Molecular Partners AG

Annual Report 2016

MOLECULAR partners

Delivering DARPin® Product Candidates
Powering Future Medicines

At a Glance: Key Milestones, Company Profile & Contents

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

Ongoing successful transition from a DARPin® technology platform to a DARPin® product company

R&D, Partnership & Team Milestones

- **MP0250**
  - Phase 1 results presented at ESMO showing that MP0250 was well tolerated at high dose levels, with a side effect profile consistent with profound inhibition of the vascular endothelial growth factor (VEGF) pathway
  - Phase 2 in multiple myeloma: study approved by BfArM in Germany and ongoing regulatory submissions in other countries; first safety data expected in 2017 and efficacy data in 2018
  - Additional Phase 2 trial for solid tumor indication to be submitted in 2017; indication to be disclosed in H1 2017
- **MP0274**
  - Regulatory package submitted for Phase 1 with MP0274, a multi-DARPin® candidate for treatment of HER2-positive solid tumors
- **Immuno-oncology**
  - Ongoing internal focus on advancement of proprietary programs to showcase the differentiation potential of DARPin® candidates as tumor-localized agonists and other concepts
- **Abicipar**
  - Phase 3 trials in wet AMD (wet age-related macular degeneration) progressing well
  - Allergan announced to start Phase 3 trials in DME (diabetic macular edema)
- **Board of Directors**
  - Gwen Fyfe, MD, to be proposed for election to Board of Directors at Annual General Meeting on May 11, 2017
- **Team**
  - Talent base with 103 full-time employees, equivalents up 15%, reflecting the strengthening of the clinical team

2016 Financial Milestones

- **Financial position:** Ongoing strong financial position with CHF 180.2 million in cash and short-term time deposits as of December 31, 2016 (-16% year-on-year)

- **Operating cash flow:** Net cash used in operating activities of CHF 35.4 million in 2016, reflecting scale-up of R&D, pipeline growth and progress of proprietary clinical programs in oncology

- **Result:** Operating loss of CHF 19.5 million and net loss of CHF 18.6 million

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 many 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 preclinical development and several more in the research stage, with a current focus on ophthalmology and oncology. The Company establishes research and development partnerships with leading pharmaceutical companies and is backed by established biotech investors.

For more information regarding Molecular Partners AG, please visit: **www.molecularpartners.com**.

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To Our Shareholders:

Molecular Partners continues to advance a balanced and differentiated portfolio of DARPin® product candidates that offer patients a new dimension of protein therapeutics for the treatment of serious diseases, including cancer and sight-threatening disorders. We call this approach the DARPin® Difference.

In 2016, we made significant progress with our DARPin® pipeline, demonstrated by the good recruitment in the Phase 3 trials of abicipar (in collaboration with our strategic partner Allergan), the strong safety and encouraging efficacy data from our Phase 1 trial of MP0250 in patients with solid tumors, and our preclinical activities focusing on immuno-oncology, which allowed us to define DARPin®-differentiated value around tumor-localized T-cell agonists.

DARPin® proteins are a novel therapeutic modality and therefore it was essential for us to understand how the human body would accept these proteins. In this context, the MP0250 safety and exposure data represent a key milestone in de-risking of the DARPin® platform: we have not seen any systemic adverse events which would limit the DARPin® Difference, thus opening the door for many other systemic DARPin® applications. Most notably, we did not record any infusion-related safety concerns in the Phase 1 trial, and did not detect clearing or neutralizing antibodies in any of the 24 participating patients, who were treated up to 60 weeks, with infusions every two weeks. Finally, MP0250 is equipped with a HSA-DARPin® drug candidate allowing it to remain in the body for elongated time spans and potentially give increasing tumor penetration and hence better efficacy against the cancer.

Together, these latest developments mark a turning point for Molecular Partners in our transition from a

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

DARPin® technology platform to a DARPin® product company. Having attained proof of platform allows us to concentrate our energy on developing products differentiated from other therapeutic modalities, such as antibodies, as we build on the uniqueness of the DARPin® approach. The versatility of our DARPin® design allows us to generate thousands of multi-specific protein entities, acting as molecular teams, which we can test in a certain disease context enabling us to find new biology and innovative solutions serving the patient's need. This approach has allowed us to identify molecular "DARPin® handcuffs" for MP0274, our HER2-directed product, as well as our tumor-restricted DARPin® agonists in immuno-oncology.

In addition to our pipeline progress, we bolstered our team by adding experts in clinical development, allowing us to run several clinical trials in parallel, a prerequisite for delivering on our promise. Overall, our ongoing progress with these various initiatives underscores our commitment to advancing modern medicine and improving the treatment of serious diseases.

2016 Milestones

In 2016 and early 2017, Molecular Partners reached several major milestones in the development of novel compounds generated from our DARPin® technology platform.

- We submitted the regulatory package for a Phase 2 trial of our lead oncology asset, MP0250, in patients with multiple myeloma (MM), based on convincing Phase 1 data presented at major oncology conferences. We also obtained regulatory approval from the Federal Institute for Drugs and Medical Devices (BfArM) in Germany to conduct the Phase 2 trial.
- We submitted the regulatory package for our Phase 1 trial of MP0274, a proprietary, multi-DARPin® drug candidate for the treatment of HER2-positive solid tumors.
- Our strategic partner Allergan reported good progress in enrolling patients into two pivotal Phase 3 trials of abicipar in wet age-related macular degeneration (AMD), and announced plans to initiate a Phase 3 trial of abicipar in diabetic macular edema (DME). Both wet AMD and DME are leading causes of blindness in the western world.
- We maintained our strong cash position as we incurred increased development expenses and made ongoing investments in our proprietary pipeline, in line with management's expectations.

One of the highlights of 2016 was the continued advancement of the clinical development program for MP0250, our most advanced systemic DARPin® drug candidate. In October, we presented results from our ongoing Phase 1 trial of MP0250 in patients with solid tumors at the annual conference of the European Society of Medical Oncology (ESMO) in Copenhagen, Denmark. In the Phase 1 trial, MP0250 was well tolerated at high dose levels, with a side effect profile consistent with profound inhibition of the vascular endothelial growth factor (VEGF) pathway. The results prove that DARPin® proteins can be engineered to have a systemic half-life of approximately two weeks (HSA-DARPin® technology) and that all DARPin® domains in MP0250 are not easily recognized and eliminated by the human immune system. The Phase 1 findings also underscore the potential value of MP0250 as a new therapeutic for various tumor types beyond MM.

In February 2017, we received approval from the BfArM to initiate the first Phase 2 study of MP0250, which will examine this agent in combination with Velcade® (bortezomib), a backbone therapy in MM, and dexamethasone in patients with MM who have failed standard therapies. We also submitted regulatory packages for this study to regulatory authorities in Italy and Poland. Subject to regulatory feedback, we expect initial safety data from this study in 2017 and efficacy data in 2018.

In December, we initiated the regulatory submission for the Phase 1 trial of MP0274, our second-leading oncology drug candidate, in patients with HER2-positive solid tumors. Preclinical data suggest that MP0274 is highly efficacious against HER2-driven tumors and has a favorable safety profile. Unlike current standard-of-care antibodies, MP0274 binds HER2 as molecular handcuff and thereby acts via a completely new mode of action that enables direct inducement of cell suicide in susceptible cancer cells, without depending on antibody-dependent cell-mediated cytotoxicity (ADCC). It may thus help patients who do not respond adequately to current therapies.

The latest developments mark a turning point for Molecular Partners in our transition from a DARPin® technology platform to a DARPin® product company.

One of the most promising approaches in modern oncology includes harnessing the human bodies' immune system to delay cancer growth and possibly even curing cancer. Immune checkpoints are proteins which can help tumors escape the attack of the body's immune cells. An important modality to prevent this from happening is immune checkpoint modulators (ICMs). The Company is developing such modalities and revealed additional information about its immune-checkpoint inhibitor pipeline, including two early-stage next generation DARPin® product candidates. The first program targets the validated immune checkpoint PD-1 (programmed cell death protein 1) as well as VEGF-A, with the aim of enhancing anti-PD-1 efficacy. The second program is designed to potently activate T-cells (body's immune cells) in the tumor without activating circulating T-cells, thus circumventing systemic toxicities and possibly opening the therapeutic window for combination therapies in this space.

"The DARPin® platform is ideally suited to develop highly differentiated immuno-oncology therapies with the potential to overcome the limitations of first-generation approaches," said Dr. Michael Stumpp, Chief Scientific Officer at Molecular Partners. "We are excited to contribute to the rapidly evolving field of immuno-oncology as we build our proprietary oncology pipeline. Our early-stage programs evaluate new principles that were previously out of reach: enhanced immune checkpoint blockers and locally activated agonists."

In ophthalmology, our strategic partner Allergan presented data from a Phase 2 trial comparing abicipar, our most advanced DARPin® compound and our first partnered product candidate, to standard-of-care Lucentis® (ranibizumab) therapy in patients with DME. In the Phase 2 trial, results of which were presented in October at the annual meeting of the American Academy of Ophthalmology (AAO) in Chicago, USA, abicipar demonstrated efficacy in all DME treatment groups, underscoring the compound's long duration of action underscoring the potential for quarterly dosing compared to monthly dosing of Lucentis®.

Financial Information

Our strong financial position during 2016 continued to be in line with management's expectations. The Company's financial performance reflected an increase in development expenses and ongoing investments to further expand Molecular Partners' proprietary pipeline. In 2016, Molecular Partners recognized total revenues of CHF 23.0 million (2015: CHF 29.1 million) and incurred total expenses of CHF 42.5 million (2015: CHF 31.3 million). As of December 2016, the Company's cash balance (including short-term time deposits) was reduced by CHF 35.2 million compared to year-end 2015 to a level of CHF 180.2 million (September 30, 2016: CHF 185.7 million; December 31, 2015: CHF 215.4 million). The cash balance remains on a very solid level and the Company's balance sheet continued to be debt-free in 2016. The total shareholders' equity position decreased to CHF 135.8 million as of December 31, 2016 (September 30, 2016: CHF 136.7 million; December 31, 2015: CHF 151.8 million).

As of December 31, 2016, Molecular Partners employed 103 full-time employees (FTEs), with approximately 90% of employees in research and development (December 31, 2015: 89 FTEs). The number of R&D employees increased by 14% over 2015, reflecting the Company's robust investments to advance our proprietary pipeline. We closed 2016 with an ongoing strong cash position that continues to provide us with financial flexibility and a forecasted cash runway until at least end of 2019 -- well beyond our key value inflection points.

Management

In November, Christian Zahnd, co-founder, CEO and member of the Board of Directors resigned as CEO due to health reasons. Patrick Amstutz, PhD, was named acting chief executive officer (CEO) while the Board of Directors evaluates the most suitable successor from within or outside the Company.

Additionally, the Molecular Partners Board of Directors will propose Gwen Fyfe, MD, for election to the Board of Directors at the Company's Annual General Meeting on May 11, 2017. Dr. Fyfe has more than 20 years of drug development experience in oncology, and held various positions at Genentech from 1997-2009, including vice president, oncology development. In that capacity, she played an important role in the development of Genentech's approved oncology agents including Rituxan®, Herceptin®, Avastin® and Tarceva®. In recent years, she has consulted for venture capital firms and for a variety of biotechnology companies. A recognized

Another priority for Molecular Partners is to continue to advance our immuno-oncology pipeline, which includes several discovery programs.

expert in the broader oncology community, Dr. Fyfe has been an invited member of Institute of Medicine panels, National Cancer Institute working groups and grant committees, and oversight committees of the American Society of Clinical Oncology (ASCO).

Business Outlook and Priorities for 2017 and Beyond

For the Company's proprietary **oncology** pipeline, we anticipate initial safety data from the Phase 2 trial of MP0250 in 2017 and efficacy data in 2018. During the first half of 2017, we plan to disclose further details of this study as well as the solid tumor indication for the second Phase 2 trial of MP0250, based on the encouraging Phase 1 data in patients with solid tumors. We will also initiate a Phase 1 trial of MP0274 in 2017.

Another priority for the Company is to continue to advance our **immuno-oncology pipeline**, which includes several discovery programs. In this burgeoning field, Molecular Partners has demonstrated the potential utility of targeting immune checkpoint modulators (ICMs) via combination therapy, such as by simultaneously inhibiting PD-1 and VEGF, an approach that appears to produce additive and/or synergistic effects. Another promising approach we are pursuing in immuno-oncology focuses on tumor-restricted DARPin® agonists, which offer an increased therapeutic dosing window. We plan to present initial data from our immuno-oncology research programs throughout 2017.

In **ophthalmology**, we will continue to support our strategic partner Allergan, which has announced plans to start a Phase 3 trial of abicipar in patients with DME in the second half of 2017. The trial will use an improved formulation over that used in the Phase 2 trial comparing abicipar to Lucentis®, results of which were reported at the 2016 AAO annual meeting in October.

For the full year 2017, at constant exchange rates, we expect total expenses of around CHF 50-60 million, of which approximately CHF 6 million will be non-cash effective costs for share-based payments, International Financial Reporting Standards (IFRS) pension accounting and depreciations. However, this guidance is subject to the progress of the pipeline, which will be mainly driven by manufacturing costs, the speed of enrollment of patients in clinical trials and data from R&D projects. Additionally, the Company expects around CHF 2 million of capital expenditures, mainly for laboratory equipment.

Tribute to Our Co-Founder and Former CEO and Gratitude to Our Supporters

We are extremely grateful to our co-founder and former CEO Christian Zahnd, PhD, who resigned in November due to health reasons, while he remains a member of the Board of Directors. Under Christian's leadership over the past 12 years, Molecular Partners has grown from a small, private, discovery-stage start-up to a highly integrated public company with multiple clinical programs underway, both in-house and with our strategic partner Allergan. Christian leaves Molecular Partners well-positioned for continued growth as we pursue our mission to advance modern medicine and significantly improve the management of serious diseases. We appreciate Christian's immense contributions to our success, thank him for all that he did for us and wish him and his family all the best.

We would also like to thank our employees, our strategic partners, our investors, and the researchers and patients who have contributed to the advancement of our investigational DARPin® therapies. Our steady progress in 2016 would not have been possible without their commitment and support, which position us favorably for further success in 2017 and beyond. Having proven the viability of our technology platform, we can now focus on making the DARPin® Difference real for patients, and we look forward to sharing additional news of our progress throughout the year.

Sincerely,

Patrick Amstutz, Ph.D.
Acting Chief Executive Officer

Jörn Aldag
Chairman of the Board

J. Aldag (left), Dr. 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 2016**	**FY 2015**	**Change**
Total revenues	**23.0**	**29.1**	**-6.1**
R&D expenses	-35.2	-25.0	-10.2
G&A expenses	-7.3	-6.3	-1.0
Total operating expenses (incl depr. & amort.)	**-42.5**	**-31.3**	**-11.2**
Operating result	**-19.5**	**-2.2**	**-17.3**
Net finance income (expenses)	0.9	2.1	-1.2
Income taxes	-	-	-
Net result	**-18.6**	**-0.1**	**-18.5**
Basic net result per share (in CHF)	-0.91	-0.01	-0.90
Diluted net profit/(loss) per share (in CHF)	-0.91	-0.01	-0.90
Net cash from (used in) operating activities	-35.4	26.5	-61.9
Net cash from (used in) investing activities	-11.3	-20.7	9.4
Net cash from (used in) financing activities	0.4	0.2	0.2
Exchange gain/(loss) on cash positions	0.6	1.0	-0.4
Net increase (decrease) in cash & cash equivelants	-45.7	7.0	-52.7
Cash & cash equivalents at December 31 [1]	**180.2**	**215.4**	**-35.2**
Total non-current assets	2.5	2.5	-
Total current assets	181.6	216.9	-35.3
Total shareholders' equity at December 31	135.8	151.8	-16.0
Total non-current liabilities	32.5	41.2	-8.7
Total current liabilities	15.8	26.4	-10.6
Number of total FTE at December 31	**102.5**	**89.1**	**13.4**
- thereof in R&D	91.7	80.7	11.0
- thereof in G&A	10.8	8.4	2.4

[1] includes short-term time deposits of CHF 30.5 million in 2016 and CHF 20.0 million in 2015

Financial Highlights

During 2016, Molecular Partners' financial position developed in line with management's expectations. The Company continues to increase its investments in research and development in order to rapidly progress our proprietary oncology DARPin® candidates towards value creating milestones such as clinical proof of concept with MP0250 in multiple myeloma (MM). Molecular Partners closed 2016 with an ongoing strong cash position that continues to provide the Company with financial flexibility and a forecasted cash runway until at least end of 2019 - well beyond the envisaged key value inflection points.

Molecular Partners' broad pipeline across multiple indications, its powerful partnership with blue chip pharma company Allergan, and its strong financial position combine to give the Company a uniquely robust position within the biotech sector. As the Company looks to 2017, 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 2016**:

- 2016 accounting revenues were CHF 23.0 million, with R&D expenses of CHF 35.2 million and G&A expenses of CHF 7.3 million
- This constitutes a net operating loss of CHF 19.5 million, in line with management's expectations and the guidance provided
- The Company incurred a net loss of CHF 18.6 million in 2016
- Cash wise, the Company recorded an operating cash outflow of CHF 35.4 million in 2016
- As at December 31, 2016, the Company held CHF 180.2 million cash and short-term time deposits, down by CHF 35.2 million compared to year-end 2015
- Molecular Partners maintains a strong, debt-free balance sheet to advance the Company's proprietary pipeline
- As at December 31, 2016, the Company employed 103 full-time equivalents, up 15% over 12 months
- As at December 31, 2016, there were 20,724,345 shares outstanding

Revenues

In 2016, the Company recognized total revenues of CHF 23.0 million, a decrease of 21% compared to the previous year (2015: CHF 29.1 million). Revenues of CHF 22.0 million was recorded with Allergan and CHF 0.9 million with Janssen. CHF 14.2 million of total revenues are revenues from technology access and transfer (recognized income from discovery alliances with Allergan), CHF 8.6 million are revenues from R&D collaborations (deferred revenue recognitions from up-front payments as well as FTE payments) and CHF 0.2 million are other revenues (cost recharges). As of December 31, 2016, the Company had CHF 37.3 million in deferred revenues on the balance sheet; these are expected to be recognized as revenues as follows: CHF 10.5 million in 2017, CHF 10.5 million in 2018, CHF 9.1 million in 2019 and CHF 7.2 million in 2020 and beyond. See note 5 of the IFRS financial statements on page 74 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 partnership 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, preclinical and clinical testing, personnel related costs and, to a lesser extent, royalty and license fees, facility expenses, professional fees for legal, tax, audit and strategic purposes, administrative expenses and depreciation of property, plant and equipment.

Overall, total operating expenses increased by CHF 11.2 million (+36%) to CHF 42.5 million (compared to CHF 31.3 million in 2015). These costs included CHF 3.6 million in non-cash effective share-based compensation and pension costs. The two major expense categories were personnel expenses of CHF 22.8 million (54% of total operating expenses) and research consumables and costs totaling CHF 14.5 million (34% of total operating expenses).

Total R&D expenses increased by CHF 10.2 million (+41%) to CHF 35.2 million (2015: CHF 25.0 million), mainly due to the growing and advancing 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 1.0 million (+16%) to CHF 7.3 million (2015: CHF 6.3 million), mainly due to 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 2017, operating expenses are expected to increase further, particularly as the Company continues the development of its proprietary product candidates, expands 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, 2016, the Company had 102.5 full-time employees (FTEs) on its payroll, including 91.7 FTEs (ca. 90%) in R&D and 10.8 FTEs (ca. 10%) in G&A. By comparison, the Company had 89.1 total FTEs on its payroll as of December 31, 2015.

Operating Profit (loss)

In 2016, the Company generated an operating loss of CHF 19.5 million (compared to an operating loss of CHF 2.2 million in 2015). The decline from 2015 stems mainly from the non-recurrence of the USD 50 million one-time milestones fees from Allergan collected in 2015, but also reflects further intensified R&D activities for the benefit of long-term value creation.

Financial Income and Expenses

In 2016, Molecular Partners recorded a financial income of CHF 0.9 million, a decline of CHF 1.2 million versus the previous year (2015: net financial income of CHF 2.1 million). Net financial income for both years mainly reflect the exchange gains on cash and on working capital positions held in USD and in EUR. 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 2016, remaining tax losses of CHF 20.3 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 2016, the Company recorded a net loss of CHF 18.6 million, clearly below the virtual break-even net result of the previous year (2015: marginal net loss of CHF 0.1 million). The decline compared to the previous year mirrors the substantially lower operating result.

Balance Sheet and Capital Resources

As of December 2016, the Company's cash balance (including short-term time deposits) was reduced by CHF 35.2 million compared to year-end 2015 to a level of CHF 180.2 million (December 31, 2015: CHF 215.4 million). The Company's total cash balance continued to be very strong and represented 98% of the total balance sheet.

Compared to year-end 2015, the total shareholders' equity position decreased to CHF 135.8 million as of December 31, 2016 (December 31, 2015: CHF 151.8 million). The Company's balance sheet continued to be debt-free in 2016. 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 48.3 million (2015: CHF 67.6 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 37.3 million as per end 2016 (2015: CHF 59.1 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.

Since in 2016 all of the Company's product candidates were still in the development stage, liquidity requirements arose primarily from the need to fund ongoing R&D activities and advance its proprietary pipeline.

Cash Flow Statement

In 2016, Molecular Partners generated a net cash outflow from operations of CHF 35.4 million, contrasting the positive net cash flow from operations of CHF 26.5 million in 2015 which had been mainly driven by the collection of USD 50 million milestone fees from Allergan in

the second half of 2015. The operating cash flow reflects the Company's increased investments in research and development in order to rapidly progress its proprietary oncology DARPin® candidates towards value creating milestones.

Cash outflow from investing activities came back to CHF 11.3 million, compared to a CHF 20.7 million cash outflow from investment in 2015. The higher amount in 2015 reflected by the CHF 20.0 million investment into short-term time deposits, whereas additional investments into short-term time deposits in 2016 were CHF 10.5 million. A CHF 1.1 million outflow was recorded for capital expenditure in equipment and a CHF 0.3 million inflow from interest. Net cash inflow from financing activities was CHF 0.4 million. Overall, this resulted in a net decrease of the Company's total cash balance and short-term time deposits by CHF 35.2 million from CHF 215.4 million at the end of 2015 to CHF 180.2 million at the year-end 2016.

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, one of them with AAA rating and two of them with A rating as per Standard & Poor's (Aaa, Aa3 and A2 as per Moody'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 2017-2021 and excluding any revenues at risk, management estimates that the Company is financed until approximately the second half of 2019.

Outlook 2017

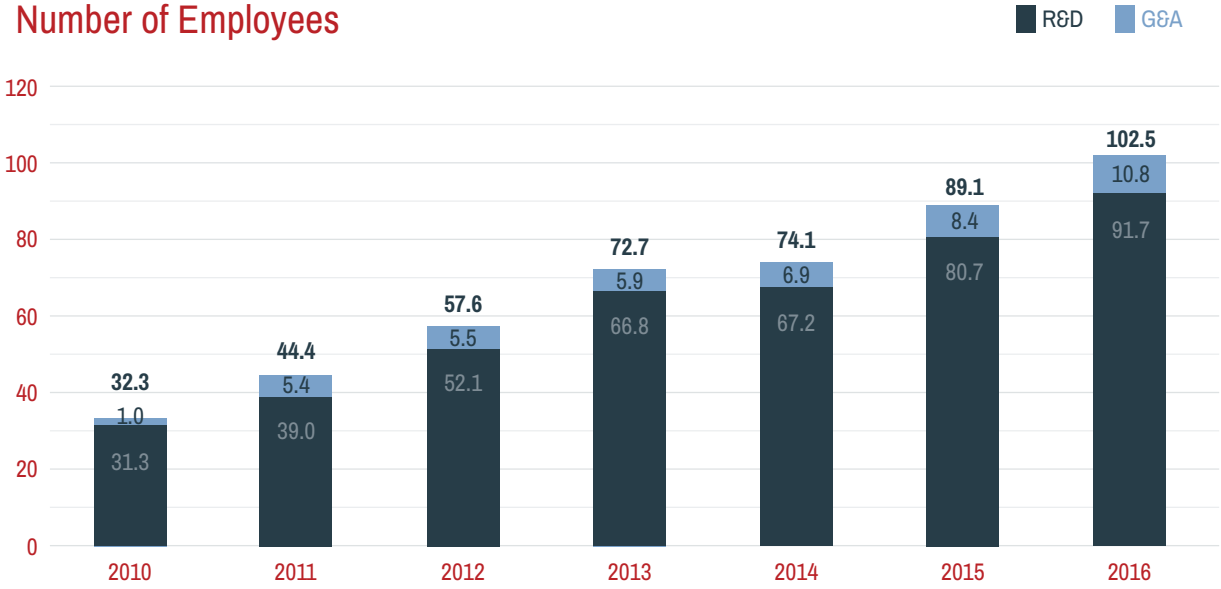
For the full year 2017, at constant exchange rates, the Company expects total expenses of around CHF 50-60 million, of which around CHF 6 million will be non-cash effective costs for share-based payments, IFRS pension accounting and depreciations. However, this guidance is subject to the progress of 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 2 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 2017

Date:	Event:
April 13, 2017	Expected Publication Date of Annual General Meeting Invitation 2017
May 4, 2017	Publication of Quarterly Management Statement Q1 2017
May 11, 2017	Annual General Meeting of Molecular Partners AG
August 30, 2017	Publication of Half-Year Results 2017
October 26, 2017	Publication of Quarterly Management Statement Q3 2017

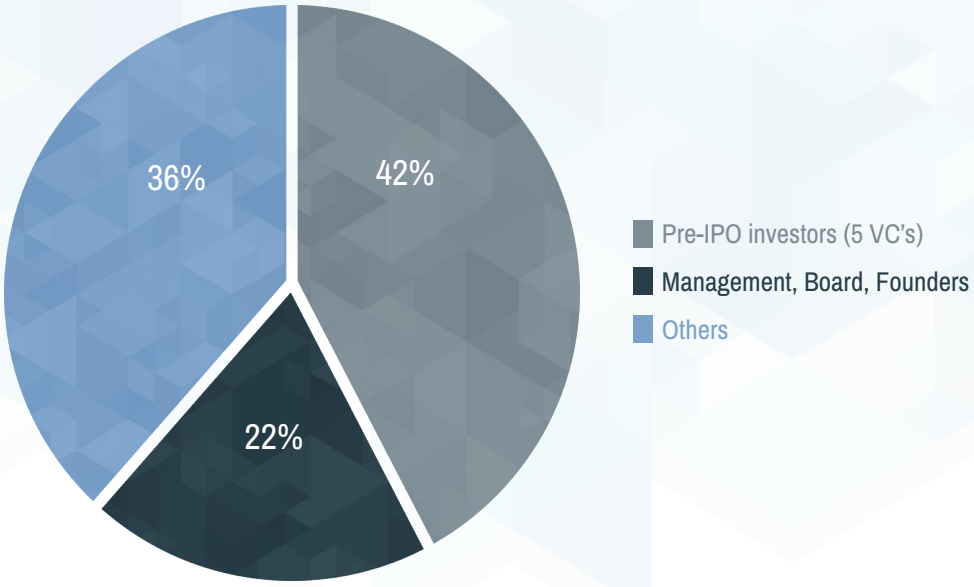
Number of Employees



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
- 20,724,345 issued shares outstanding[1] as of December 31, 2016
- CHF 514 million market cap. as of December 31, 2016
- Formal free float as per SIX Swiss Exchange definition of 66%



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 20.7 million registered shares (Namenaktien) with a nominal value of CHF 0.10 each. As of December 31, 2016, the largest shareholders in Molecular Partners, holding per year-end 2016 more than 3% of shares outstanding as registered on the respective website of the SIX Swiss Exchange, are Index Ventures funds (14.7%), Essex Woodlands Health Ventures funds (13.7%), Johnson & Johnson Development Corporation (8.3%), BB Biotech Ventures (5.0%), Biotechnology Value Fund (4.6%), Endeavour funds (4.3%) as well as the founders of the Company Andreas Plückthun (5.2%), Michael Stumpp (3.58%), Patrick Amstutz (3.37%) and Christian Zahnd (3.03%), Patrik Forrer (3.31%) and Hans Kaspar Binz (3.15%). These disclosed holding position of the major shareholders owning more

[1] Share capital increase has been registered in the Commercial Register on March 15, 2017.

than 3% in Molecular Partners summed up to 75% of shares outstanding per December 31, 2016. This percentage compares to an aggregated holding position of 63% per year-end 2015.

As per the definition of the SIX Swiss Exchange, the free float of Molecular Partner shares per year-end 2016 was 66%, an increase of more than one third compared to year-end 2015 (48%). 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 2016, a total of 9.55 million shares were entered in the Company's share register, representing 46% of the total outstanding capital. Those shares were held by 1,180 shareholders, including nominees, which represents an increase of 7% of the number of registered shareholders compared to the previous year (1,100). 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, Cowen & Company and Bank am Bellevue continued to provide regular research coverage of Molecular Partners throughout 2016. The contact details of the respective research analysts can be found on the investor relations section of the Molecular Partners website.

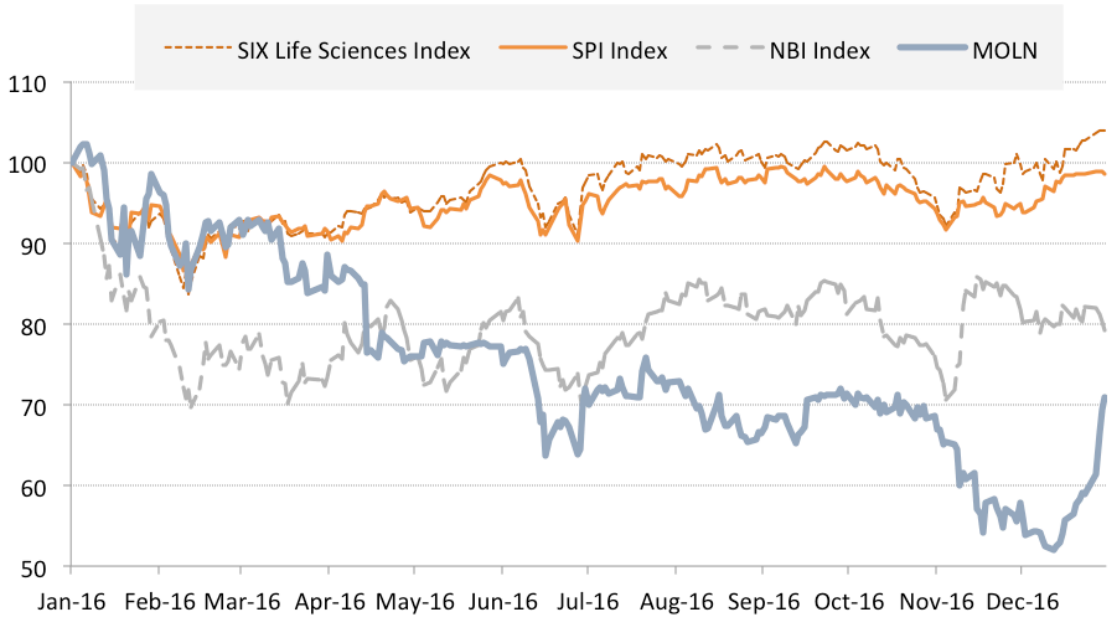
Key share data

Valor symbol	MOLN
Valor number	25,637,909
ISIN	CH0256379097
Number of shares in issue	20,724,345
Nominal value	CHF 0.10
Share register	Molecular Partners c/o AREG AG

Share Price Development

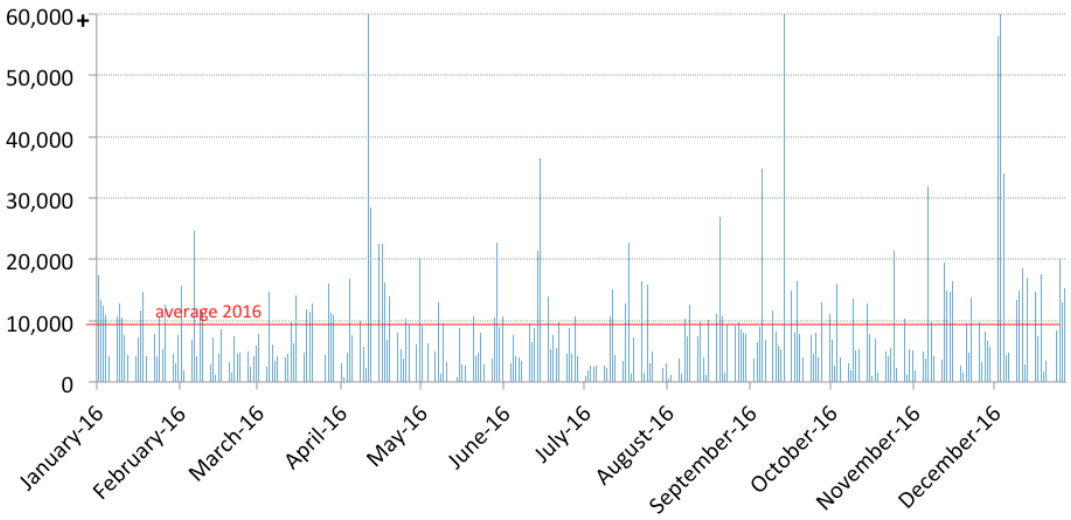
While in 2015, Molecular Partners had figured in the list of the best performing companies of the SPI, the share started negatively into 2016. During the first quarter of 2016, equity markets and especially the Biotech sector were under strong pressure. Molecular Partners performed in line with domestic indices, but still above the Nasdaq Biotech Index (NBI) in that period. While the NBI and especially the domestic indices recovered in the following two quarters, the Molecular Partners share continued its decline without any adverse company-specific news. Both Swiss and international equity markets came back again ahead of the US elections in November, before starting a recovery for the rest of the year. For Molecular Partners, however, the recovery only started on December 12, when the share had marked its yearly minimum and all-time low of CHF 18.20. Within the two remaining weeks until the end of 2016, the share recovered more than 36% from its low. The yearly high of CHF 35.80 had been recorded at the very beginning of 2016 on January 5 and January 6.

The Molecular Partners share closed the financial year 2016 at a price of CHF 24.80, representing a decline of 29.1%. This implies an underperformance versus both, domestic indices as well as the NBI. The SPI recoded a modest negative performance of 1.4% in 2016, while the SIX Life Science index was even up 3.9%. Currency-adjusted, the NBI was down 20.8%, a sharp decline but still ahead of Molecular Partners.

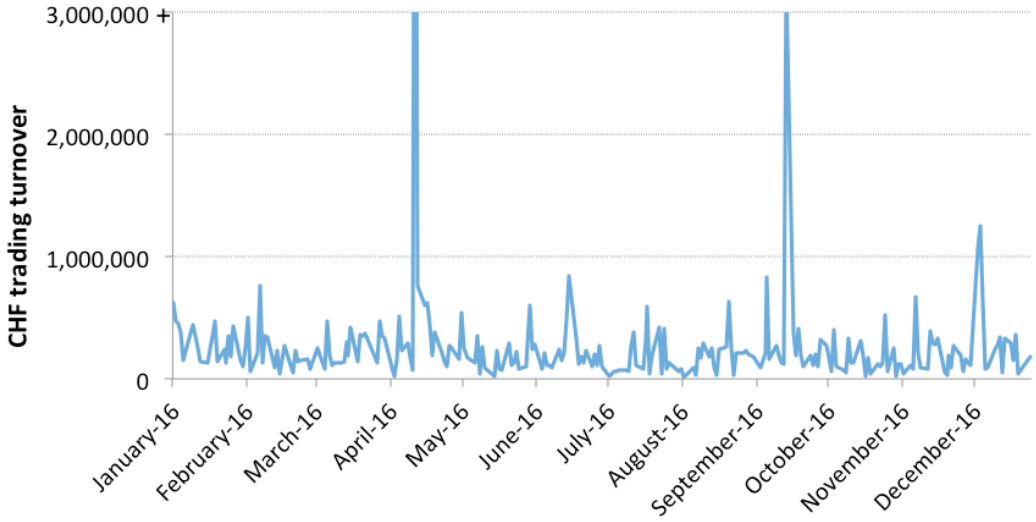


Volume Development

The total volume of Molecular Partner shares traded on the SIX Swiss Exchange during 2016 was 2.63 million shares, ca. 30% below the total volume traded in 2015 (3.74 million shares). This implies that about 13% of all shares outstanding and ca. 20% of the free float as per SIX Swiss Exchange definition changed hands.



The average daily trading volume in 2016 was 10,350 shares and the average turnover CHF 265,250. Four trading days with a daily turnover above CHF 1.0 million were recorded in 2016. April 14 marked the day with the highest trading turnover of more than CHF 6.9 million, reflecting the share placement transaction announced and executed that same day. Other peaks in volumes were recorded on September 16 (CHF 3.9 million) and on December 5/6 (CHF 2.3 million aggregated), in both occasions without any specific corporate news flow.



Research & Development

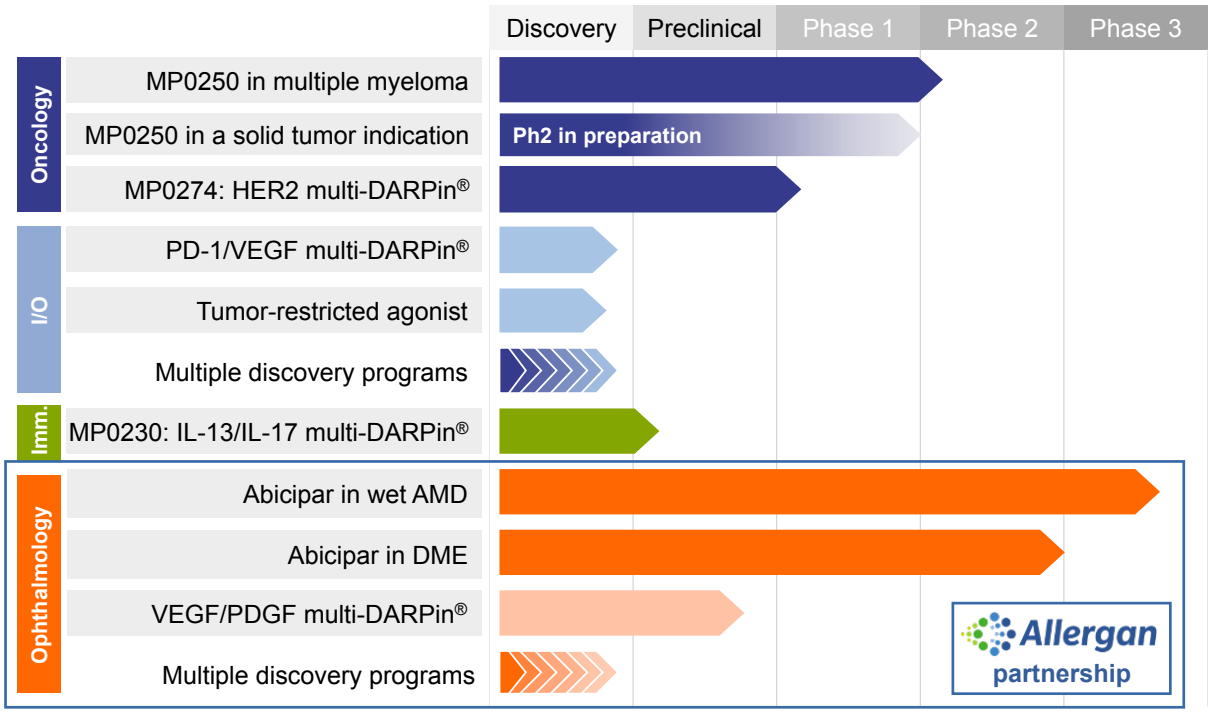
Leveraging the DARPin® Difference to improve health and advance modern medicine

Summary

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. Our efforts include advancing our lead oncology asset, MP0250, to Phase 2 of clinical development, expanding the scope of our immuno-oncology programs, and supporting our strategic partner Allergan as they move forward with the Phase 3 program for abicipar in wet age-related macular degeneration (AMD). The ongoing success of our proprietary and partnered programs will allow Molecular Partners to make significant strides in 2017.

Pipeline

Molecular Partners' Product Pipeline



AMD, age-related macular degeneration; DME, diabetic macular edema.

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-localized 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. Additionally, their small size, impressive potency, high stability and flexible architecture make DARPin® compounds exceptionally versatile, a quality that 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® 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 enhance the potency of known immune checkpoint modulators (ICMs), to activate potent co-stimulatory targets in the immune system, and to inhibit engagement between T-cells and tumor cells.

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 preclinical 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 potentially 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.

Development status and results for MP0250:

- Results from a first-in-humans Phase 1 study of MP0250 in patients with advanced solid tumors provide the first demonstration of the systemic application of a DARPin® protein in the oncology setting, and are thus an important milestone in the development of DARPin® proteins as anticancer agents.
- This multi-center, repeated-dose, dose-escalation trial 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, were presented at the annual meeting of the European Society of Medical Oncology (ESMO) in Copenhagen, Denmark, in October 2016.
  - The ESMO data presentation expanded upon preliminary results presented at the AACR-NCI EORTC International Conference on Molecular Targets and Cancer Therapeutics in November 2015.
  - 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 10 patients (42%), with three patients exceeding six months.
  - MP0250 exhibited a long half-life of around 12 days, potentially 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) while on study, suggesting a low immunogenic potential for MP0250.

Phase 2 strategy

- Molecular Partners will conduct a Phase 2 trial of MP0250 in patients with multiple myeloma (MM).
  - This first Phase 2 study will examine 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.
  - In a preclinical model of MM, the combination of MP0250 and Velcade showed:
    - substantial antitumor activity in settings where Velcade had very little effect as a single agent.
    - significant reduction in bone destruction, one of the most important clinical hallmarks of this disease.
  - The Company expects to enroll the first patient in the second quarter of 2017.
- Based on the encouraging Phase 1 data in patients with solid tumors, Molecular Partners will initiate a second Phase 2 trial of MP0250 in a solid tumor population. The Company will disclose study details in the first half of 2017.

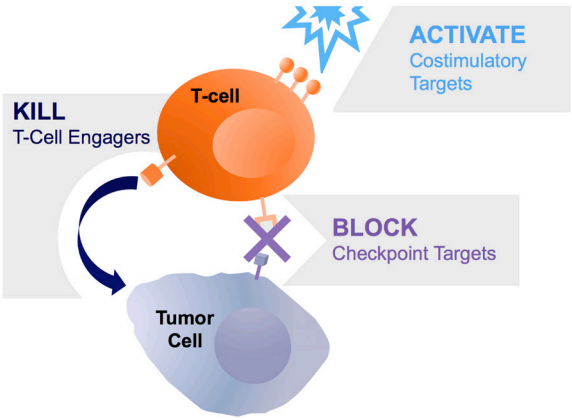
MP0274 – Multi-DARPin® Therapeutic With Broad Anti-HER Activity (Proprietary)

- 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 expects to initiate a Phase 1 trial of MP0274 in mid-2017.
- MP0274 has demonstrated high potency *in vitro*.
  - In preclinical models, MP0274 was associated with high rates of tumor cell death, an effect not seen with the currently approved mAbs Herceptin® and Perjeta®, whether administered as monotherapy or in combination.
  - In many HER2-positive tumor cell models, the potency of MP0274 was higher than that of Herceptin, and comparable to that of the Herceptin/Perjeta combination.

Immuno-Oncology: A revolutionary approach to anticancer treatment



Molecular Partners is making important progress in the growing field of immuno-oncology, an approach 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 re-activate 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 ICM 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.

We are pursuing the following strategies in immuno-oncology:

- Enhanced ICMs: This multi-DARPin® strategy aims to enhance immune checkpoint modulation by combining DARPin® molecules that target established immuno-oncology targets with "immune-boosting" DARPin® molecules.
  - The first DARPin®-based immuno-oncology product candidate is a multi-DARPin® that inhibits the programmed cell death receptor 1 (PD-1) and blocks VEGF.
    - Blockade of PD-1 results in potent activation of T-cells, immune cells that are capable of killing tumor cells but which have been turned inactive by signals from the tumor and the tumor microenvironment.
    - Blocking VEGF normalizes the tumor vasculature, granting the DARPin® molecules enhanced access to the tumor microenvironment and the tumor mass, while also potentially allowing entry for greater numbers of tumor-infiltrating T-cells (TILs). In addition, VEGF blockade has been shown to inhibit tumor angiogenesis (growth of new blood vessels), a key driver of solid tumor growth.
- The multi-DARPin® approach allows Molecular Partners to take advantage of the well-known biology of PD-1 and VEGF, potentially enabling development of best-in-class products, particularly for patients that do not respond to single-agent therapy, while enhancing partnership opportunities in the area of combination therapy.
  - Preclinical data suggest that combining anti-PD-1 and anti-VEGF DARPin® molecules enhances tumor growth inhibition, producing a synergistic inhibitory effect.
- 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 preclinical proof of concept for the co-stimulatory agonistic approach *in vitro* and data will be presented at a conference in 2017.

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.

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 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 trial. Abicipar may also yield higher vision gains than those seen with Lucentis, although this effect was not statistically significant in the Phase 2 trial. 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-blind 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 trial aims to enroll 900 patients, and both trials are expected to be fully enrolled by August 2017, with estimated study completion expected in August 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 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.

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, 2016, the largest shareholders in the Company known to the Company based on the published notifications to SIX are:

Shareholder	Shares held	% of voting rights [1]
Index Ventures Funds	2,882,610	14.68%
Essex Woodlands Health Ventures Funds	2,696,763	13.73%
Johnson & Johnson Innovation	1,633,954	8.32%
Andreas Plückthun	1,018,995	5.19%[4]
BB Biotech Ventures II, L.P. [2]	974,325	4.96%
Biotechnology Value Funds	900,000	4.58%
Endeavour Funds [3]	850,700	4.33%
Michael Tobias Stumpp	703,910	3.58%
Patrick Amstutz	661,900	3.37%
Patrik Forrer	650,679	3.31%
Kaspar Binz	618,810	3.15%[4]
Christian Zahnd	594,985	3.03%[4]

1 According to the share capital registered in the Commercial Register as of December 31, 2016 (CHF 1,964,045, divided into 19,640,450 registered shares).
2 815,608 shares according to share register as of December 31, 2016 (which would correspond to 4.15% of voting rights)
3 730,260 shares according to share register as of December 31, 2016 (which would correspond to 3.72% of voting rights)
4 On March 15, 2017, a new share capital of 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 was registered with the Commercial Register. As a result, Andreas Plückthun's shareholding fell under 5% to 4.92%, Kaspar Binz' shareholding fell under 3% to 2.99% and Christian Zahnd's shareholding fell under 3% to 2.87%.

As of December 31, 2016, there were no published shareholder lock-up groups or other groups of shareholders in place.

On April 14, 2016, the Company announced the successful placement of 1.1 million shares in an accelerated bookbuilding transaction at a price of CHF 27.50 per share. Following the option exercise and transaction, the executive management team holds an increased position of Molecular Partners'

shares compared to the situation before the share placement. These shares were subject to a lock-up that started after the share placement and ended on July 17, 2016. On July 19, 2016, the Company was informed by Biotechnology Value Fund L.P. and other entities affiliated with BVF Partners L.P. (BVF) that it has acquired shares form certain pre-IPO venture capital shareholders, including Index Ventures and Essex Wooldands Health Ventures.

Disclosure notifications pertaining to 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, 2016, the *issued* share capital of the Company 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. However, the Company's share capital *registered with the Commercial Register* as of December 31, 2016, amounted to CHF 1,964,045, divided into 19,640,450 fully paid up registered shares with a par value of CHF 0.10 per share.[1]

2.2 Authorized Share Capital

As of December 31, 2016, 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.

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

[1] On April 14, 2016, as a result of the exercise of 1,083,895 stock options, the Company's share capital increased by CHF 108,389.50 from CHF 1,964,045.00 to CHF 2,072,434.50. This capital increase was registered with the commercial register on March 15, 2017. As a result, as of the publication date of this Report, the Company's share capital registered with the Commercial Register amounts 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.

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, (e) 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 (f) for the defense of an actual, threatened or potential takeover bid, in relation to which the Board of Directors has not recommended to the shareholders acceptance on the basis that the Board of Directors has not found the takeover bid to be financially fair to the shareholders.

2.3 Conditional Share Capital

As of December 31, 2016[1], 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 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 (Article 3b of the Company's Articles of Incorporation[2] (the **Articles**)).

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

2.4 Changes to Capital Structure

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. This capital increase was registered with the Commercial Register on March 15, 2017.

In 2014, the Company twice issued shares out of its authorized capital in connection with the Company's initial public offering. The first capital increase resulting in a share capital of CHF 1,930,031, divided into 19,300,310 fully paid registered shares was first reflected in the Company's Articles on November 4, 2014. The second capital increase, upon partial exercise of the over-allotment option, resulting in a share capital of CHF 1,964,045, divided into 19,640,450 fully paid registered shares was first reflected in the Company's Articles on December 8, 2014.

Except as described in this section, there were no changes to the Company's share capital during the years 2016, 2015 and 2014.

1 See footnote 1 on page 30. As of the publication date of this Report, the conditional share capital pursuant to Article 3b of the Articles of Incorporation amounts to CHF 291,610.50 divided into 2,916,105 fully paid up shares with a par value of CHF 0.10 per share.

2 The current Company's Articles can be found at http://investors.moleculARpartners.com/corporate-governance/articles-of-incorporation.aspx

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 consulants are set out on pages 53 and 115 of this Annual Report 2016.

The table below shows the outstanding options granted to the Board of Directors, the Management Board, other employees and consultants as of December 31, 2016:

No. of options outstanding	Expiry date	Exercise price	Subscription ratio	Amount of share capital concerned (in CHF)
13,270	31.10.2017	CHF 0.10	1:1	1,327
12,143	18.10.2019	CHF 1.15	1:1	1,214
662,295	30.09.2022	CHF 2.31	1:1	66,230
19,010	19.11.2023	CHF 6.05	1:1	1,901
27,022	10.07.2024	CHF 6.06	1:1	2,702
536,762	31.10.2024	CHF 6.94	1:1	53,676
1,270,502				**127,050**

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 116 of this Annual Report 2016.

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 as a rule 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 2016, 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 provide that the Board of Directors shall consist of a minimum of three members and maximum of 11 members. As of December 31, 2016, the Board of Directors consisted of eight 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 and By-Laws (including Charters for the Compensation Committee and the Audit Committee). The allocation of tasks within the Board of Directors is determined annually, following the Annual General Meeting and in accordance with the Articles and By-Laws.

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. Resolutions of the Board of Directors are passed by way of the majority of the votes cast. In the case of a tie, the acting Chairman has the deciding vote. Subject to the second succeeding sentence, to validly pass a resolution, a majority of the members of the Board of Directors must attend the meeting or be present by telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. The Chairman may seek a resolution in writing for urgent or routine matters, provided that no member of the Board of Directors requests oral deliberations. No quorum is required for confirmation resolutions and amendments of the Articles in connection with capital increases or measures related thereto pursuant to articles 651a, 652e, 652g and 653g of the Swiss Code of Obligations or approvals pursuant to articles 23 et seq. of the Swiss Federal Merger Act.

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

The Board of Directors meets at least on a quarterly basis. In 2016, the Board of Directors met five times in person, and in addition conducted four meetings by telephone conference. A vast majority (if not all) of the members were present at each Board meeting. Physical Board meetings lasted on

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. 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, the Board of Directors has delegated the Company's management to the Management Board of the Company acting under the leadership of 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 and at least quarterly reports presented by the CEO. In addition, the Audit 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 2016, 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 Committee.

The Audit Committee receives and critically reviews statutory and IFRS Financial Statements as well as the comprehensive report prepared by the external auditors, 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 Committee discusses these with the Chief Financial Officer and the CEO and, should the occasion warrant, with the external auditors.

The chairman of the Audit Committee reports and updates the Board of Directors at the next board meeting on the Audit Committee's activities, decisions taken and considerations which led to such decisions. Important findings arising from the Audit 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 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 Committee shall report on any other issue.

4.3 Elections and Term of Office

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

4.4 Members

As of December 31, 2016, all members of the Board of Directors are non-executive. Unless disclosed below, 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 since 2013, except for Dr. Christian Zahnd who acted as CEO until his resignation for health reasons on November 7, 2016. The following table sets forth the name, function and committee membership of each member of the Board of Directors as of December 31, 2016, followed by a short description of each member's nationality, birth year, business experience, education and activities.

As of December 31, 2016	Nationality	Function	Committee Membership(s)	First elected	End current period
Jörn Aldag	German	Chairman	Audit Committee Compensation Committee (Chairperson)	2007	2017
Dr. Göran Ando	Swedish	Member	-	2010	2017
Jeffrey H. Buchalter	U.S.	Member	Audit Committee	2016	2017
Steven H. Holtzman	U.S.	Member	-	2014	2017
Dr. William A. Lee	U.S.	Member	Compensation Committee	2007	2017
Prof. Dr. Andreas Plückthun	German / Swiss	Member	-	2004	2017
Dr. Petri Vainio	Finnish	Member	Audit Committee (Chairperson) Compensation Committee	2009	2017
Dr. Christian Zahnd	Swiss	Member	-	2004	2017

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 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, which is developing next-gen immuno-oncology therapies. Mr. Aldag holds business degrees from the European Business School and Harvard Business School (AMP).

Dr. Göran Ando, Swedish national, born in 1949

Dr. Göran Ando is Chairman of the board of directors of Novo Nordisk A/S. He was CEO of Celltech Group plc, UK, until 2004. Dr. Ando joined Celltech from Pharmacia, now Pfizer, US, where he was Executive Vice President (EVP) and President of Research and Development (R&D) with additional responsibilities in manufacturing, information technology, business development and Mergers & Acquisitions (M&A) (1995-2003). He was Medical Director, moving to deputy R&D Director and then R&D Director of Glaxo Group, UK (1995-2003). 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 Novo A/S, Denmark, EUSA Pharma, UK, ICMEC, U.S. and also serves as a Senior Advisor to Essex Woodlands Health Ventures Ltd., UK. Dr. Ando qualified as a medical doctor at Linköping Medical University, Sweden, in 1973 and as a specialist in general medicine at the same institution 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 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).

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 was a member of the boards of directors of PMV Pharma and is currently a member of the board of directors of Visterra, Humatics and The Sync Project. 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).

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 30 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. Christian Zahnd, Swiss national, born in 1975

Dr. Christian Zahnd is a member of the Company's Board of Directors. Dr. Zahnd co-founded Molecular Partners and was a member of the Company's management team since its inception in 2004 until November 2016. He graduated with a Master of Science degree from the ETH Zurich and earned his PhD in Molecular Biology from the University of Zurich. His research focused on antibodies and antibody fragments, which he studied independently and through academic and industry collaborations.

4.5 Other Activities and Vested Interests

According to Article 33 of the Articles[1], 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.

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

4.6 Board Committees

The Board of Directors has established an Audit Committee and a Compensation Committee. The duties and objectives of the board committees are set forth in the Articles, the charter of the Compensation Committee and the charter of the Audit Committee.[1]

4.6.1 Compensation Committee

The Compensation Committee supports the Board of Directors in establishing and reviewing the compensation strategy and guidelines as well as in preparing the compensation plans and proposals to the general meeting of shareholders regarding the compensation of the Board of Directors and the Management Board. The 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 Compensation Committee, the chairperson of the Compensation Committee reports to and updates the Board of Directors at the next board meeting on the Compensation Committee's activities, decisions made and considerations which led to such decisions. Important findings arising from the 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 Compensation Committee to the Chairman of the Board of Directors. Upon request of the Chairman, the chairperson of the Compensation Committee shall report on any other issue.

The members of the 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 Compensation Committee consists of not less than two members. In case of vacancies on the 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 Compensation Committee holds meetings as often as required, but in any event at least twice a year. In 2016, two meetings of the Compensation Committee took place and lasted in average for one hour and a half. The meetings are convened by the chairperson of the Compensation Committee on his or her own initiative or on the initiative of a member of the Compensation Committee.

In 2016, the Compensation Committee consisted of Jörn Aldag (chairperson), Dr. Petri Vainio and Dr. William Lee.

4.6.2 Audit Committee

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

The function of the Audit 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 Committee (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,

[1] The Articles and the charters can be found at: http://investors.molecularpartners.com/corporate-governance/articles-of-incorporation.aspx

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.

The Audit Committee holds meetings as often as required, but in any event at least twice a year. In 2016, the Audit Committee held four meetings which lasted for about one hour in average. The meetings are convened by the chairperson of the Audit Committee on his or her own initiative or on the initiative of a member of the Audit Committee.

In 2016, the Audit Committee consisted of Dr. Petri Vainio (chairperson), Jörn Aldag and Jeffrey H. Buchalter.

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 55 of this Annual Report 2016. Information about shareholdings of the Board of Directors can be found in note 18 to the statutory financial statements of the Company at page 114 of this Annual Report 2016.

5. Management Board

5.1 Responsibilities and Organization

In accordance with Swiss law, the Articles and the Organizational Rules[1] 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 Appointment

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, 2016, followed by a short description of each member's nationality, birth year, business experience, education and activities.

[1] The Articles and the Organizational Rules can be found at: http://investors.molecularpartners.com/corporate-governance/articles-of-incorporation.aspx

Name	Appointed	Position
Dr. Patrick Amstutz	2016	Acting 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

On November 7, 2016, Dr. Christian Zahnd resigned for health reasons from his position as CEO. On the same day, the Board of Directors appointed Dr. Patrick Amstutz as acting CEO.

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

Dr. Patrick Amstutz, Swiss national, born in 1975

Dr. Patrick Amstutz is acting Chief Executive Officer 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. Dr. Amstutz holds a Master of Science from the ETH Zurich and a PhD in Molecular Biology from the University of Zurich.

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 successful 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 raising over CHF 400 million equity through public and private offerings, including the lead in the successful 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. He has been a member of the board of directors of the Luzerner Kantonalbank since May 2016. 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 Other Activities and Vested Interests

According to Article 33 of the Articles[1], 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 five mandates. Mandates in different legal entities being part of the same group or for the same group are deemed to be one mandate. Mandates in associations, charitable organizations, family trusts and 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 48 of this Annual Report 2016. Information about shareholdings of the Management Board can be found in note 18 to the statutory financial statements of the Company at page 114 of this Annual Report 2016.

1 http://investors.molecularpartners.com/corporate-governance/articles-of-incorporation.aspx

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, 2016, 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 52ff of this Annual Report 2016.

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 (i) 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; (ii) 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; (iii) 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 (iv) the Board decides to list the Company on a stock exchange (the **Initial Public Offering** or **IPO**). As a consequence of (iv), 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	2016	2015
Auditing fees	150	132
Additional fees	8 [1]	-

[1] The additional fees for 2016 relate to an IFRS training.

9.4 Informational Instruments Relating to External Audits

The Audit 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 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 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 Committee on critical accounting policies and practices used, on alternative treatments of financial information discussed with management and on other material written communication between external auditors and management.

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 2016, the Audit Committee held four meetings with the external auditors.

The Audit 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 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, 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.

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 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.

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/).

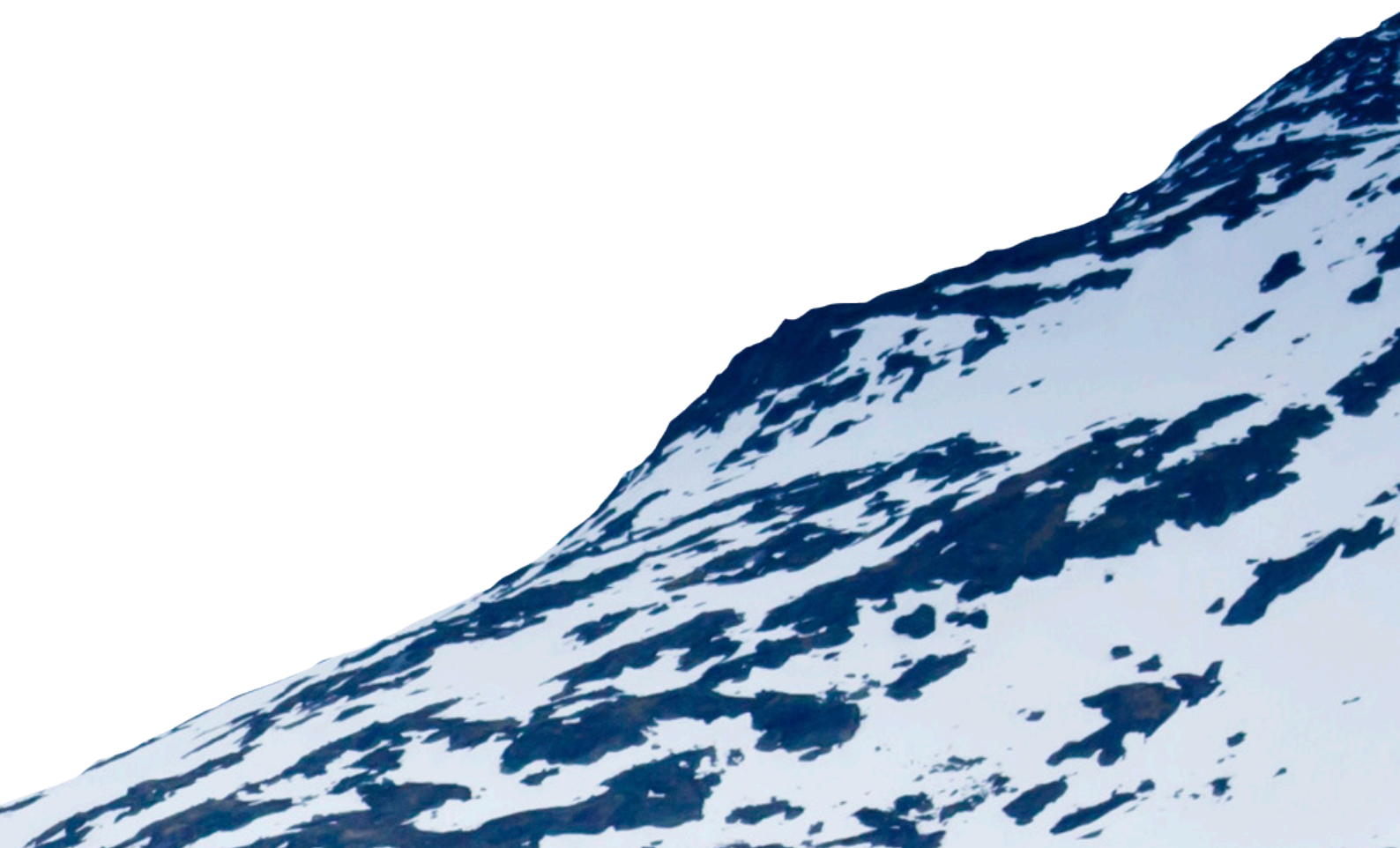
The invitation to the Company's Annual General Meeting may also be sent to registered shareholders by mail.

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 2016

This Compensation Report contains details of the compensation paid to members of the Board of Directors and the Management Board for the year 2016 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 Compensation Committee

The Compensation Committee supports the Board of Directors in establishing and reviewing the compensation strategy and guidelines. Further, the 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 Compensation Committee, please refer to section 4.6.1 of the Corporate Governance Report.

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

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

Agenda Item	Proposed	Approved
Compensation report to the shareholders	Compensation Committee	Board of Directors
Compensation strategy, systems and guidelines	Compensation Committee	Board of Directors
Adoption of compensation and benefit plans	Compensation Committee	Board of Directors
Definition of performance criteria (for cash bonus and PSUs) [2]	Compensation Committee	Board of Directors
Assessment of performance achievement and decision on vesting multiple for PSU plan	Compensation Committee	Board of Directors
Determination of the compensation of the Board of Directors (cash and RSUs) [2]	Compensation Committee	Board of Directors [1]
Determination of the base compensation (cash) of the Management Board	Compensation Committee	Board of Directors [1]
Determination of the variable compensation (cash bonus and PSUs) of the Management Board	Compensation Committee	Board of Directors [1]
Grant of PSUs and RSUs other than to the Board of Directors and the Managment Board	Compensation Committee	Board of Directors
Proposals to the shareholders' meeting for maximum compensation of Management Board and Board of Directors	Compensation Committee	Board of Directors
Proposals in other compensation related issues	Compensation Committee	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 Compensation Committee informs the Board of Directors of its activities and its recommendations. As a rule, the CEO attends the meeting of the 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 from time to time part of the Board meeting in absence of the Management Board when the agenda item relates to nomination or compensation matters regarding the Management Board.

In 2016, the meetings of the Compensation Committee and the Board of Directors took place in January and March. A meeting of the Compensation Committee and the Board of Directors dealing with 2016 compensation was held in February 2017. At these meetings, the Compensation Committee and the Board finalized:

- The fixed compensation of the Board of Directors and the Management Board for 2016;
- The determination of the corporate goals 2016;
- The motions to the Annual General Meeting 2016 regarding compensations;
- The compensation report 2015;
- The long-term incentive plans 2016 and the allocation of the related PSUs/RSUs; and
- The assessment of the achievement of the corporate goals 2016.

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 (including biotechnology, medical technology and pharmaceutical companies) listed on SIX[1] and seven companies listed on the Nasdaq[2] were collected.

Since then, no new benchmarking has been performed and no external advisors have been consulted by Molecular Partners in respect of the structuring of compensation and share-ownership programs.

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[3].

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.

Rules on Loans, Credit Facilities and Post-Employment Benefits

Please refer to section 4.3 below.

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:

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

- 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. 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 by performance metrics, as determined in the annual scorecard/annual corporate goals (see at the end of section 3.1 and section 3.2.2 below). The long-term variable compensation (performance share units, PSUs) is determined based on the achievement of factors relating to the employment, level of responsibility of the relevant participant as determined in the long-term annual scorecard described below plus the long-term development of share price performance (see at the end of section 3.1 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% fixed cash fee (base fee), 0% short-term cash bonus and approximately 80% in form of RSU under the LTI Plan (RSUs with three-year cliff-vesting);

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

At the beginning of each year, the Compensation Committee proposes and the Board of Directors approves the following performance metrics:

- *Annual short-term scorecard* (annual corporate goals): Assesses the achievements of each goal for the past year and sets the new annual corporate goals for the following year. Based on the achievement of the corporate goals, the variable short-term cash bonus can be between 0% and a maximum of 100% of the target bonus.

- *Long-term scorecard*: Assesses the achievement of each individual goal for the past year and sets the new long-term goals for the coming year. Based on the achievement of the long-term goals as set forth in the long-term scorecard, the number of shares to be allocated for each PSU under the LTI plan (variable long-term compensation) is determined (for a more detailed description of the LTI plans, please refer to section 3.2.3 below). The number of shares allocated can be anything between 0% and maximum 120% of the number of PSUs granted.

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 members of the Management Board if they contribute to the corporate success. The bonus level is driven by the level of achievement of the Company's performance metrics during a one-year period (annual corporate goals). The corporate goals are the same for all employees, including the members of the Management Board. The cash bonus

compensation of members of the Management Board is only linked to the achievement of corporate goals (not to individual goals).

Upon recommendation of the Compensation Committee, the Board of Directors determines annually the performance metrics (so-called corporate goals), target performance levels and related target bonus levels. The short-term cash bonus can be between 0% and a maximum of 100% of the target bonus. If all corporate goals are met, 100% of the target bonus of the members of the Management Board is paid.

Upon recommendation of the Compensation Committee, the Board of Directors determined the corporate goals 2016 at the beginning of 2016. The corporate goals 2016 were divided in five categories:

- Goals regarding the achievement of clinical and publication milestones of MP0250 that is Molecular Partners' lead drug candidate in oncology;
- Goals regarding the achievement of clinical and pre-clinical milestones of Molecular Partners' development pipeline;
- Goals regarding the strengthening of Molecular Partners' own research;
- Goals regarding partnerships; and
- Goals regarding internal organization (incl. team development) and financing.

Upon recommendation of the Compensation Committee, the Board of Directors determined the achievement of the corporate goals 2016 at its February meeting 2017.

3.2.3 Long-Term Incentive Plans (LTI Plans)

In September 2014, the Board of Directors adopted a framework of Long-Term Incentive Plans (LTI Plans). The LTI Plans 2016 were approved by the Board of Directors in March 2016. Under the LTI Plans members of the Board of Directors are eligible to be granted RSUs and members of the Management Board as well as all employees are eligible to be granted PSUs.

Restricted Share Units (RSUs)

RSUs are contingent rights to receive a certain number of shares at the end of a three-year cliff-vesting 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 PSUs to be granted shall depend on a number of factors relating to the employment, level of responsibility and performance of the relevant participant as determined in the long-term annual scorecard. 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 2016. Can be anything between 0% and up to a maximum of 80% of the LTI scorecard. Please refer to section 3.2.2 for an overview of the corporate goals 2016.

- *Share price performance* of Molecular Partners over 12 months since grant date: Can be anything between 0% and maximum 20% of the LTI scorecard (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.

- *Discretionary of the Board of Directors*: The Board of Directors can give up to maximum 20% of the LTI scorecard on a discretionary basis, i.e. for extra-ordinary achievements that are outside the annual corporate goals.

Accordingly, the number of shares to be issued based on the PSUs at the end of the vesting period can be between 0% 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 early vesting of the PSUs may occur.

From a time perspective, the PSU plan 2016 can be summarized as follows:

RSUs and PSUs Grants and Adoption of LTI Plan for 2016

- Existing employees received PSU grants on April 1, 2016 and the employees who joined Molecular Partners after April 1, 2016 received PSU grants depending on their entry date on July 1, 2016, October 1, 2016 or January 1, 2017.

- Members of the Management Board and the Board of Directors received their grants of PSUs and RSUs under the LTI Plan 2016 after the ordinary shareholders' meeting of 2016, i.e. after shareholders' approval of the variable compensation amounts for the year 2016.

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 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 on November 5, 2014. No more grants have been and will be made under these stock option plans.

As of December 31, 2016, 1,270,502 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 89 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 44 of this Annual Report.

4. Compensation for Financial Year under Review

4.1 Compensation to the Members of the Board of Directors in 2016 and 2015

The tables below summarize the compensation paid to the members of the Board of Directors in 2016 and 2015:

Year 2016 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.

Year 2015 in CHF 1,000	Base fee (cash gross)	Social security and pension contributions	Number of RSUs	Value of RSUs	Total compensation
Jörn Aldag Chairman	52	-	5,752	150	202
Dr. Göran Ando Member	21	-	2,876	75	96
Dr. Francesco De Rubertis [2] Member	-	-	-	-	-
Steven Holtzman Member	21	-	2,876	75	96
Dr. William A. Lee Member	24	-	2,876	75	99
Prof. Dr. Andreas Plückthun Member	10	-	2,876	75	85
Dr. Petri Vainio Member	20	-	2,876	75	95
Dr. Christian Zahnd Member	-	-	-	-	-
Total	**148**	**-**	**20,132**	**525[3]**	**673**

[2] Dr. Francesco De Rubertis waived his entitlement to compensation for the financial year 2015.

[3] CHF 525k corresponds to the number of RSUs granted to the members of the Board of Directors multiplied by the fair value at grant date. The 2015 compensation report disclosed a total value of CHF 419k which was derived from the IFRS2 calculation method.

The compensation paid out to the Board of Directors in 2015 (including the adjusted value of the RSUs) and 2016 does not exceed the respective budgets approved by the annual general meetings 2015 and 2016.

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

In 2016 and 2015, no compensation to former members of the Board of Directors has been paid.

4.2 Compensation to the Management Board in 2016 and 2015

The tables below summarize the compensation paid to the members of the Management Board in 2016 and 2015:

Year 2016 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 [1]	382	155	57	11,573	383	977

Year 2015 in CHF 1,000	Base salary (cash gross)	Bonus (cash)	Social security and pension contributions	Number of PSUs	Value of PSUs	Total Compensation
Total Management	1,529	452	166	48,086	1,406[2]	3,553
Dr. Christian Zahnd CEO	387	153	49	12,996	380	969

1 Christian Zahnd resigned for health reasons from his position as CEO on November 7, 2016. Mr. Zahnd remains a member of the Board of Directors of Molecular Partners. 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 has continued to receive his compensation as CEO in accordance with Molecular Partners' health insurance policy. Christian Zahnd did not receive any compensation for his Board membership.

2 CHF 1,406k corresponds to the number of PSUs granted to the members of the Management Board multiplied by the fair value at grant date. The 2015 compensation report disclosed a total value of CHF 707k which was derived from the IFRS2 calculation method.

The base compensation of the Management Board and of the CEO remained largely unchanged in 2016 compared to 2015. The increase of the aggregate fixed compensation of the Management Board is due to the change in its composition (4.5 members in 2015 and 5 members in 2016).

The variable compensation paid out to the Management Board in 2015 (including the adjusted value of the PSUs) and 2016 does not exceed the respective budgets approved by the annual general meetings 2015 and 2016.

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 2016 (2015: 41%).

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[1] 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[2] 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, 2016 and 2015, 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 116 of this Annual Report.

1 See Article 31 of the Articles (http://investors.molecularpartners.com/corporate-governance/articles-of-incorporation.aspx)
2 See Article 32 of the Articles (http://investors.molecularpartners.com/corporate-governance/articles-of-incorporation.aspx)

Report of the Statutory Auditor

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 29, 2017 of Molecular Partners AG for the year ended December 31, 2016. 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, 2016 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 29, 2017

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

IFRS Financial Statements 2016

Statement of financial position as of December 31,		2016	2015
in CHF thousands	Note		Represented*
Assets			
Property, plant and equipment	6	2,496	2,518
Intangible assets	7	47	17
Total non-current assets		**2,543**	**2,535**
Short-term time deposits	11	30,491	20,020
Prepaid expenses and accrued income	9	531	155
Trade and other receivables	10	798	1,315
Cash and cash equivalents	11	149,735	195,370
Total current assets		**181,555**	**216,860**
Total assets		**184,098**	**219,395**
Shareholders' equity and liabilities			
Share capital	12	2,072	1,964
Additional paid-in capital		171,140	169,141
Own shares		-152	-1,295
Cumulative losses		-37,265	-18,015
Total shareholders' equity		**135,795**	**151,795**
Deferred revenues (long-term)	15	26,815	36,952
Employee benefits	18.1	5,723	4,202
Total non-current liabilities		**32,538**	**41,154**
Trade and other payables	13	1,410	1,784
Accrued expenses	14	3,876	2,510
Deferred revenues (short-term)	15	10,479	22,152
Total current liabilities		**15,765**	**26,446**
Total liabilities		**48,303**	**67,600**
Total shareholders' equity and liabilities		**184,098**	**219,395**

See accompanying notes, which form an integral part of these financial statements.
*see note 2

Statement of comprehensive income for the year ended December 31,		2016	2015
in CHF thousands	Note		Represented*
Revenues			
Research and collaboration revenues	5	22,825	28,849
Other revenues	5	215	270
Total revenues		**23,040**	**29,119**
Operating expenses			
Research and development expenses	16	-35,185	-25,021
General and administrative expenses	16	-7,341	-6,316
Total operating expenses		**-42,526**	**-31,337**
Operating result		**-19,486**	**-2,218**
Financial income	19	963	2,223
Financial expenses		-89	-154
Result before income taxes		**-18,612**	**-149**
Income taxes	20	-	-
Net result, attributable to shareholders		**-18,612**	**-149**
Other comprehensive result			
Items that will not be reclassified to profit or loss			
Remeasurement of net pension liabilities, net of tax	18.1	-637	-520
Other comprehensive result, net of tax		**-637**	**-520**
Total comprehensive result, attributable to shareholders		**-19,249**	**-669**
Basic and diluted net result per share	21	-0.91	-0.01

See accompanying notes, which form an integral part of these financial statements.
*see note 2

Cash flow statement for the year ended December 31,		**2016**	**2015**
in CHF thousands	Note		Represented*
Net result		-18,612	-149
Adjustments to reconcile net loss to net cash from (used in) operating activities:			
Depreciation and amortization	6 / 7	1,089	909
Share-based compensation costs	18.2	2,855	3,755
Change in net pension liabilities	18.1	883	602
Deferred revenues recognized in income		-21,810	-26,971
Financial income	19	-963	-2,223
Financial expenses		89	154
Changes in working capital:			
Change in prepayments and other assets		-359	224
Change in trade and other receivables		525	1,867
Change in trade and other payables		-370	649
Advances received		-	47,188
Change in accrued expenses		1,366	62
Exchange gain/(loss) on working capital positions		16	498
Other financial income/(expense)		-89	-71
Net cash from (used in) operating activities		**-35,380**	**26,494**
Investment in short-term time deposits	11	-10,471	-20,020
Acquisition of property, plant and equipment	6	-1,033	-1,366
Acquisition of intangible assets	7	-64	-21
Interest and option premium received		318	670
Net cash from (used in) investing activities		**-11,250**	**-20,737**
Excercise of stock options, net of transaction costs	12	395	230
Net cash from (used in) financing activities		**395**	**230**
Exchange gain/(loss) on cash positions		600	1,000
Net increase (decrease) in cash and cash equivalents		**-45,635**	**6,987**
Cash and cash equivalents at January 1	11	195,370	188,383
Cash and cash equivalents at December 31	**11**	**149,735**	**195,370**

See accompanying notes, which form an integral part of these financial statements.
*see note 2

Statement of changes in equity in CHF thousands	Share capital [1]	Additional paid-in capital	Own shares	Cumulative losses	Total equity
At January 1, 2015 Represented [2]	**1,964**	**166,956**	**-3,095**	**-17,346**	**148,479**
Net result				-149	-149
Remeasurement of net pension liabilities [3]				-520	-520
Total comprehensive income	**-**	**-**	**-**	**-669**	**-669**
Share-based compensation costs [4]		3,755			3,755
Exercise of stock options		-1,570	1,800		230
At December 31, 2015 Represented [2]	**1,964**	**169,141**	**-1,295**	**-18,015**	**151,795**
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 [3]				-637	-637
Total comprehensive income	**-**	**-**	**-**	**-19,250**	**-19,250**
Share-based compensation costs [4]		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**

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

1 see note 12
2 see note 2
3 see note 18.1
4 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 AG for the year ended December 31, 2016 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, 2016 were approved for issuance by the Board of Directors on March 29, 2017 and are subject to approval by the shareholders on May 11, 2017.

Change in Presentation

With year-end closing 2016 the financial statements are newly presented in TCHF instead of Swiss Francs (CHF). Therefore, comparative financial information was represented accordingly.

Further, the statement of comprehensive income was changed from nature-based to function-based classification of expenses. This new structure increases the information level of the Company's expenses.

New or Revised IFRS Standards and Interpretations

The following new or revised standards that became effective on January 1, 2016 did not have any material effect on these financial statements:

- IFRS 14, Regulatory Deferral Accounts
- Annual Improvements to IFRSs 2012-2014 Cycle
- Disclosure Initiative (Amendments to IAS 1)

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

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) (effective from January 1, 2017). The Company will apply this amendment from January 1, 2017.
- Annual Improvements to IFRS Standards 2014-2016 Cycle. The Company will apply these improvements from their effective date.
- Disclosure Initiative (Amendments to IAS 7) (effective from January 1, 2017). The Company will apply these improvements from January 1, 2017.
- 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.
- 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 (effective 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, IFRS 16 and IAS 12 Amendment. The Company will assess the potential impact in due course.

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 2016 and 2015 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 2016 and 2015.

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 2017-2021, 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 (16 employees as of December 31, 2016, 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 five 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 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 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 under these long-term collaborative agreements are recognized under the following two categories:

- Revenues from technology access and transfer: This category includes fees received in connection with discovery alliances. These revenues are recognized pro rata on the basis of the progress of the project in accordance with the underlying agreements, based on a percentage of completion until the next relevant milestone, measured with reference to the relevant R&D plans.

- Revenues from research and development: This category includes fees (upfront and milestone payments) received in connection with out-licensing of products as well as FTE payments from all partnering agreements. FTE payments are reimbursements from partners for the Company's performed activities pursuant to the respective agreements. Up-front 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;
- preclinical 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, 2016 and 2015.

4. Critical Accounting Estimates and Judgments

The Company's accounts are prepared on an ongoing 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 TCHF 2,855, 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, 2016, the Company had pension liabilities in the amount of TCHF 5,599 (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.

- Income taxes: As disclosed in note 20, the Company has incurred tax losses for Swiss tax purposes of TCHF 20,290. These tax losses represent potential value to the Company to the extent that the Company is able to create taxable profits within seven years of the end of the year in which the losses arose. The Company has not recorded any deferred tax asset in relation to these tax losses. The key factors that have influenced management in arriving at this evaluation are the facts that the Company has not yet a history of making sustainable profits, product development remains at an early stage and significant research costs are expected for the foreseeable future, while revenues are highly volatile and uncertain. Should management's assessment of the likelihood of future taxable profits change, a deferred tax asset will be recorded.

5. Entity-wide Disclosures

Research and collaboration 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 / region

in CHF thousands, for the years ended December 31	2016	2015
Revenues CH	108	7,519
Revenues USA	22,932	21,600
Total revenues	**23,040**	**29,119**

Revenues by services

in CHF thousands, for the years ended December 31	2016	2015
Revenues from technology access and transfer	14,209	20,233
Revenues from research and development	8,615	8,616
Other revenues	216	270
Total	**23,040**	**29,119**

Analysis of revenue by major alliance partner

in CHF thousands, for the years ended December 31	2016	2015
Allergan Inc., USA	22,032	20,194
Janssen Biotech Inc., USA	900	1,406
F. Hoffmann-La Roche Ltd., CH	-	7,433
Other	108	86
Total	**23,040**	**29,119**

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 to be end of 2019 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 four 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.

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 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 preclinical development gives the Company the options to evaluate whether to develop it on its own or to out-licence it to another partner.

Research Collaboration and Licensing Agreement With Roche, Switzerland, Dated November 2013

In November 2013, the Company entered into a strategic research collaboration and licensing agreement with Roche, Switzerland (subsequently "Roche") to discover, develop and commercialize several proprietary therapeutics incorporating Molecular Partners' DARPin® biologics conjugated to toxic agents developed by Roche for the treatment of cancer. Under the terms of the agreement, Roche had rights to develop and commercialize several DARPin®-based products. Molecular Partners was entitled to receive upfront and initiation payments up to CHF 55 million, of which the Company received an Initiation Payment of CHF 10 million (initially recognized pro rata over the expected three years research period from November 2013 until November 2016). Furthermore, Molecular Partners was entitled to receive research funding of more than CHF 1 billion if all development and sales milestones were met for all potential products and tiered royalties on any future product sales.

In summer 2015, Roche terminated its Pseudomonas exotoxin conjugate programs, including antibody and DARPin®-based projects. The agreement put in place between Molecular Partners and Roche was specific for the use of DARPin® proteins in combination with Pseudomonas exotoxin. On July 24, 2015, the Company reiterated its commitment to its un-partnered pipeline. This includes advancing the clinical and preclinical development pipeline and ramping up the activities in immuno-oncology. Following Molecular Partners' expansion of its strategic ophthalmology partnership with Allergan, the Company confirmed the discontinuation of above mentioned DARPin®-toxin alliance with Roche. As a result of the termination of this alliance with Roche, deferred revenues of CHF 2.9 million were recognized in the income statement in the second half of 2015, which would otherwise have been recognized in 2016. Overall for the year 2015 this resulted in total revenues from this collaboration in the amount of CHF 7.4 million.

For details regarding the deferred revenue amortization, reference is made to note 15.

6. Property, Plant and Equipment

in CHF thousands	Lab equipment	Office equipment	IT hardware	Leasehold improvements	Total
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**
2015					
Cost					
At January 1, 2015	4,434	350	412	137	5,333
Additions	1,019	38	158	151	1,366
Disposals	-18	-1	-60	-	-79
At December 31, 2015	**5,435**	**387**	**510**	**288**	**6,620**
Accumulated depreciation					
At January 1, 2015	-2,557	-332	-353	-61	-3,303
Depreciation charge for the year	-738	-20	-97	-23	-878
Disposals	18	1	60	-	79
At December 31, 2015	**-3,277**	**-351**	**-390**	**-84**	**-4,102**
Carrying amount at December 31, 2015	**2,158**	**36**	**120**	**204**	**2,518**

Capital commitments: see note 23.

7. Intangible Assets

in CHF thousands	IT software	Total
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**
2015		
Cost		
At January 1, 2015	123	123
Additions	21	21
Disposals	-	-
At December 31, 2015	**144**	**144**
Accumulated amortization		
At January 1, 2015	-96	-96
Amortization charge for the year	-31	-31
Disposals	-	-
At December 31, 2015	**-127**	**-127**
Carrying amount at December 31, 2015	**17**	**17**

8. Financial Instruments by Category

in CHF thousands	Loans and receivables
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**
2015	
Cash and cash equivalents	195,370
Trade and other receivables	1,011
Accrued income	29
Short-term time deposits	20,020
Balance at December 31	**216,430**

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
2016	
Trade payables	1,028
Accrued project costs and royalties	1,237
Balance at December 31	**2,265**
2015	
Trade payables	1,232
Accrued project costs and royalties	635
Balance at December 31	**1,867**

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	2016	2015
Prepayments	485	126
Accrued income	46	29
Balance at December 31	**531**	**155**

10. Trade and Other Receivables

in CHF thousands	2016	2015
Trade receivables	33	849
Value added tax	150	189
Withholding tax	111	115
Other receivables	504	162
Balance at December 31	**798**	**1,315**

No allowance was considered necessary as of December 31, 2016 and 2015.

Trade receivables are denominated in the following currencies:

in CHF thousands	2016	2015
CHF	29	15
USD	4	835
Balance at December 31	**33**	**850**

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

in CHF thousands	2016	2015
Cash at bank in CHF	85,207	110,682
Cash at bank in EUR	33,473	44,722
Cash at bank in USD	31,055	39,966
Total cash at bank	149,735	195,370
Short-term time deposits in USD	30,491	20,020
Total short-term time deposits	30,491	20,020

The short-term time deposits in USD contain two positions with a major Swiss bank (A-rating as per S&P) One position of thousands of USD 10,000 is fixed until September 26, 2017, the second position of thousands of USD 20,000 is fixed until December 19, 2017. Despite the negative interest environment, the Company managed not to pay negative interest in the years 2015 and 2016.

12. Shareholders' Equity

Classes of Share Capital

Ordinary share capital

As of December 31, 2015, the Company's share capital consisted of 19,640,450 fully paid registered shares with a par value of CHF 0.10 each. As of December 31, 2016, the Company's share capital consisted of 20,724,345[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] On April 14, 2016, as a result of the exercise of 1,083,895 stock options, the Company's share capital increased by CHF 108,389.50 from CHF 1,964,045.00 to CHF 2,072,434.50. This capital increase was registered with the commercial register on March 15, 2017.

Conditional share capital
As of December 31, 2016, the share capital may be increased by an amount not to exceed CHF 291,610[1] through the issuance of up to 2,916,105 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 2016, the number of own shares was reduced by 56,644 (2015: 89,213) to service the exercise of stock options by current and former employees.

The following table summarizes the movements of own shares in 2016 and 2015:

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**

2015

Own shares	**No. of shares**	**in TCHF**
At January 1, 2015	153,389	3,095
Additions	-	-
Exercise of options	-89,213	-1,800
At December 31, 2015	**64,176**	**1,295**

In 2016, the cash proceeds from the exercise of stock options amounted to TCHF 395 (2015: TCHF 230), thereof TCHF 165 was serviced from own shares and TCHF 230 from the issuance of new shares (conditional share capital).

[1] 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 108,390, from CHF 400,000 to CHF 291,610.

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	2016	2015
Index Ventures Funds	14.68%	16.98%
Essex Woodlands Health Ventures Funds	13.73%	15.89%
Johnson & Johnson Development Corporation	8.32%	8.63%
Plückthun Andreas	5.19%	5.38%
BVF Funds	4.58%	0.00%
BB Biotech Ventures II, L.P.	4.96%[1]	5.00%
Endeavour Funds	4.33%[2]	4.49%
Stumpp Michael	3.58%	3.12%
Amstutz Patrick	3.37%	3.11%
Forrer Patrik	3.31%	2.99%
Binz Kaspar	3.15%	2.92%
Zahnd Christian	3.03%	2.61%

[1] 815,608 shares according to share register as of December 31, 2016 (which would correspond to 4.15% of voting rights)
[2] 730,260 shares according to share register as of December 31, 2016 (which would correspond to 3.72% of voting rights)

13. Trade and Other Payables

in CHF thousands	2016	2015
Trade payables	1,027	1,231
Social security	382	552
Other payables to third party	1	1
Balance at December 31	**1,410**	**1,784**

Trade payables are denominated in the following currencies:

in CHF thousands	2016	2015
CHF	598	1,179
EUR	380	25
USD	32	24
GBP	17	3
Balance at December 31	**1,027**	**1,231**

14. Accrued Expenses

in CHF thousands	2016	2015
Accrued project costs and royalties	1,237	635
Accrued payroll and bonuses	2,381	1,630
Other	258	245
Balance at December 31	**3,876**	**2,510**

15. Deferred Revenues

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

in CHF thousands	2016	2015
Expected revenue recognition in year 1 after balance sheet date	10,479	22,152
Expected revenue recognition in year 2 after balance sheet date	10,479	14,585
Expected revenue recognition in year 3 after balance sheet date	9,133	14,529
Expected revenue recognition in year 4 after balance sheet date	2,937	7,838
Expected rev. recognition in year 5 and later after balance sheet date	4,266	-
Balance at December 31	**37,294**	**59,104**

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	2016	2015
Royalties and license fees	-60	-1,165
Research consumables and costs [3]	-14,511	-7,039
Personnel expenses [1]	-17,735	-14,079
Intellectual property	-317	-383
Facility expenses	-1,290	-1,251
Depreciation and amortization	-986	-824
Other administrative expenses	-286	-279
Total year ended December 31	**-35,185**	**-25,021**

General and administrative expenses

in CHF thousands	2016	2015
Personnel expenses [2]	-5,092	-3,920
Facility expenses	-135	-129
Depreciation and amortization	-103	-85
Other administrative expenses	-2,011	-2,183
Total year ended December 31	**-7,341**	**-6,316**
Total operating expenses	**-42,526**	**-31,337**

1 Thereof R&D non-cash effective pension and share based compensation costs of TCHF 2,408 in 2016 and TCHF 2,873 in 2015
2 Thereof G&A non-cash effective pension and share based compensation costs of TCHF 1,207 in 2016 and TCHF 1,485 in 2015
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 2016 the royalties due to the University of Zurich amounted to TCHF 60 (TCHF 961 for 2015). Further, in 2015, the Company paid a success fee of TCHF 204 to an advisor.

18. Personnel Expenses

in CHF thousands	2016	2015
Salaries	-13,718	-10,889
Social security costs	-3,153	-1,158
Pension costs	-1,842	-1,432
Share-based compensation (non cash effective)	-2,855	-3,755
Other personnel expenses	-1,259	-765
Total year ended December 31	**-22,827**	**-17,999**

Fulltime equivalents and head count	**2016**	**2015**
Average number of fulltime equivalents	99.7	81.4
Fulltime equivalents at year end	102.5	89.1
Headcount at year end	113	98

18.1 Pension Costs and Liabilities

in CHF thousands	2016	2015
Defined benefit pension plans		
Actuarial assumptions		
Discount rate at 1.1.	0.80%	1.10%
Discount rate at 31.12.	0.60%	0.80%
Future salary increases at 31.12.	2.00%	2.00%
Future pension increases at 31.12.	0.00%	0.00%
Mortality tables	BVG2015 GT	BVG2010 GT
Date of last actuarial valuation	31.12.2016	31.12.2015
Reconciliation of the amount recognized in the statement of financial position at the end of year		
Defined benefit obligation at 31.12.	23,526	16,563
Fair value of plan assets at 31.12.	17,927	12,361
Net defined benefit liability at 31.12.	**5,599**	**4,202**
Components of defined benefit cost in profit or loss		
Current service cost (employer)	1,833	1,345
Past service cost	-36	44
Interest expense on defined benefit obligation	157	153
Interest (income) on plan assets	-121	-116
Administration cost excl. cost for managing plan assets	8	6
Defined benefit cost recognized in profit or loss	**1,841**	**1,432**
thereof service cost and administration cost	1,805	1,395
thereof net interest expense on the net defined benefit liability	36	37
Reconciliation in net defined benefit liability		
Net defined benefit liability at 1.1.	4,202	3,080
Defined benefit cost recognized in profit or loss [2]	1,841	1,432
Defined benefit cost recognized in OCI	637	520
Contributions by the employer [2]	-1,081	-830
Net defined benefit liability at 31.12. [3]	**5,599**	**4,202**
Reconciliation of defined benefit obligation		
Defined benefit obligation at 1.1.	16,564	12,371
Interest expense on defined benefit obligation	157	153
Current service cost (employer)	1,833	1,345
Contributions by plan participants	678	548
Benefits (paid) / deposited	3,711	1,191
Past service cost	-36	44
Administration cost (excl. cost for managing plan assets)	8	6
Actuarial (gain) / loss on defined benefit obligation [1]	611	906
Defined benefit obligation at 31.12.	**23,526**	**16,564**

Reconciliation of fair value of plan assets		
Fair value of plan assets at 1.1.	12,361	9,290
Interest income on plan assets	121	116
Contributions by the employer	1,081	830
Contributions by plan participants	678	548
Benefits (paid) / deposited	3,711	1,191
Return on plan assets excl. interest income	-25	368
Fair value of plan assets at 31.12.	**17,927**	**12,361**
Best Estimate of contributions of next year		
Contributions by the employer	1,107	957
Plan asset classes		
Cash and cash equivalents	3,041	2,488
Equity instruments	6,851	4,360
Debt instruments (i.e. bonds)	3,101	2,634
Real estate funds	2,603	1,898
Others	2,331	981
Total plan assets at fair value (quoted market price)	**17,927**	**12,361**
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%	24,774	17,442
Defined benefit obligation at 31.12. with discount rate +0.25%	22,383	15,758
Defined benefit obligation at 31.12. with salary increases -0.25%	23,244	16,342
Defined benefit obligation at 31.12. with salary increases +0.25%	23,809	16,795
Defined benefit obligation at 31.12. with life expectancy +1 year	23,235	16,387
Defined benefit obligation at 31.12. with life expectancy -1 year	23,819	16,742
Maturity profile of defined benefit obligation		
Weighted average duration of defined benefit obligation in years	20.1	20.1

1 Of which TCHF 718 (2015: TCHF 326) relate to changes in financial assumptions and TCHF -1,172 (2015: nil) relate to changes in demographical assumptions. TCHF 1,066 (2015: TCHF 580) 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 662 R&D costs (2015: TCHF 521) and TCHF 98 G&A costs (2015: TCHF 81).

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, 2016, 1,270,502 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, 240,988 options out of 491,262 options under ESOP 2014 were unvested as of December 31, 2016. 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 plans 2015 established in March 2015
- LTI plans 2016 established in March 2016

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, 2016, 176,998 PSU's and 39,852 RSU's were outstanding, of which none were vested.

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	2016	2015
Nature of arrangement	Grant of PSU/RSU	Grant of RSU/PSU
Grant dates	Apr 1 - Oct 1	Apr 1 - Oct 1
Number of rights granted	111,867	119,532
Weighted average exercise price (CHF)	0.10	0.10
Share price (CHF)	24.80 - 34.10	21.80 - 38.10
Full contractual life (years)	2.25 - 3.00	2.25 - 3.0
Vesting Period (years)	2.25 - 3.00	2.25 - 3.0
Settlement	Shares	Shares
Expected volatility (%)	40.84 - 42.57	44.59 - 46.50
Risk-free interest rate p.a. (%)	(-0.71) - (-0.81)	(-0.55) - (-0.69)
Expected dividend (CHF)	0%	0%
Weighted average fair value of rights granted (CHF)	32.67	27.64
Latest expiry date	Sep 30, 2019	Sep 30, 2018
Valuation Model	Monte Carlo	Monte Carlo

Additional comments:

- Interest rate: The Company used the yields of Swiss government bonds for the predetermined time to conversion for PSU/RSU.
- Expected volatility: Historical share prices of the Company have been used.
- The fluctuation ranged from 5.61% to 10.24%.
- Share price: The two-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, 2014	**2,509,716**	**2.58**	**2,509,716**	**2.58**	**-**	**-**
Granted	119,532	0,10	-	-	119,532	0.10
(Performance adjustment)	-	-	-	-	-	-
(Forfeited)	-11,826	4.38	-7,398	6.94	-4,428	0.10
(Expired)	-	-	-	-	-	-
(Exercised) [1]	-89,213	2.57	-89,213	2.57	-	-
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**

[1] The weighted average share price at the dates of the exercise amounted to CHF 26.82 (in 2015: CHF 31.05).

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 following table applies to all share options and PSUs/RSUs outstanding at December 31, 2015:

Exercise price CHF	Options / PSU/RSU (number)	Remaining life (years)	Exercisable options / PSU/RSU
Options			
0.10	987,360	1.6	987,360
1.15	142,682	2.2	142,682
2.31	681,619	4.2	681,619
6.05	28,805	7.4	28,805
6.06	28,756	8.1	28,756
6.94	543,883	8.7	175,511
PSU/RSU			
0.10	115,104	2.3	-
Total	**2,528,209**		**2,044,733**

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	2016	2015
Research and development	1,746	2,352
General and administrative	1,109	1,404
Total year ended December 31	**2,855**	**3,756**

19. Financial Income

in CHF thousands	2016	2015
Interest income on loans and receivables	335	358
Net gains on financial assets at fair value through profit or loss (held for trading)	-	341
Foreign exchange gain	628	1,524
Total year ended December 31	**963**	**2,223**

The Company is not hedging for translation risks as it pursues a stringent natural hedging policy by maximising 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 2016, 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% (2015: 21%).

Deferred Taxes

Net operating loss for tax purposes amounted to TCHF 15,976 in 2016. The remaining tax losses of TCHF 20,290 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 utilised 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	2016	2015
2021	-4,314	-4,314
2022	-	-
2023	-15,976	-
Thereafter	-	-
Total tax loss carry forwards as at December 31	**-20,290**	**-4,314**

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.

	2016	2015
Weighted average number of shares used in computing basic net profit / (loss) per share	20,427,716	19,539,934
Weighted average number of shares used in computing diluted profit / (loss) per share	20,427,716	19,539,934

22. Related Party Disclosures

Key management (executive management and Board of Directors) compensation costs are as follows:

in CHF thousands	2016	2015
Short-term employee benefits	2,259	2,089
Post-employment benefits	192	166
Share-based compensation	1,665	2,084
Total year ended December 31	**4,116**	**4,340**

The Company did not enter into any other related party transactions in 2016 and 2015.

23. Commitments

Operating Lease Commitments

As at the end of 2016 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 cancelled 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, 2018

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

in CHF thousands	2016	2015
Within 1 year	1,266	1,085
Due within 2 to 5 years	4,543	2,038
Balance at December 31	**5,809**	**3,123**

Leasing costs charged to profit or loss amounted to TCHF 1,094 (2015: TCHF 1,084). 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 2016 and 2015, 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 (i) to maximize natural hedging by matching expected future cash flows in the different currencies and (ii) 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 2016 and 2015 the Company did not enter into any forward currency transactions. No forward currency transactions were outstanding as of December 31, 2016 and 2015.

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		
2016	+10%	6,155
	-10%	-6,155
2015	+10%	5,999
	-10%	-5,999
EUR positions		
2016	+10%	3,347
	-10%	-3,347
2015	+10%	4,472
	-10%	-4,472

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		
2016	+0.5%	426
	-0.5%	-426
2015	+0.2%	221
	-0.2%	-221
USD positions		
2016	+0.5%	308
	-0.5%	-308
2015	+0.2%	120
	-0.2%	-120
EUR positions		
2016	+0.5%	167
	-0.5%	-167
2015	+0.2%	89
	-0.2%	-89

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, one of them with AAA rating and two of them with A rating as per Standard & Poor's (Aaa, Aa3 and A2 as per Moody's). As per the end of 2016 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	2016	2015
Cash and cash equivalents	149,735	195,370
Trade and other receivables	798	1,315
Accrued income	17	29
Short-term time deposits	30,491	20,020
Total credit risk as at December 31	**181,041**	**216,734**

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 until at least the second half 2019. Based on the Company's Business Plan 2017-2021 and excluding any revenues at risk, management estimates that the Company is financed until approximately the second half of 2019.

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, 2016 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 60 to 97) give a true and fair view of the financial position of the company as at December 31, 2016, 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 company 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	Our response
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 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 70
— Note 4 Critical Accounting Estimates and Judgements
— Note 5 Entity-wide Disclosures

Share-based payments

Key Audit Matter	Our response
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 2016, the expense for share-based payments amounted to TCHF 2'855. The total amount to be expensed over the vesting period is determined by reference to the fair value of	We tested the fair value determination for all grants in the year 2016 and assessed the accuracy of the share-based payment expenses recognized. This included, among others, the following procedures: — We inspected new award agreements with plan participants on a sample basis, reconciled the number of awards to the calculation of the expenses and recalculated the amounts to be recognized over the vesting period.

the equity instruments granted which is determined at grant date.

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 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.
— 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 69
— 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

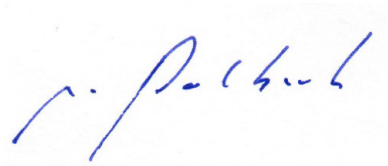
We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 29, 2017

Statutory Financial Statements 2016

Balance sheet as of December 31,		**2016**	**2015**
in CHF thousands	Note		Represented*
Assets			
Cash and cash equivalents	3	149,735	195,370
Trade accounts receivable		33	849
Other short-term receivables	4	765	466
Prepaid expenses and accrued income	5	531	155
Short-term time deposits	3	30,491	20,020
Total current assets		**181,555**	**216,860**
Property, plant and equipment	6	2,496	2,518
Intangible assets	7	47	17
Total non-current assets		**2,543**	**2,535**
Total assets		**184,098**	**219,395**
Shareholders' equity and liabilities			
Trade accounts payable		1,027	1,231
Other short-term payables	8	383	553
Accrued expenses	9	3,876	2,510
Deferred revenues (short-term)	10	10,479	22,152
Total current liabilities		**15,765**	**26,446**
Deferred revenues (long-term)	10	26,815	36,952
Long-term provisions		124	-
Total non-current liabilities		**26,939**	**36,952**
Total liabilities		**42,704**	**63,398**
Share capital	11	2,072	1,964
Reserve from capital contributions		159,764	159,642
Cumulative losses:			
- Loss carried forward		-4,314	-6,951
- Net result for the year		-15,976	2,637
Total cumulative losses		-20,290	-4,314
Treasury shares	11	-152	-1,295
Total shareholders' equity		**141,394**	**155,997**
Total liabilities and shareholders' equity		**184,098**	**219,395**

See accompanying notes, which form an integral part of these financial statements.
*see note 2

Income statement for the years ended December 31, in CHF thousands		2016	2015 Represented*
Revenues			
Research and collaboration revenues		22,825	28,849
Other revenues		215	270
Total revenues	12	**23,040**	**29,119**
Operating expenses			
Research and development expenses	13	-32,595	-22,150
General and administrative expenses	14	-7,295	-6,401
Total operating expenses		**-39,890**	**-28,551**
Operating result		**-16,850**	**568**
Financial income	15	963	2,223
Financial expenses		-89	-154
Result before taxes		**-15,976**	**2,637**
Income taxes		-	-
Net result		**-15,976**	**2,637**

See accompanying notes, which form an integral part of these financial statements.
*see note 2

Cash flow statement for the year ended December 31,		**2016**	**2015**
in CHF thousands	Note		Represented*
Net result		-15,976	2,637
Adjustments to reconcile net result to net cash from (used in) operating activities:			
Depreciation and amortization		1,089	909
Non-cash personnel expenses		1,102	1,571
Deferred revenues recognized in income		-21,810	-26,971
Financial income	15	-963	-2,223
Financial expenses		89	154
Changes in working capital:			
Change in prepayments and other assets		-359	224
Change in trade and other receivables		525	1,838
Change in trade and other payables		-370	650
Advances received		0	47,188
Change in accrued expenses		1,366	90
Exchange gain/(loss) on working capital positions		16	499
Other financial income/(expense)		-89	-71
Net cash from (used in) operating activities		**-35,380**	**26,495**
Investment in short-term time deposits		-10,471	-20,020
Acquisition of property, plant and equipment		-1,033	-1,366
Acquisition of intangible assets		-64	-21
Interest and income on forward contracts and options received		318	669
Net cash from (used in) investing activities		**-11,250**	**-20,738**
Excercise of stock options, net of transaction costs	11	395	229
Net cash from (used in) financing activities		**395**	**229**
Exchange gain/(loss) on cash positions		600	1,001
Net increase (decrease) in cash and cash equivalents		**-45,635**	**6,987**
Cash and cash equivalents at January 1		195,370	188,383
Cash and cash equivalents at December 31	3	**149,735**	**195,370**

See accompanying notes, which form an integral part of these financial statements.
*see note 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® product candidates, a novel class of therapeutic proteins. DARPin® product 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, 2016 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 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 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 under these long-term collaborative agreements typically are recognized under the following two categories:

- Revenues from technology access and transfer: This category includes fees received in connection with discovery alliances. These revenues are recognized pro rata on the basis of the progress of the project in accordance with the underlying agreements, based on a percentage of completion until the next relevant milestone, measured with reference to the relevant R&D plans.

- Revenues from research and development: This category includes fees (upfront and milestone payments) received in connection with out-licensing of products as well as FTE payments from all partnering agreements. FTE payments are reimbursements from partners for the Company's performed activities pursuant to the respective agreements. Up-front 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, 2016, 1,270,502 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, 250,274 options out of 491,262 options under ESOP 2014 were unvested as of December 31, 2016. 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 plans 2015 established in March 2015
- LTI plans 2016 established in March 2016

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, 2016, 176,998 PSUs and 39,852 RSUs were outstanding, of which none were vested.

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

Leases

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

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

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

in CHF thousands	2016	2015
Cash at bank and at hand in CHF	85,207	110,682
Cash at bank and at hand in EUR	33,473	44,722
Cash at bank and at hand in USD	31,055	39,966
Total cash at bank and at hand	149,735	195,370
Short-term time deposits in USD	30,491	20,020
Total short-term time deposits	30,491	20,020

The short-term time deposits in USD contain two positions with a major Swiss bank (A-rating as per S&P). One position of thousands of USD 10,000 is fixed until September 26, 2017, the second position of thousands of USD 20,000 is fixed until December 19, 2017.

4. Other Short-term Receivables

in CHF thousands	2016	2015
Value added tax	150	189
Withholding tax	111	115
Other receivables	504	162
Balance at December 31	**765**	**466**

5. Prepaid Expenses and Accrued Income

in CHF thousands	2016	2015
Prepayments	485	126
Accrued income	46	29
Balance at December 31	**531**	**155**

6. Property, Plant and Equipment

in CHF thousands	2016	2015
Lab equipment	1,913	2,158
Office equipment	146	36
IT hardware	255	121
Leashold improvements	182	203
Balance at December 31	**2,496**	**2,518**

7. Intangible Assets

in CHF thousands	2016	2015
IT software	47	17
Balance at December 31	**47**	**17**

8. Other Short-term Payables

in CHF thousands	2016	2015
Social security	382	552
Other payables third party	1	1
Balance at December 31	**383**	**553**

9. Accrued Expenses

in CHF thousands	2016	2015
Accrued project costs	1,237	635
Accrued payroll and bonuses	2,381	1,630
Other	258	245
Balance at December 31	**3,876**	**2,510**

10. Deferred Revenues

in CHF thousands	2016	2015
Expected revenue recognition in year 1 after balance sheet date	10,479	22,152
Expected revenue recognition in year 2 after balance sheet date	10,479	14,585
Expected revenue recognition in year 3 after balance sheet date	9,133	14,529
Expected revenue recognition in year 4 after balance sheet date	2,937	7,838
Expected rev. recognition in year 5 and later after balance sheet date	4,266	-
Balance at December 31	**37,294**	**59,104**

11. Share Capital and Treasury Shares

Share capital
As of December 31, 2015, the Company's share capital consisted of 19,640,450 fully paid registered shares with a par value of CHF 0.10 each. As of December 31, 2016, the Company's share capital consisted of 20,724,345[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, 2016, the share capital may be increased by an amount not to exceed CHF 291,610[2] through the issuance of up to 2,916,105 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.

1 On April 14, 2016, as a result of the exercise of 1,083,895 stock options, the Company's share capital increased by CHF 108,389.50 from CHF 1,964,045.00 to CHF 2,072,434.50. This capital increase was registered with the commercial register on March 15, 2017.

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 108,390, from CHF 400,000 to CHF 291,610.

Treasury shares
As of December 31, 2016, the Company held 7,532 (2015: 64,176) treasury shares. The Company intends to use these treasury shares to service stock option and stock participation plans. During the year 2016, the number of treasury shares was reduced by 56,644 (2015: 89,213) to service the exercise of stock options by current and former employees.

The following table summarizes the movements in 2015 and 2016:

2015

Treasury shares	**No. of shares**	**TCHF**
At January 1, 2015	153,389	3,095
Additions	-	-
Exercise of stock options	-89,213	-1,800[1]
At December 31, 2015	**64,176**	**1,295**

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**

[1] Of which TCHF 978 (net of proceeds of TCHF 165) were recognized in personnel expenses (2015: TCHF 1,571, net of proceeds TCHF 229).

In 2016, the cash proceeds from the exercise of stock options amounted to TCHF 395 (2015: TCHF 230), thereof TCHF 165 was serviced from own shares and TCHF 230 from the issuance of new shares (conditional share capital).

12. Revenues by Services

in CHF thousands	**2016**	**2015**
Revenues from technology access and transfer	14,209	20,233
Revenues from research and development	8,615	8,616
Other revenues	216	270
Total year ended December 31	**23,040**	**29,119**

13. Research and Development Expenses

in CHF thousands	2016	2015
Royalties and license fees	-60	-1,165
Research consumables and costs [1]	-14,511	-7,039
Personnel expenses	-15,144	-11,207
Intellectual property	-317	-383
Facility expenses	-1,291	-1,252
Depreciation and amortization	-986	-825
Other expenses	-286	-279
Total year ended December 31	**-32,595**	**-22,150**

[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	2016	2015
Personnel expenses	-5,046	-4,006
Facility expenses	-134	-128
Depreciation and amortization	-103	-84
Other expenses	-2,012	-2,183
Total year ended December 31	**-7,295**	**-6,401**

15. Financial Income

in CHF thousands	2016	2015
Interest income on loans and receivables	335	357
Income on forward contracts and options	-	340
Foreign exchange gain	628	1,526
Total year ended December 31	**963**	**2,223**

16. Full-time Equivalents

	2016	2015
Average number of full-time equivalents	99.7	81.4
Full-time equivalents at year end	102.5	89.1

17. Lease Commitments

Operating lease commitments
As at the end of 2016, 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 six months notice
- Wagistrasse 14, Schlieren, Switzerland (parking lots): can be terminated anytime with six months notice
- Wagistrasse 13a, Schlieren, Switzerland (animal facility): expires on April 30, 2018

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

in CHF thousands	2016	2015
Within 1 year	1,266	1,085
Due within 2 to 5 years	4,543	2,038
Balance at December 31	**5,809**	**3,123**

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 as of December 31	2016	2015
Index Ventures Funds	14.68%	16.98%
Essex Woodlands Health Ventures Funds	13.73%	15.89%
Johnson & Johnson Innovation	8.32%	8.63%
Andreas Plückthun	5.19%	5.38%
Biotechnology Value Funds	4.58%	0.00%
BB Biotech Ventures II, L.P.	4.96%[1]	5.00%
Endeavour Funds	4.33%[2]	4.49%
Michael Tobias Stumpp	3.58%	3.12%
Patrick Amstutz	3.37%	3.11%
Patrik Forrer	3.31%	2.99%
Kaspar Binz	3.15%	2.92%
Christian Zahnd	3.03%	2.61%

[1] 815,608 shares according to share register as of December 31, 2016 (which would correspond to 4.15% of voting rights)
[2] 730,260 shares according to share register as of December 31, 2016 (which would correspond to 3.72% of voting rights)

19. PSU/RSU Granted to the Members of the Board of Directors, Management and Employees

	PSU / RSU	
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 as of December 31, 2016 (see note 20).

	PSU / RSU	
in CHF	Number	Value TCHF[2]
Total grants to the members of the Board of Directors	20,132	525
Total grants to the members of the management	48,086	1,406
Total grants to other employees	46,886	1,224
Total grants in 2015	**115,104**	**3,155**

[2] CHF 3,155k corresponds to the number of the PSUs/RSU's granted multiplied by the fair value at grant date. The statutory financial statements 2015 disclosed a total value of CHF 1,738k which was based on the IFRS2 calculation method. For further information please see note 4.1 and 4.2 of the compensation report.

The difference in value of the PSUs/RSUs granted in 2016 compared to 2015 is mainly due to a change in the calculation method. Whereas the values of the PSUs/RSUs granted in 2015 were calculated based on the IFRS2 calculation method, the values of the PSUs/RSUs granted in 2016 were calculated based on the fair value at grant date multiplied by the number of PSUs/RSUs granted.

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 Personnel

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[1]	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**

Board of Directors	Shares	RSUs	Options
Jörn Aldag	5,420	5,752	150,000
Goran Ando	-	2,876	70,000
Steven H. Holtzman	-	2,876	20,000
William A. Lee	-	2,876	70,000
Andreas Plückthun	1,057,110	2,876	-
Petri Vainio	-	2,876	-
Total Board of Directors as of December 31, 2015	**1,062,530**	**20,132**	**310,000**

Management Board	Shares	PSUs	Options
Christian Zahnd	512,910	12,996	394,900
Patrick Amstutz	610,710	10,466	283,140
Michael Tobias Stumpp	612,910	8,208	295,450
Andreas Harstrick	-	8,208	-
Andreas Emmenegger	193,390	8,208	265,500
Total Management Board as of December 31, 2015	**1,929,920**	**48,086**	**1,238,990**

[1] Includes PSU grants to former CEO Christian Zahnd who resigned as CEO in November 2016 and remained member of the Board of Directors as of December 31, 2016 (see note 20).

21. Auditing and Additional Fees Paid to the Statutory Auditor

in CHF thousands	2016	2015
Audit fee	150	132
Fees for additional services	8	-
Balance at December 31	**158**	**132**

22. Events After Balance Sheet Date

These financial statements were approved for issuance by the Board of Directors on March 29, 2017.

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, 2016, 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 103 to 117) for the year ended December 31, 2016 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	Our response
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 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 107
— Note 10 Deferred revenues
— Note 12 Revenues by services

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.

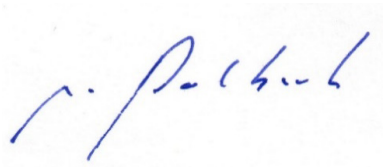
From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless 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 29, 2017

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

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®):
DARPin® protein therapies are sophisticated and versatile, with the power that may help us go beyond the limitations of conventional therapeutic approaches to addressing complex diseases.

Diabetic macular edema (DME):
A condition involving retinal swelling in diabetes mellitus due to fluid leaking from blood vessels.

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 is involved in 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.

Programmed Cell Death Protein 1 (PD-1):
A checkpoint protein, key in regulating the immune system.

Platelet-Derived Growth Factor (PDGF):
A process which is involved in blood vessel formation and maturation.

Pharmacokinetics (PK):
Important parameter when characterizing a drug, describing the residence time in the serum and in certain other organs upon administration.

Phase 1:
First stage of testing in human subjects. Normally, a small (20-100) group of healthy volunteers will be selected. This phase includes trials designed to assess the safety, tolerability, pharmacokinetics, and pharmacodynamics of a drug.

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

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

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

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

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