net pension liabilities [2]				-637	-637
Total comprehensive income	**-**	**-**	**-**	**-19,250**	**-19,250**
Share-based compensation costs [3]		2,855			2,855
Exercise of stock options, net of transaction costs [1]	108	-856	1,143		395
At December 31, 2016	**2,072**	**171,140**	**-152**	**-37,265**	**135,795**
At January 1, 2017	**2,072**	**171,140**	**-152**	**-37,265**	**135,795**
Net result				-25,430	-25,430
Remeasurement of net pension liabilities [2]				1,970	1,970
Total comprehensive income	**-**	**-**	**-**	**-23,459**	**-23,459**
Share-based compensation costs [3]		3,594			3,594
Exercise of stock options, net of transaction costs [1]	32	615	152		799
At December 31, 2017	**2,104**	**175,349**	**-**	**-60,724**	**116,729**

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

[1] see note 12

[2] see note 18.1

[3] see note 18.2

Notes to the 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® proteins, a novel class of therapeutic proteins. DARPin® proteins 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 at Wagistrasse 14, 8952 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").

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, 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the IASB. The accounting policies set forth below have been consistently applied to all years presented. Unless stated otherwise, the financial statements are presented in thousands of Swiss Francs (TCHF).

The 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 Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4 "Critical accounting estimates and judgments."

The financial statements for the year ended December 31, 2017 were approved for issuance by the board of directors on March 14, 2018 and are subject to approval by the shareholders on April 18, 2018.

New or Revised IFRS Standards and Interpretations

The following new or revised standards that became effective on January 1, 2017 did not have any material effect on these financial statements:

- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7)

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

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (effective from January 1, 2018). The Company will apply these improvements from January 1, 2018.
- IFRS 15, Revenue from Contracts with Customers (effective from January 1, 2018). The Company will apply this standard from January 1, 2018. For more details reference is made to the comments at the end of this section.
- IFRS 9, Financial Instruments (effective from January 1, 2018). The Company will apply this standard from January 1, 2018.
- IFRIC 22, Foreign Currency Transactions and Advance Consideration. The Company will apply this standard from January 1, 2018.
- IFRS 16, Leases (effective from January 1, 2019). The Company will apply this standard from January 1, 2019.
- Other amendments not material or relevant to the Company.

At this stage, the Company does not expect any significant impact from the new or revised standards above, with the exception of IFRS 15 and IFRS 16.

Effective January 1, 2018, IFRS 15, Revenue from Contracts with Customers, will replace the current IAS18 Standard. The Company will implement the new standard effective January 1, 2018 and will apply the cumulative effect method for the transition. Since the new standard does not change the amounts of revenue recognized for 2017 no restatements of the comparative 2017 results will be necessary. The new standard contains a new set of principles on when and how to recognize and measure revenue as well as new requirements related to presentation. The core principle in that framework is that revenue should be recognized dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services.

Out-licensing contracts may be entered into with no further obligation or may include commitments to research, development, co-development, regulatory approval, co-marketing or manufacturing. These may be settled by a combination of up-front payments, milestone payments, and reimbursements for services provided. Whether to consider these commitments as a single performance obligation or separate ones, or even being in scope of IFRS 15, is not straight-forward and requires some judgement. Depending on the conclusion, this may result in all revenue being calculated at inception and either being recognized at once or spread over the term of a longer performance obligation. The answers under the new standard may be different from those currently used. The new standard provides an exemption for sales-based royalties for licenses of intellectual property which will be recognized as revenue as underlying sales are incurred.

Segment Reporting

The Company operates in one segment, focusing on the discovery, development and prospective commercialization of a new class of biopharmaceutical products. The board of directors and 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 Company's operating expenses. Accounting policies applied are the same for both internal and external reporting purposes. The Company derives its research and collaboration revenues from research and development collaborations with third parties.

Foreign Currency Translation

The financial statements are presented in thousands of CHF, which is the functional currency of Molecular Partners. 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.

Property, Plant and Equipment

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

Laboratory equipment:	5 years
Office equipment:	3 years
IT hardware:	2 years
Leasehold improvements:	10 years

Leasehold improvements are depreciated over the shorter of their estimated useful life and the lease term. Subsequent costs are included in the 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 balance sheet date. An asset's carrying amount is written down to its recoverable amount, if the asset's 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 is as follows:

IT software:	2 years

Leases

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

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

Impairment of Non-financial Assets

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

Trade and Other Receivables

Trade and other receivables, which generally have 30-45 days payment terms, are recorded at amortized cost, less any provision made for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the invoice. The amount of the provision is the difference between the carrying amount and the recoverable amount and is recognized in profit or loss.

Investments

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. For the years ended 2017 and 2016, the Company holds short-term time deposits which fall under the category loans and receivables. No investments in the other categories were held in the reporting periods of 2017 and 2016.

Loans and receivables:
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company 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. Loans and receivables are measured at amortized cost less any provision made for impairment. Amortized cost is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

Cash and Cash Equivalents

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

Share Capital / Additional Paid-in Capital

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

Own Shares

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

Income Taxes

Income taxes include current and deferred taxes. Current 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 Company reassesses unrecognized deferred tax assets and the carrying amount of recognized deferred tax assets. The Company 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 Company 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 Company'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 reporting periods. As per the Business Plan 2018-2022, the Company expects operating losses in the next five years. The accumulated losses may be used as tax loss carry forwards to offset future taxable income over a period of seven years. No deferred tax assets have been established for these losses, because the Company has not yet a history of sustainable profits, increasing research costs are expected to be incurred in the foreseeable future and future revenues are highly volatile and uncertain. No deferred taxes were recognized on temporary differences on pension liabilities for the same reasons.

Employee Benefits

Postretirement benefits (pension plans)

The Company provides retirement, death and disability benefits to its employees in line with local customs and requirements through two separate plans.

The first plan is the compulsory company-wide defined benefit scheme which is funded through employer (60%) and employee (40%) contributions to VSAO, a Switzerland based multi-employer plan ("Gemeinschaftseinrichtung"). This company-wide plan is 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 / 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 / settlement under Swiss law, which may trigger an obligation to fund any proportionate deficit or a right to any overfunding in existence at that time.

The second plan is a voluntary complementary defined management benefit scheme ("Kaderplan") put in place as of January 1, 2014 in which only employees with an annual base salary exceeding CHF 150,000 are eligible to participate (17 employees as of December 31, 2017, one of which has decided not to participate). This plan is set up as a collective foundation ("Sammelstiftung/ Vollversicherung") with another Switzerland based insurance company, Swiss Life, for which contributions are split up as 30% paid by the employee and 70% paid by the Company. The purpose of this voluntary plan is to allow higher savings opportunity (in a tax effective manner) and risk benefits for the upper/senior management. In addition plan participants are entitled to a lump sum payment of 5 times annual base salary in case of death.

The pension plan with VSAO 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 using 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.

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. Re-measurements of the defined benefit pension plans are recognized in other comprehensive income.

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

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

Revenue Recognition
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 the revenue recognition criteria are separately applied. The consideration received is allocated among the separate components based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate components. Payments received in excess of amounts earned are recorded as deferred revenue.

Revenues include fees (upfront and milestone payments) and FTE payments received in connection with out-licensing of products and in connection with discovery alliances. Collected fees are non-refundable and are recognized as per the nature of each individual agreement. Typically, these agreements include future performance obligations such as maintenance of patents, R&D support and services, memberships in Joint Steering Committees and other involvement in the collaborations. The relevant revenues are recognized pro rata over the duration of such performance obligations.

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;
- pre-clinical testing and clinical trials of the Company's product candidates, including the costs of manufacturing the product candidates;
- research and services under collaboration agreements;
- research and development services outsourced to research institutions; and
- attributable facility expenses, including depreciation and amortization of equipment and any intangible research and development assets.

Internal development costs are capitalized as intangible assets only when there is an identifiable asset that can be completed and that will generate probable future economic benefits and when the cost of such an asset can be measured reliably. The Company does not currently have any such internal development costs that qualify for capitalization as intangible assets. Internal development costs are therefore charged to profit or loss as incurred since the criteria for their recognition as an asset are not met.

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

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

3. Financial Risk Management

Internal Control System

Molecular Partners maintains an Internal Control System with the objective of ensuring effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The Internal Control System is a significant part of the risk management system. The process of risk management is governed by the "Standard Operating Procedure" - "SOP Internal Control System," which was adopted by the board of directors in 2008. The board of directors approves annually the Company's annual risk assessment reporting, including mitigating actions, which management provides to the board of directors on a quarterly basis.

Financial Risk Factors

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

Molecular Partners conducts R&D activities primarily in Switzerland, EU and USA. As a result the Company 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 Company'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 Company. The Company is not exposed to market price development as it has no saleable products. Further details are disclosed under note 24.

Capital Management

The Company is not regulated and not subject to specific capital requirements. The amount of equity capital depends on the Company's funding needs and statutory capital requirements. The Company monitors capital periodically on an interim and annual basis. From time to time the Company may take appropriate measures or propose capital increases to its shareholders to ensure the necessary capital remains intact. The Company did not have any short-term or long-term debt outstanding as of December 31, 2017 and 2016.

4. Critical Accounting Estimates and Judgments

The Company's accounts are prepared on a going concern basis. The preparation of the 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 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 Company 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 Company, 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 not uncommon to biotech companies 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 is required to reflect the substance of the arrangement in the recognition of revenues. More information on revenue recognition is provided in the respective accounting policy. Additional information is disclosed in note 5.

- Share-based compensation: As discussed in note 18.2 the Company recognized an expense for share-based compensation of TCHF3,594, which is based on an external valuation report involving a number of assumptions, such as the volatility of the Company's shares. The determination of those assumptions, which are disclosed in note 18.2, involves judgment, which has a significant effect on the personnel expense determined.

- Pension obligations: As of December 31, 2017, the Company had pension liabilities in the amount of TCHF 3,832 (see note 18.1). They are determined on an actuarial basis using a number of assumptions, such as the discount rate and expected salary increases applied to determine the defined benefit obligation and an estimate of the fair value of plan assets, attributable to the Company (the main plan being a multi-employer pension plan). In determining the appropriate discount rate, for example, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. In determining the fair value of plan assets, the Company adds to the participants' savings a share of the pension plan's technical and fluctuation reserves. Additional information is disclosed in note 18.1.

5. Entity-wide Disclosures

Revenues are attributable to individual countries and are based on the location of the 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	2017	2016
Revenues CH	109	108
Revenues USA	19,907	22,932
Total revenues	**20,016**	**23,040**

Analysis of revenue by major alliance partner

in CHF thousands, for the years ended December 31	2017	2016
Allergan Inc., USA	19,907	22,032
Janssen Biotech Inc., USA	-	900
Other	109	108
Total	**20,016**	**23,040**

Licensing and Collaboration Agreement With Allergan Inc., USA, Dated May 2011 (MP0112 / Abicipar)

In May 2011, the Company entered into a licensing and collaboration agreement with Allergan Inc., USA (subsequently "Allergan"). Under the agreement, Allergan obtains the exclusive global rights for abicipar and its corresponding backups for ophthalmic indications. Allergan is responsible and bears all costs for all development, commercialization and other activities in connection with abicipar, and must use its commercially reasonable efforts to develop and seek regulatory approval of abicipar for the treatment of diseases of the eye. The Company is responsible for the handover of the manufacturing technology to Allergan. Further, the Company provides support in establishing the Phase 3 manufacturing process. The collaboration is led by a Joint Steering Committee consisting of 3 persons from each Molecular Partners and Allergan. Under the agreement, the Company received an up-front payment of USD 45 million and is further entitled to receive development and approval milestone payments potentially of up to USD 225 million and sales milestones potentially totaling USD 150 million. In addition, the Company will receive tiered royalties on any future sales of abicipar. As per the Company's revenue recognition policy, the up-front fee of USD 45 million is deferred and recognized over the expected period of performance, which is from contract signing until the achievement of the next development milestone, the start of Phase 3 clinical trials. The initial plan was that Phase 3 will start in September 2013 as stated in the development plans of the licensing agreement.

On May 1, 2013, Allergan reported delays in the clinical development of abicipar. With this announcement the expected start date of Phase 3 clinical development was moved from September 2013 to April 2016. As a result of this time delay the remaining deferred revenues as per May 1, 2013 in the amount of CHF 5.7 million were recognized over an extended time period until April 1, 2016.

On March 3, 2014, the Joint Steering Committee revised the development plan for abicipar, which resulted in a revised expected Phase 3 start date of April 2015. As a result of this, the revenue recognition time period of the then outstanding deferred revenues was changed to end of March 2015.

On June 30, 2014, Allergan announced the results from the Allergan-sponsored, double-masked stage 3 Phase 2 study of abicipar, for wet age-related macular degeneration (wet AMD). Allergan announced that full Phase 3 development is anticipated to start in Q2 of 2015. Based on this the revenue recognition period was left unchanged until the end of March 2015.

On July 7, 2015, the Company announced that its partner Allergan had initiated Phase 3 clinical trials with abicipar for the treatment of wet age-related macular degeneration (wet AMD). The event triggered a clinical milestone payment to Molecular Partners of USD 15 million. In line with the Company's accounting policy this milestone is recognized pro rata from July 2015 until the next milestone event, which the Company expects in Q1 2020 for the first regulatory approval.

Additional revenues have been generated since May 2011 through FTE payments as well as recharging of third party costs.

License, Discovery and Collaboration Agreements With Allergan Inc., USA, Dated August 2012 (MP0260 and Discovery)

In August 2012, the Company entered into a strategic expansion of the existing relationship with Allergan by signing two separate new agreements to discover, develop, and commercialize proprietary therapeutic DARPin® products for the treatment of serious ophthalmic diseases. The Company received combined upfront payments of USD 62.5 million under the two agreements and is eligible to potentially receive additional success-based payments, including up to USD 1.4 billion in aggregate development, regulatory and sales milestones, and tiered royalties for future product sales.

The first agreement is an exclusive license agreement for the design, development and commercialization of a potent dual anti-VEGF-A/PDGF-B DARPin® drug candidate ("MP0260") and its corresponding backups for the treatment of exudative age-related macular degeneration (AMD) and related conditions. Under the license agreement, the parties will work together to develop MP0260 through human proof of concept, at which point the Company has the option to co-fund Allergan's development costs in exchange for a significant royalty step up. The upfront payment related to this first agreement are recognized over the period until the estimated start of Phase 3 clinical trials.

The second agreement is an exclusive discovery alliance agreement under which the parties will collaborate to design and develop DARPin® proteins against selected targets that are implicated in causing serious diseases of the eye. During the research phase, Allergan has the right to exercise three options to exclusively license collaboration compounds for ophthalmology. Upon execution of each option, Allergan will pay the Company an option exercise fee and be solely responsible for all downstream development, manufacturing, and commercialization activities. The upfront fee received under this second agreement is recognized over 48 months, which represents the expected discovery term of overall four years from signing until August 2016. Further, the potential option strike fees under the same discovery alliance agreement will be booked pro rata over the period from option exercise date until the longer of (i) the then expected start of Phase 3 clinical trials and (ii) the expected three-year period during which MP enters into obligation after option exercise.

On July 21, 2015, the Company announced that Allergan, Inc. had reinforced its broad commitment to both of these two agreements. In connection with its strengthened commitment to the DARPin® research and discovery alliance, Allergan had agreed to make a non-refundable early payment of USD 35 million related to future milestones. In line with the Company's accounting policy this accelerated milestone fee is recognized in the income statement pro rata over approximately eight years from July 2015 until the next potential cash relevant milestone event which is estimated to be around end of Q1 2023.

On December 6, 2016, the Joint Steering Committee revised the development plan for MP0260 due to optimization of drug profile and the Phase 3 read-out of a competing drug in December 2016. With that the next potential cash relevant milestone event was moved by approximately additional four years. As a result, the remaining deferred revenues as per December 1, 2016 in the amount of CHF 10.1 million are recognized over an extended time period until March 31, 2023.

On December 6, 2016, the Joint Steering Committee also discussed the development plans for the projects under the Discovery Alliance dated September 2014. In the past for these projects the same timelines were assumed. Under the latest developments plans each project has different timelines with the next relevant paid milestones to be reached between June 2019 and June 2021, which is up to maximum two years later compared to previous assumptions. As a result, the remaining deferred revenues as per December 1, 2016 in the amount of CHF 18.4 million are recognized over an extended time period until June 30, 2021.

On December 7, 2017, the Joint Steering Committee decided to terminate the MP0260 project and MP0260 is expected to be handed back to the Company. As a result all outstanding deferred revenues outstanding from this project in the amount of CHF 8.5 million were recognized as revenues as of that day.

On December 7, 2017, the Joint Steering Committee also discussed the development plans for the projects under the Discovery Alliance dated September 2014. No changes to the development timelines were discussed. As a result the revenue recognition periods remain unchanged. Under the latest developments plans each project has different timelines with the next relevant paid milestones to be reached between June 2019 and June 2021.

On December 29, 2017, Allergan has exercised two options to develop and commercialize DARPin® product candidates from its 2012 Discovery Alliance Agreement with Company. There was no milestone payment involved in this exercise. Further, this exercise does not impact the assumed development timelines. On February 16, 2018, Allergan exercised one additional option to develop and commercialize DARPin® product candidates under the same agreement.

Additional revenues have been generated since August 2012 through FTE payments as well as recharging of third party costs.

Research Collaboration and Option Agreement With Janssen Biotech Inc., USA, dated December 2011

In December 2011, the Company entered into a strategic research collaboration and option agreement with Janssen Biotech Inc., USA (subsequently "Janssen") to research, discover and develop DARPin® products for the treatment of immunological disease. Under this agreement the Company receives annual research fees, development license fees, research funding (FTE payments) as well as development and sales milestones. Upon commercialization, the Company will be entitled to a tiered royalty on worldwide net sales. In December 2014, Janssen has exercised an option to secure exclusive rights to a multi-specific DARPin® program. As a compensation for the option exercise, the Company received a milestone payment of USD 2 million, which is recognized on a straight line basis until December 2016.

In October 2016, the Company regained the full rights to a multi-DARPin® drug candidate targeting both IL-13 and IL-17 with long systemic half-life and potential use in pulmonary indications following the discontinuation of this entire research collaboration with Janssen. This was a strategic decision by Janssen not related to the DARPin® drug candidate. The discontinuation of this collaboration did not have any negative financial impact for the Company. On the contrary, having regained the rights of a drug candidate that is ready to go into pre-clinical development gives the Company the options to evaluate whether to develop it on its own or to out-licence it to another partner.

For details regarding the expected revenue recognition for deferred revenue reference is made to note 15.

6. Property, Plant and Equipment

in CHF thousands	Lab equipment	Office equipment	IT hardware	Leasehold improvements	Total
2017					
Cost					
At January 1, 2017	5,975	519	812	295	7,601
Additions	292	45	131	13	481
Disposals	-23	-	-83	-	-106
At December 31, 2017	**6,244**	**564**	**860**	**308**	**7,976**
Accumulated depreciation					
At January 1, 2017	-4,062	-373	-557	-113	-5,105
Depreciation charge for the year	-796	-69	-211	-30	-1,106
Disposals	23	-	83	-	106
At December 31, 2017	**-4,835**	**-442**	**-685**	**-143**	**-6,105**
Carrying amount at December 31, 2017	**1,409**	**122**	**175**	**165**	**1,871**
2016					
Cost					
At January 1, 2016	5,435	387	510	288	6,620
Additions	591	133	302	7	1,033
Disposals	-51	-1	-	-	-52
At December 31, 2016	**5,975**	**519**	**812**	**295**	**7,601**
Accumulated depreciation					
At January 1, 2016	-3,277	-351	-390	-84	-4,102
Depreciation charge for the year	-836	-23	-167	-29	-1,055
Disposals	51	1	-	-	52
At December 31, 2016	**-4,062**	**-373**	**-557**	**-113**	**-5,105**
Carrying amount at December 31, 2016	**1,913**	**146**	**255**	**182**	**2,496**

Capital commitments: see note 23.

7. Intangible Assets

in CHF thousands	IT software	Total
2017		
Cost		
At January 1, 2017	208	208
Additions	19	19
Disposals	-	-
At December 31, 2017	**227**	**227**
Accumulated amortization		
At January 1, 2017	-161	-161
Amortization charge for the year	-39	-39
Disposals	-	-
At December 31, 2017	**-200**	**-200**
Carrying amount at December 31, 2017	**27**	**27**
2016		
Cost		
At January 1, 2016	144	144
Additions	64	64
Disposals	-	-
At December 31, 2016	**208**	**208**
Accumulated amortization		
At January 1, 2016	-127	-127
Amortization charge for the year	-34	-34
Disposals	-	-
At December 31, 2016	**-161**	**-161**
Carrying amount at December 31, 2016	**47**	**47**

8. Financial Instruments by Category

in CHF thousands	Loans and receivables
2017	
Cash and cash equivalents	131,316
Trade and other receivables	765
Accrued income	38
Short-term time deposits	9,745
Balance at December 31	**141,864**
2016	
Cash and cash equivalents	149,735
Trade and other receivables	537
Accrued income	46
Short-term time deposits	30,491
Balance at December 31	**180,809**

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

in CHF thousands	Liabilities at amortized cost
2017	
Trade payables	716
Accrued project costs and royalties	1,211
Balance at December 31	**1,927**
2016	
Trade payables	1,028
Accrued project costs and royalties	1,237
Balance at December 31	**2,265**

The fair values of the Company's financial instruments approximated their carrying amounts as of each balance sheet date.

9. Prepaid Expenses and Accrued Income

in CHF thousands	2017	2016
Prepayments	311	485
Accrued income	38	46
Balance at December 31	**349**	**531**

10. Trade and Other Receivables

in CHF thousands	2017	2016
Trade receivables	168	33
Value added tax	134	150
Withholding tax	216	111
Other receivables	597	504
Balance at December 31	**1,115**	**798**

No allowance was considered necessary as of December 31, 2017 and 2016.

Trade receivables are denominated in the following currencies:

in CHF thousands	2017	2016
CHF	29	29
USD	139	4
Balance at December 31	**168**	**33**

11. Cash, Cash Equivalents and Short-term Time Deposits

in CHF thousands	2017	2016
Cash at bank in CHF	61,498	85,207
Cash at bank in EUR	23,262	33,473
Cash at bank in USD	46,556	31,055
Total cash at bank	131,316	149,735
Short-term time deposits in USD	9,745	30,491
Total short-term time deposits	9,745	30,491

The short-term time deposits in USD contain one position with a major Swiss bank (A-rating as per S&P). The position of thousands of USD 10,000 is fixed until September 28, 2018. Despite the negative interest environment, the Company managed not to pay negative interest in the years 2016 and 2017.

12. Shareholders' Equity

Classes of Share Capital

Ordinary share capital

As of December 31, 2016, the Company's share capital consisted of 20,724,345 fully paid registered shares with a par value of CHF 0.10 each. As of December 31, 2017, the Company's share capital consisted of 21,044,062[1] fully paid registered shares with a par value of CHF 0.10 each.

Authorized share capital

The board of directors is authorized to increase the share capital, at any time until April 20, 2018, 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 shall be permissible.

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

The board of directors is further authorized to restrict or deny the preemptive rights of shareholders and to allocate them to third parties 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, for the purpose of broadening the shareholder constituency or in connection with a listing of shares on domestic or foreign stock exchanges, if the issue price of the new shares is determined by reference to the market price, 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 or following a shareholder or a group of shareholders acting in concert having accumulated shareholdings in excess of 15% of the share capital registered in the commercial register without having submitted to the other shareholders a take-over offer recommended by the board of directors or 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.

[1] 319,717 new registered shares were issued in 2017 as a result of option exercises and the early vesting of performance share units. The corresponding capital increase was registered with the commercial register on January 30, 2018.

Conditional share capital
As of December 31, 2017, the share capital may be increased by an amount not to exceed CHF 259,639[2] through the issuance of up to 2,596,388 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 and members of the board of directors as well as to members of any advisory boards.

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.

Own shares
During the year 2017, the number of own shares was reduced by 7,532 (2016: 56,644) to service the exercise of stock options by current and former employees. As of December 31, 2017 the Company held no own shares.

The following table summarizes the movements of own shares in 2017 and 2016:

2017

Own shares	**No. of shares**	**in TCHF**
At January 1, 2017	7,532	152
Additions	-	-
Exercise of options	-7,532	-152
At December 31, 2017	**-**	**-**

2016

Own shares	**No. of shares**	**in TCHF**
At January 1, 2016	64,176	1,295
Additions	-	-
Exercise of options	-56,644	-1,143
At December 31, 2016	**7,532**	**152**

In 2017 the cash proceeds from the exercise of stock options and the early vesting of PSUs amounted to TCHF 807 (2016: TCHF 395), thereof TCHF 18 was serviced from own shares and TCHF 789 from the issuance of new shares (conditional share capital).

[2] The share capital increase described in footnote 1 above was performed out of conditional capital. As a result, the available conditional capital was reduced by CHF 31,971, from CHF 291,610 to CHF 259,639.

Significant Shareholders

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

Shareholders with over 3% of share capital registered with the Commercial Register	2017	2016
Hansjoerg Wyss	9.85%	0.00%
Index Ventures Associates IV Limited	8.18%	14.68%
Essex Woodlands Health Ventures VIII, LLC	7.82%	13.73%
Andreas Plückthun	4.92%	5.19%
Mark N. Lampert (Biotechnology Value Funds)	4.34%	4.58%
Johnson & Johnson	4.25%	8.32%
Endeavour Partners GP Limited	4.10%	4.33%
Michael Tobias Stumpp	3.40%	3.58%
Patrick Amstutz	3.19%	3.37%
Patrik Forrer	3.14%	3.31%
Pictet Asset Management (Direction de Fonds)	3.11%	0.00%
BB Biotech Ventures II, L.P.	<3.00%	4.96%
Kaspar Binz	<3.00%	3.15%
Christian Zahnd (now heirs of Christian Zahnd)	<3.00%	3.03%

13. Trade and Other Payables

in CHF thousands	2017	2016
Trade payables	716	1,027
Social security	575	382
Other payables to third party	-	1
Balance at December 31	**1,291**	**1,410**

Trade payables are denominated in the following currencies:

in CHF thousands	2017	2016
CHF	216	598
EUR	182	380
USD	37	32
GBP	281	17
Balance at December 31	**716**	**1,027**

14. Accrued Expenses

in CHF thousands	2017	2016
Accrued project costs and royalties	1,211	1,237
Accrued payroll and bonuses	2,487	2,381
Other	273	258
Balance at December 31	**3,971**	**3,876**

15. Deferred Revenues

Deferred revenues are expected to be recognized in revenues as follows:

in CHF thousands	2017	2016
Expected revenue recognition in year one after balance sheet date	8,879	10,479
Expected revenue recognition in year two after balance sheet date	7,533	10,479
Expected revenue recognition in year three after balance sheet date	1,337	9,133
Expected revenue recognition in year four after balance sheet date	669	2,937
Expected rev. recognition in year five and later after balance sheet date	-	4,266
Balance at December 31	**18,418**	**37,294**

Deferred revenues are recognized on a straight-line or contractual basis, in line with the substance of the underlying agreements. See note 5 for further information.

16. Additional Information on the Nature of Expenses

Research and development expenses

in CHF thousands	2017	2016
Royalties and license fees	-60	-60
Research consumables and costs [3]	-17,762	-14,511
Personnel expenses [1]	-16,324	-17,735
Intellectual property	-343	-317
Facility expenses	-1,388	-1,290
Depreciation and amortization	-1,019	-986
Other administrative expenses	-557	-286
Total year ended December 31	**-37,453**	**-35,185**

General and administrative expenses

in CHF thousands	2017	2016
Personnel expenses [2]	-5,580	-5,092
Facility expenses	-172	-135
Depreciation and amortization	-126	-103
Other administrative expenses	-2,529	-2,011
Total year ended December 31	**-8,407**	**-7,341**
Total operating expenses	**-45,860**	**-42,526**

1 thereof R&D non-cash effective pension and share based compensation costs of TCHF 1,855 in 2017 and TCHF 2,408 in 2016
2 thereof G&A non-cash effective pension and share based compensation costs of TCHF 1,942 in 2017 and TCHF 1,207 in 2016
3 costs increase mainly driven by the progress of the Company's proprietary product pipeline such as for manufacturing of pre-clinical and clinical material as well as for clinical trials.

17. Royalties and License Fees

The Company holds an exclusive perpetual license from the University of Zurich, Switzerland, on patent applications and patents, which broadly protects a process for the generation of libraries based on repeat proteins (i.e. DARPin® libraries), the corresponding libraries themselves, the molecules being isolated from these libraries (i.e. DARPin® proteins) and their application. Under this license agreement, the Company has to pay royalties to the University on all income (except for FTE payments and cost recharging to alliance partners). As per the agreement with the University of Zurich, such royalties are due until the longest-lived patent expires, which is year 2023. The minimum amount to pay is TCHF 50 per annum. Royalties to the University of Zurich are due annually based on a full calendar year and payable until the end of February the following calendar year. For calendar year 2017 the royalties due to the University of Zurich amounted to TCHF 60 (TCHF 60 for 2016).

18. Personnel Expenses

in CHF thousands	2017	2016
Salaries	-14,161	-13,718
Social security costs	-1,828	-3,153
Pension costs	-1,364	-1,842
Share-based compensation (non cash effective)	-3,594	-2,855
Other personnel expenses	-958	-1,259
Total year ended December 31	**-21,905**	**-22,827**

Full-time equivalents and head count	**2017**	**2016**
Average number of full-time equivalents	104.0	99.7
Full-time equivalents at year end	107.8	102.5
Headcount at year end	119	113

18.1 Pension Costs and Liabilities

in CHF thousands	2017	2016
Defined benefit pension plans		
Actuarial assumptions		
Discount rate at 1.1.	0.60%	0.80%
Discount rate at 31.12.	0.70%	0.60%
Future salary increases at 31.12.	2.00%	2.00%
Mortality tables	BVG2015 GT	BVG2015 GT
Date of last actuarial valuation	31.12.2017	31.12.2016
Reconciliation of the amount recognized in the statement of financial position at the end of year		
Defined benefit obligation at 31.12.	25,824	23,526
Fair value of plan assets at 31.12.	21,992	17,927
Net defined benefit liability at 31.12.	**3,832**	**5,599**
Components of defined benefit cost in profit or loss		
Current service cost (employer)	1,890	1,833
Past service cost	-573	-36
Interest expense on defined benefit obligation	152	157
Interest (income) on plan assets	-116	-121
Administration cost excl. cost for managing plan assets	12	8
Defined benefit cost recognized in profit or loss	**1,364**	**1,841**
thereof service cost and administration cost	1,328	1,805
thereof net interest expense on the net defined benefit liability	35	36
Reconciliation in net defined benefit liability		
Net defined benefit liability at 1.1.	5,599	4,202
Defined benefit cost recognized in profit or loss [2]	1,364	1,841
Defined benefit cost recognized in OCI	-1,970	637
Contributions by the employer [2]	-1,160	-1,081
Net defined benefit liability at 31.12. [3]	**3,832**	**5,599**
Reconciliation of defined benefit obligation		
Defined benefit obligation at 1.1.	23,526	16,564
Interest expense on defined benefit obligation	152	157
Current service cost (employer)	1,890	1,833
Contributions by plan participants	734	678
Benefits (paid) / deposited	842	3,711
Past service cost	-573	-36
Administration cost (excl. cost for managing plan assets)	12	8
Actuarial (gain) / loss on defined benefit obligation [1]	-759	611
Defined benefit obligation at 31.12.	**25,824**	**23,526**

Reconciliation of fair value of plan assets		
Fair value of plan assets at 1.1.	17,927	12,361
Interest income on plan assets	116	121
Contributions by the employer	1,160	1,081
Contributions by plan participants	734	678
Benefits (paid) / deposited	842	3,711
Return on plan assets excl. interest income	1,212	-25
Fair value of plan assets at 31.12.	**21,992**	**17,927**
Best Estimate of contributions of next year		
Contributions by the employer	1,171	1,107
Plan asset classes		
Cash and cash equivalents	4,726	3,041
Equity instruments	8,573	6,851
Debt instruments (i.e. bonds)	3,246	3,101
Real estate funds	3,011	2,603
Others	2,435	2,331
Total plan assets at fair value (quoted market price)	**21,992**	**17,927**
thereof entity's own transferable financial instruments	0	0
thereof property occupied or other assets used by the entity	0	0
Sensitivity		
Defined benefit obligation at 31.12. with discount rate -0.25%	27,145	24,774
Defined benefit obligation at 31.12. with discount rate +0.25%	24,611	22,383
Defined benefit obligation at 31.12. with salary increases -0.25%	25,528	23,244
Defined benefit obligation at 31.12. with salary increases +0.25%	26,116	23,809
Defined benefit obligation at 31.12. with life expectancy +1 year	25,491	23,235
Defined benefit obligation at 31.12. with life expectancy -1 year	26,159	23,819
Maturity profile of defined benefit obligation		
Weighted average duration of defined benefit obligation in years	19.4	20.1

1 of which TCHF -510 (2016: TCHF 718) relate to changes in financial assumptions and TCHF 0 (nil) (2016: -1,172) relate to changes in demographical assumptions. TCHF -248 (2016: TCHF 1,066) relate to experience adjustments.

2 the sum of these two positions represent the non-cash effective pension costs recognized in the income statement, thereof TCHF 168 R&D costs (2016: TCHF 662) and TCHF 35 G&A costs (2016: TCHF 98).

3 included in liabilities for employee benefits

18.2 Share-based Compensation Plan

18.2.1 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 and 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, i.e. after a period of 10 years as from the grant date, 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 (degressive recognition of expenses over the vesting period).

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

Since the IPO of the Company on November 5, 2014 no more grants have been made under any of these three stock option plans.

18.2.2 Long-term Incentive (LTI) Plans: Restricted Share Units and Performance Share Units

- LTI plan 2015 established in March 2015
- LTI plan 2016 established in March 2016
- LTI plan 2017 established in March 2017

Under the LTI plans members of the board of directors are eligible to be granted restricted share units (RSUs) whereas members of the Management Board as well as other employees are eligible to be granted performance share units (PSUs).

RSUs are contingent rights to receive a certain number of shares of the Company at the end of a three-year vesting 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.

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. As regards members of the Management Board and the board of directors the annual grants are made after the ordinary shareholders' meeting, i.e. after the approval of the necessary amounts for variable compensation by the shareholders.

As of December 31, 2017, 237,878 PSU's and 67,253 RSU's were outstanding, 18,696 PSU's vested in November 2017 (early vesting).

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	2017	2016
Nature of arrangement	Grant of PSU/RSU	Grant of PSU/RSU
Grant dates	Jan 1 - Oct 31	Jan 1 - Oct 1
Number of rights granted	142,281	111,867
Weighted average exercise price (CHF)	0.10	0.10
Share price (CHF)	20.70 - 32.30	24.80 - 40.30
Full contractual life (years)	2.25 - 3.00	2.25 - 3.00
Vesting Period (years)	2.25 - 3.00	2.25 - 3.00
Settlement	Shares	Shares
Expected volatility (%)	40.41 - 41.69	40.84 - 42.57
Risk-free interest rate p.a. (%)	(-0.49) - (-0.73)	(-0.71) - (-0.81)
Expected dividend (CHF)	0%	0%
Weighted average fair value of rights granted (CHF)	25.82	32.69
Latest expiry date	Oct 30, 2020	Sep 30, 2019
Valuation Model	Monte Carlo	Monte Carlo

Additional comments:

- Interest rate: The Company used the CHF LIBOR interest rates for the predetermined time to conversion for PSU/RSU
- Expected volatility: Historical share prices of the Company have been used
- The fluctuation during 2017 ranged from 7.27% and 9.04%
- Share price: The 2-month average share price has been taken as a basis for the valuation

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, 2015	**2,528,209**	**2.36**	**2,413,105**	**2.47**	**115,104**	**0.10**
Granted	111,867	0.10	-	-	111,867	0.10
(Performance adjustment)	-5,673	0.10	-	-	-5,673	0.10
(Forfeited)	-6,512	2.27	-2,064	6.94	-4,448	0.10
(Expired)	-	-	-		-	-
(Exercised) [1]	-1,140,539	0.35	-1,140,539	0.35	-	-
Balance outstanding at December 31, 2016	**1,487,352**	**3.74**	**1,270,502**	**4.36**	**216,850**	**0.10**
Granted	142,281	0.10	-	-	142,281	0.10
(Performance adjustment)	-31,283	0.10	-	-	-31,283	0.10
(Forfeited)	-11,610	4.57	-7,589	6.94	-4,021	0.10
(Expired)	-	-	-		-	-
(Exercised) [1]	-327,249	2.47	-308,553	2.61	-18,696	0.10
Balance outstanding at December 31, 2017	**1,259,491**	**3.37**	**954,360**	**4.42**	**305,131**	**0.10**

[1] The weighted average share price at the dates of the exercise amounted to CHF 26.47 (in 2016: CHF 26.82).

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

Exercise price CHF	Options / PSU/RSU (number)	Remaining life (years)	Exercisable options / PSU/RSU
Options			
1.15	9,580	1.4	9,580
2.31	399,657	2.4	399,657
6.05	8,100	5.3	8,100
6.06	21,682	6.2	21,682
6.94	515,341	6.7	413,041
PSU/RSU			
0.10	305,131	1.2	-
Total	**1,259,491**		**852,060**

The following table applies to all share options and PSUs/RSUs outstanding at December 31, 2016:

Exercise price CHF	Options / PSU/RSU (number)	Remaining life (years)	Exercisable options / PSU/RSU
Options			
0.10	13,270	0.5	13,270
1.15	12,143	2.1	12,143
2.31	662,295	3.2	662,295
6.05	19,010	6.1	19,010
6.06	27,022	7.3	27,022
6.94	536,762	7.7	295,774
PSU/RSU			
0.10	216,850	1.8	-
Total	**1,487,352**		**1,029,514**

The non-cash costs for share-based payments recognized in the income statement can be attributed to the two functions as follows:

in CHF thousands	2017	2016
Research and development	1,907	1,746
General and administrative	1,687	1,109
Total year ended December 31	**3,594**	**2,855**

19. Financial Income

in CHF thousands	2017	2016
Interest income on loans and receivables	610	335
Foreign exchange gain	1	628
Total year ended December 31	**611**	**963**

The Company is not hedging for translation risks as it pursues a stringent natural hedging policy by maximizing the matching of cash in/out flows in the respective currencies. For more information reference is made to note 24.

20. Taxes

Income Taxes

The Company did not have to pay or accrue any income taxes in the reporting periods. In 2017, the Company generated a taxable loss which will be added to the tax loss carry forward. Future net income will be subject to federal, cantonal and communal income taxes. The Company's applicable income tax rate is 21% (2016: 21%).

Deferred Taxes

Net operating loss for tax purposes amounted to TCHF 21,766 in 2017. The remaining tax losses of TCHF 42,056 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 unlikely that such loss carry forwards can be utilized in the foreseeable future. In addition, no deferred tax assets were recognized on the temporary difference on pension liabilities for the same reason.

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

in CHF thousands	2017	2016
2021	-4,314	-4,314
2022	-	-
2023	-15,976	-15,976
2024	-21,766	-
Thereafter	-	-
Total tax loss carry forwards as at December 31	**-42,056**	**-20,290**

21. Earnings Per Share

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

	2017	2016
Weighted average number of shares used in computing basic and diluted profit / (loss) per share	20,861,797	20,427,716
Weighted average number of shares used in computing diluted profit / (loss) per share	20,861,797	20,427,716

22. Related Party Disclosures

Key management (executive management and board of directors) compensation costs are as follows:

in CHF thousands	2017	2016
Short-term employee benefits	1,785	2,259
Post-employment benefits	143	192
Share-based compensation	1,740	1,665
Total year ended December 31	**3,668**	**4,116**

The Company did not enter into any other related party transactions in 2017 and 2016.

23. Commitments

Operating Lease Commitments

As at the end of 2017 the Company had four lease contracts in place for its facilities in Schlieren, Switzerland:

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

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

in CHF thousands	2017	2016
Within 1 year	1,266	1,266
Due within 2 to 5 years	3,523	4,543
Balance at December 31	**4,789**	**5,809**

Leasing costs charged to profit or loss amounted to TCHF 1,260 (2016: TCHF 1,094). They all relate to the costs of leasing business premises.

Finance Lease Commitments

The Company does not have any finance lease commitments.

Capital Commitments

As of the end of 2017 and 2016 the Company 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 (forwards and options) with selected high-quality financial institutions to hedge against foreign currency exchange rate risks. The Company's primary exposure to financial risk is due to fluctuation of exchange rates between CHF, EUR and USD.

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

During the year 2017 and 2016 the Company did not enter into any forward currency transactions. No forward currency transactions were outstanding as of December 31, 2017 and 2016.

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

in % and CHF thousands	Incr./Decr. foreign curr. rate	Effect on result before tax (in TCHF)
USD positions		
2017	+10%	5,630
	-10%	-5,630
2016	+10%	6,155
	-10%	-6,155
EUR positions		
2017	+10%	2,326
	-10%	-2,326
2016	+10%	3,347
	-10%	-3,347

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 currently negative interest environment on CHF and EUR makes it almost impossible to earn interests in these two currencies. So far, thanks to a very stringent and closely monitored cash management, the Company has been able to avoid negative interests by putting its CHF and EUR cash on a variety of current and deposit accounts in three different Swiss banks. In addition, the Company is investing part of its cash through risk free money market investments in line with its treasury guidelines.

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

in % and CHF thousands	Incr./Decr. interest rate	Effect on result before tax (in TCHF)
CHF positions		
2017	+0.5%	307
	-0.5%	-307
2016	+0.5%	426
	-0.5%	-426
USD positions		
2017	+0.5%	282
	-0.5%	-282
2016	+0.5%	308
	-0.5%	-308
EUR positions		
2017	+0.5%	116
	-0.5%	-116
2016	+0.5%	167
	-0.5%	-167

Credit Risk

The maximum credit risk on financial instruments corresponds to the carrying amounts of the Company's cash and cash equivalents and receivables. The Company 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. As per the end of 2017 the majority of the cash and cash equivalents is held with two of the A rated Swiss banks. The Company 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.

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

in CHF thousands	2017	2016
Cash and cash equivalents	131,316	149,735
Trade and other receivables	765	798
Accrued income	38	17
Short-term time deposits	9,745	30,491
Total credit risk as at December 31	**141,864**	**181,041**

Liquidity Risk

The Company's liquidity risk is considered very low thanks to the strong cash position giving the company a secured funding of their R&D activities into 2020. Based on the Company's Business Plan 2018-2022 and excluding any cash effective revenues at risk, management estimates that the Company is financed into 2020.

25. Events After the Balance Sheet Date

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

Statutory Auditor's Report

To the General Meeting of Molecular Partners AG, Schlieren

Report on the Audit of the Financial Statements (IFRS)

Opinion

We have audited the financial statements of Molecular Partners AG, which comprise the statement of financial position as at December 31, 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 63 to 100) give a true and fair view of the financial position of the company as at December 31, 2017, and its financial performance and its 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 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

Share-based payments

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

Key Audit Matter

Determining the accurate amount and point in time of revenue to be recognized under collaborative long-term research and development agreements is subject to judgment and involves analysis of a wide set of information, including information from the company's research or development partners.

Revenues are recognised when earned based on the performance requirements of the respective agreements. The majority of the company's revenues under such contracts is long-term in nature, sometimes spanning a number of reporting periods. For each new contract and achieved performance milestone, management determines and updates the pattern for recognizing revenue.

Management reassesses the revenue recognition patterns on a quarterly basis. Changes in conditions and circumstances, for example delays or improved results from research and development studies requiring further negotiation or settlements, may result in adjustments to the original revenue recognition pattern.

Our response

Our audit procedures included, amongst others, assessing the revenue recognition patterns determined by management. More specifically:

— We obtained the joint steering committee meeting minutes and discussed with management any impact on the revenue recognition patterns.

— We challenged the assumptions made by management by considering third party information available.

— We considered whether revenue was recognized based on the analysis of the contract position that management maintains in collaboration with the development partners.

— We considered the adequacy of the company's revenue recognition accounting policies and disclosures related to revenue recognition.

For further information on revenue recognition refer to the following:

— Accounting Policy Revenue Recognition, page 73

— Note 4 Critical Accounting Estimates and Judgements

— Note 5 Entity-wide Disclosures

Share-based payments

Key Audit Matter

The company operates several equity-settled share-based payment plans. Among others, these include two types of long term incentive plans, one awarding restricted share units (RSU) to the Board of Directors and another awarding performance share units (PSU) to members of the Management Board as well as to other employees. In 2017, the expense for share-based payments amounted to TCHF 3'594.

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.

Our response

— We obtained the third party valuation report and evaluated the expert's competence, capability and objectivity.

— We assessed the reasonableness of inputs used in the calculation of the expenses, including those applied to the re-assessment after one year and those relating to leavers.

— We corroborated the adjustments for actual achievement relating to the prior year awards by reading the respective meeting minutes of the Board of Directors and the compensation committee and reconciled it to the calculation of the expenses.

Depending on the achievement of the corporate goals, one year after the grant, the number of awards for PSU and the related expenses are adjusted. The PSU plan therefore involves higher complexity than the RSU plan.

An independent valuation expert engaged by management determines the fair values of the awards at grant date. Judgment is furthermore required from management to estimate the number of awards expected to vest.

— We also considered the adequacy of the company's disclosures made in relation to share-based payments.

For further information on share-based payments refer to the following:

— Accounting policy Employee benefits, page 72
— Note 4 Critical Accounting Estimates and Judgements
— Note 18 Personnel Expenses
— Note 18.2 Share-based compensation plans

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 financial statements, the compensation report and our auditor's reports thereon.

Our opinion on the 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 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 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 Financial Statements

The Board of Directors is responsible for the preparation of the 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 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 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 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, 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

KPMG AG

Martin Rohrbach
Licensed Audit Expert
Auditor in Charge

Kathrin Schünke
Licensed Audit Expert

Zurich, March 14, 2018

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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Statutory Financial Statements

Balance sheet as of December 31, in CHF thousands	Note	2017	2016
Assets			
Cash and cash equivalents	3	131,316	149,735
Trade accounts receivable		168	33
Other short-term receivables	4	947	765
Prepaid expenses and accrued income	5	349	531
Short-term time deposits	3	9,745	30,491
Total current assets		**142,525**	**181,555**
Property, plant and equipment	6	1,871	2,496
Intangible assets	7	27	47
Total non-current assets		**1,898**	**2,543**
Total assets		**144,423**	**184,098**
Shareholders' equity and liabilities			
Trade accounts payable		716	1,027
Other short-term payables	8	575	383
Accrued expenses	9	3,971	3,876
Deferred revenues (short-term)	10	8,879	10,479
Total current liabilities		**14,141**	**15,765**
Deferred revenues (long-term)	10	9,539	26,815
Long-term provisions		181	124
Total non-current liabilities		**9,720**	**26,939**
Total liabilities		**23,861**	**42,704**
Share capital	11	2,104	2,072
Reserve from capital contributions		160,514	159,764
Cumulative losses:			
- Loss carried forward		-20,290	-4,314
- Net result for the year		-21,766	-15,976
Total cumulative losses		-42,056	-20,290
Treasury shares	11	-	-152
Total shareholders' equity		**120,562**	**141,394**
Total liabilities and shareholders' equity		**144,423**	**184,098**

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

Income statement for the year ended December 31, in CHF thousands		**2017**	**2016**
Revenues			
Revenues from research and development collaborations		19,816	22,825
Other revenues		200	215
Total revenues	12	**20,016**	**23,040**
Operating expenses			
Research and development expenses	13	-35,598	-32,595
General and administrative expenses	14	-6,598	-7,295
Total operating expenses		**-42,196**	**-39,890**
Operating result		**-22,180**	**-16,850**
Financial income	15	611	963
Financial expenses		-197	-89
Result before taxes		**-21,766**	**-15,976**
Income taxes		-	-
Net result		**-21,766**	**-15,976**

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	**2017**	**2016**
Net result		-21,766	-15,976
Adjustments to reconcile net result to net cash from (used in) operating activities:			
Depreciation and amortization		1,145	1,089
Non-cash personnel expenses		191	1,102
Deferred revenues recognized in income		-18,876	-21,810
Financial income	15	-611	-963
Financial expenses		197	89
Changes in working capital:			
Change in prepayments and other assets		174	-359
Change in trade and other receivables		-317	525
Change in trade and other payables		-118	-370
Change in accrued expenses		95	1,366
Exchange gain/(loss) on working capital positions		-51	16
Other financial income/(expense)		-86	-89
Net cash from (used in) operating activities		**-40,023**	**-35,380**
Proceeds from investments in short-term time deposits		40,181	40,052
Investment in short-term time deposits		-19,435	-50,523
Acquisition of property, plant and equipment		-481	-1,033
Acquisition of intangible assets		-19	-64
Interest received		618	318
Net cash from (used in) investing activities		**20,864**	**-11,250**
Excercise of stock options, net of transaction costs	11	800	395
Net cash from (used in) financing activities		**800**	**395**
Exchange gain/(loss) on cash positions		-60	600
Net increase (decrease) in cash and cash equivalents		**-18,419**	**-45,635**
Cash and cash equivalents at January 1		149,735	195,370
Cash and cash equivalents at December 31	**3**	**131,316**	**149,735**

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

Notes to the 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® candidates, a novel class of therapeutic proteins. DARPin® candidates 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").

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, 2017 have been prepared in accordance with the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Unless stated otherwise, the financial statements are presented in thousands of Swiss Francs (TCHF).

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

Property, Plant and Equipment

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

Laboratory equipment:	5 years
Office equipment:	3 years
IT hardware:	2 years
Leasehold improvements:	10 years

Leasehold improvements are depreciated over the shorter of their estimated useful life and the lease term. Subsequent costs are included in the 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 balance sheet date. An asset's carrying amount is written down to its recoverable amount, if the asset's 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 is as follows:

IT software: 2 years

Treasury Shares

The amount of the consideration paid for the acquisition of treasury shares, which includes directly attributable costs, is recognized as a deduction from equity. When treasury shares are sold or reissued subsequently (other than in connection with the exercise of share options), the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in additional paid-in capital. Upon exercise of share options by the Company's employees (incl. management) or directors, the difference between the proceeds and the carrying amount of treasury shares issued is recognized in personnel and administrative expenses, respectively.

Revenue Recognition

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 the revenue recognition criteria are separately applied. The consideration received is allocated among the separate components based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate components. Payments received in excess of amounts earned are recorded as deferred revenue.

Revenues include fees (upfront and milestone payments) and FTE payments received in connection with out-licensing of products and in connection with discovery alliances. Collected fees are non-refundable and are recognized as per the nature of each individual agreement. Typically, these agreements include future performance obligations such as maintenance of patents, R&D support and services, memberships in Joint Steering Committees and other involvement in the collaborations. The relevant revenues are recognized pro rata over the duration of such performance obligations.

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 and 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, i.e. after a period of 10 years as from the grant date, 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 (degressive recognition of expenses over the vesting period).

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

Since the IPO of the Company on November 5, 2014 no more grants have been made under any of these three stock option plans.

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

- LTI plan 2015 established in March 2015
- LTI plan 2016 established in March 2016
- LTI plan 2017 established in March 2017

Under the LTI plans members of the Board of Directors are eligible to be granted restricted share units (RSUs) whereas members of the Management Board as well as other employees are eligible to be granted performance share units (PSUs).

RSUs are contingent rights to receive a certain number of shares of the Company at the end of a three-year vesting 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.

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. As regards members of the Management Board and the Board of Directors the annual grants are made after the ordinary shareholders' meeting, i.e. after the approval of the necessary amounts for variable compensation by the shareholders.

As of December 31, 2017, 237,878 PSU's and 67,253 RSU's were outstanding, 18,696 PSU's vested in November 2017 (early vesting).

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

Leases

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

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

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

Balance at December 31 in CHF thousands	**2017**	**2016**
Cash at bank and at hand in CHF	61,498	85,207
Cash at bank and at hand in EUR	23,262	33,473
Cash at bank and at hand in USD	46,556	31,055
Total cash at bank and at hand	131,316	149,735
Short-term time deposits in USD	9,745	30,491
Total short-term time deposits	9,745	30,491

The short-term time deposits in USD contain one position with a major Swiss bank (A-rating as per S&P). The position of thousands of USD 10,000 is fixed until September 28, 2018.

4. Other Short-term Receivables

in CHF thousands	**2017**	**2016**
Value added tax	134	150
Withholding tax	216	111
Other receivables	597	504
Balance at December 31	**947**	**765**

5. Prepaid Expenses and Accrued Income

in CHF thousands	2017	2016
Prepayments	311	485
Accrued income	38	46
Balance at December 31	**349**	**531**

6. Property, Plant and Equipment

in CHF thousands	2017	2016
Lab equipment	1,409	1,913
Office equipment	122	146
IT hardware	175	255
Leashold improvements	165	182
Balance at December 31	**1,871**	**2,496**

7. Intangible Assets

in CHF thousands	2017	2016
IT software	27	47
Balance at December 31	**27**	**47**

8. Other Short-term Payables

in CHF thousands	2017	2016
Social security	575	382
Other payables third party	-	1
Balance at December 31	**575**	**383**

9. Accrued Expenses

in CHF thousands	2017	2016
Accrued project costs	1,211	1,237
Accrued payroll and bonuses	2,487	2,381
Other	273	258
Balance at December 31	**3,971**	**3,876**

10. Deferred Revenues

in CHF thousands	2017	2016
Expected revenue recognition in year one after balance sheet date	8,879	10,479
Expected revenue recognition in year two after balance sheet date	7,533	10,479
Expected revenue recognition in year three after balance sheet date	1,337	9,133
Expected revenue recognition in year four after balance sheet date	669	2,937
Expected rev. recognition in year five and later after balance sheet date	-	4,266
Balance at December 31	**18,418**	**37,294**

11. Share Capital and Treasury Shares

Share capital
As of December 31, 2016, the Company's share capital consisted of 20,724,345 fully paid registered shares with a par value of CHF 0.10 each. As of December 31, 2017, the Company's share capital consisted of 21,044,062[1] fully paid registered shares with a par value of CHF 0.10 each.

Authorized capital
The Board of Directors is authorized to increase the share capital, at any time until April 20, 2018, 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.

Conditional capital
As of December 31, 2017, the share capital may be increased by an amount not to exceed CHF 259,639[2] through the issuance of up to 2,596,388 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 and members of the Board of Directors as well as to members of any advisory boards.

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

Treasury shares
As of December 31, 2017, the Company held no treasury shares (2016: 7,532). The Company used the treasury shares to service stock option and stock participation plans. During the year 2017, the number of treasury shares was reduced by 7,532 (2016: 56,644) to service the exercise of stock options by current and former employees.

1 319,717 new registered shares were issued in 2017 as a result of option exercises and the early vesting of performance share units. The corresponding capital increase was registered with the commercial register on January 30, 2018.
2 The share capital increase described in footnote 1 above was performed out of conditional capital. As a result, the available conditional capital was reduced by CHF 31,971, from CHF 291,610 to CHF 259,639.

The following table summarizes the movements in 2016 and 2017:

2016		
Treasury shares	**No. of shares**	**TCHF**
At January 1, 2016	64,176	1,295
Additions	-	-
Exercise of stock options	-56,644	-1,143 [1]
At December 31, 2016	**7,532**	**152**

2017		
Treasury shares	**No. of shares**	**TCHF**
At January 1, 2017	7,532	152
Additions	-	-
Exercise of stock options	-7,532	-152 [1]
At December 31, 2017	**-**	**-**

[1] of which TCHF 134 (net of proceeds of TCHF 18) were recognized in personnel expenses (2016: TCHF 978, net of proceeds of TCHF 165).

In 2017 the cash proceeds from the exercise of stock options and the early vesting of PSUs amounted to TCHF 807 (2016: TCHF 395), thereof TCHF 18 was serviced from treasury shares and TCHF 789 from the issuance of new shares (conditional share capital).

12. Revenues

Revenues by country in CHF thousands	2017	2016
Revenues CH	109	108
Revenues USA	19,907	22,932
Total year ended December 31	**20,016**	**23,040**

Analysis of revenue by major alliance partner in CHF thousands	2017	2016
Allergan Inc., USA	19,907	22,032
Janssen Biotech Inc., USA	-	900
Other	109	108
Total year ended December 31	**20,016**	**23,040**

13. Research and Development Expenses

in CHF thousands	2017	2016
Royalties and license fees	-60	-60
Research consumables and costs [1]	-17,762	-14,511
Personnel expenses	-14,469	-15,144
Intellectual property	-343	-317
Facility expenses	-1,388	-1,291
Depreciation and amortization	-1,019	-986
Other expenses	-557	-286
Total year ended December 31	**-35,598**	**-32,595**

[1] costs increase mainly driven by the progress of the Company's proprietary product pipeline such as for manufacturing of pre-clinical and clinical material as well as for clinical trials

14. General and Administrative Expenses

in CHF thousands	2017	2016
Personnel expenses	-3,771	-5,046
Facility expenses	-172	-134
Depreciation and amortization	-126	-103
Other expenses	-2,529	-2,012
Total year ended December 31	**-6,598**	**-7,295**

15. Financial Income

in CHF thousands	2017	2016
Interest income on loans and receivables	610	335
Foreign exchange gain	1	628
Total year ended December 31	**611**	**963**

16. Full-time Equivalents

	2017	2016
Average number of full-time equivalents	104.0	99.7
Full-time equivalents at year end	107.8	102.5

17. Lease Commitments

Operating lease commitments
As at the end of 2017 the Company had four lease contracts in place for its facilities in Schlieren, Switzerland:

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

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

in CHF thousands	2017	2016
Within one year	1,266	1,266
Due within two to five years	3,523	4,543
Balance at December 31	**4,789**	**5,809**

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

18. Major Shareholders

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

Shareholders with over 3% of share capital registered with the Commercial Register	**2017**	**2016**
Hansjoerg Wyss	9.85%	0.00%
Index Ventures Associates IV Limited	8.18%	14.68%
Essex Woodlands Health Ventures VIII, LLC	7.82%	13.73%
Andreas Plückthun	4.92%	5.19%
Mark N. Lampert (Biotechnology Value Funds)	4.34%	4.58%
Johnson & Johnson	4.25%	8.32%
Endeavour Partners GP Limited	4.10%	4.33%
Michael Tobias Stumpp	3.40%	3.58%
Patrick Amstutz	3.19%	3.37%
Patrik Forrer	3.14%	3.31%
Pictet Asset Management (Direction de Fonds)	3.11%	0.00%
BB Biotech Ventures II, L.P.	<3.00%	4.96%
Kaspar Binz	<3.00%	3.15%
Christian Zahnd (now heirs of Christian Zahnd)	<3.00%	3.03%

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

in CHF	Number	Value TCHF
Total grants to the members of the Board of Directors	19,720	600
Total grants to the members of the management [1]	43,124	1,427
Total grants to other employees	49,023	1,630
Total grants in 2016	**111,867**	**3,657**

[1] Includes PSU grants to former CEO Christian Zahnd who resigned as CEO in November 2016 and remained member of the Board of Directors until the Annual General Meeting 2017 (May 11, 2017).

The Company has not granted any loans, credits or post-retirements benefits beyond the occupational benefit schemes to members of the Board of Directors or the Management Board or other employees.

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

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

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

Board of Directors	Shares	RSUs (*PSUs)	Options
Jörn Aldag	2,710	10,682	94,680
Goran Ando	-	5,341	70,000
Steven H. Holtzman	-	5,341	20,000
William A. Lee	-	5,341	42,340
Andreas Plückthun	1,018,995	5,341	-
Petri Vainio	-	5,341	-
Jeff Buchalter	-	2,465	-
Christian Zahnd	594,985	23,790*	190,750
Total Board of Directors as of December 31, 2016	**1,616,690**	**63,642**	**417,770**

Management Board	Shares	PSUs	Options
Patrick Amstutz	661,900	19,158	119,950
Michael Tobias Stumpp	703,910	15,025	113,450
Andreas Harstrick	-	15,330	-
Andreas Emmenegger	193,390	15,025	111,170
Total Management Board as of December 31, 2016	**1,559,200**	**64,538**	**344,570**

* Includes PSU grants to former CEO Christian Zahnd who resigned as CEO in November 2016 and remained member of the Board of Directors until the Annual General Meeting 2017 (May 11, 2017).

21. Auditing and Additional Fees Paid to the Statutory Auditor

in CHF thousands	2017	2016
Audit fee	149	150
Fees for additional services	17	8
Balance at December 31	**166**	**158**

22. Events After Balance Sheet Date

These financial statements were approved for issuance by the Board of Directors on March 14, 2018.

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

Statutory Auditor's Report

To the General Meeting of Molecular Partners AG, Schlieren

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Molecular Partners AG, which comprise the balance sheet as at December 31, 2017, 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 106 to 119) for the year ended December, 31, 2017 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

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

Key Audit Matter

Determining the accurate amount and point in time of revenue to be recognized under collaborative long-term research and development agreements is subject to judgment and involves analysis of a wide set of information, including information from the company's research or development partners.

Revenues are recognised when earned based on the performance requirements of the respective agreements. The majority of the company's revenues under such contracts is long-term in nature, sometimes spanning a number of reporting periods. For each new contract and achieved performance milestone, management determines and updates the pattern for recognizing revenue.

Management reassesses the revenue recognition patterns on a quarterly basis. Changes in conditions and circumstances, for example delays or improved results from research and development studies requiring further negotiation or settlements, may result in adjustments to the original revenue recognition pattern.

Our response

Our audit procedures included, amongst others, assessing the revenue recognition patterns determined by management. More specifically:

- We obtained the joint steering committee meeting minutes and discussed with management any impact on the revenue recognition patterns.
- We challenged the assumptions made by management by considering third party information available.
- We considered whether revenue was recognized based on the analysis of the contract position that management maintains in collaboration with the development partners.
- We considered the adequacy of the company's revenue recognition accounting policies and disclosures related to revenue recognition.

For further information on revenue recognition refer to the following:

- Accounting Policy Revenue Recognition, page 110
- Note 10 Deferred revenues
- Note 12 Revenues

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

KPMG AG

Martin Rohrbach
Licensed Audit Expert
Auditor in Charge

Kathrin Schünke
Licensed Audit Expert

Zurich, March 14, 2018

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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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.

Free float:
A term in stocks trading, which describes the proportion of shares of a publicly traded company that is traded in the stock market.

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 (in oncology, patients will be selected). This phase includes trials designed to assess the safety, tolerability, pharmacokinetics, and pharmacodynamics of a drug.

Phase 2:
Second stage of testing in human subjects. Normally, a drug or treatment is given to a larger group of people to see if it is effective and to further evaluate its safety.

Phase 3:
Third stage of testing in human subjects, often in large groups of people to confirm its effectiveness, monitor side effects, compare it to commonly used treatments, and collect information that will allow for the submission for registration and commercialization of a drug.

Vascular endothelial growth factor (VEGF):
A signal protein produced by cells that stimulates vasculogenesis and angiogenesis.

Wet age-related macular degeneration (AMD):
Wet AMD is a degenerative eye disease that causes damage to the macula, the central part of the retina. Wet AMD is one of the leading causes of blindness in the western world. It is caused by the abnormal growth of blood vessels in the retina.

Disclaimer:
This report does not constitute an offer or invitation to subscribe for or purchase any securities of Molecular Partners AG. This report may contain certain forward-looking statements and assessments or intentions concerning the company and its business. Such statements involve certain risks, uncertainties and other factors which could cause the actual results, financial condition, performance or achievements of the company to be materially different from those expressed or implied by such statements. Readers should therefore not place reliance on these statements, particularly not in connection with any contract or investment decision. The company disclaims any obligation to update these forward-looking statements, assessments or intentions.

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Powering Future Medicines