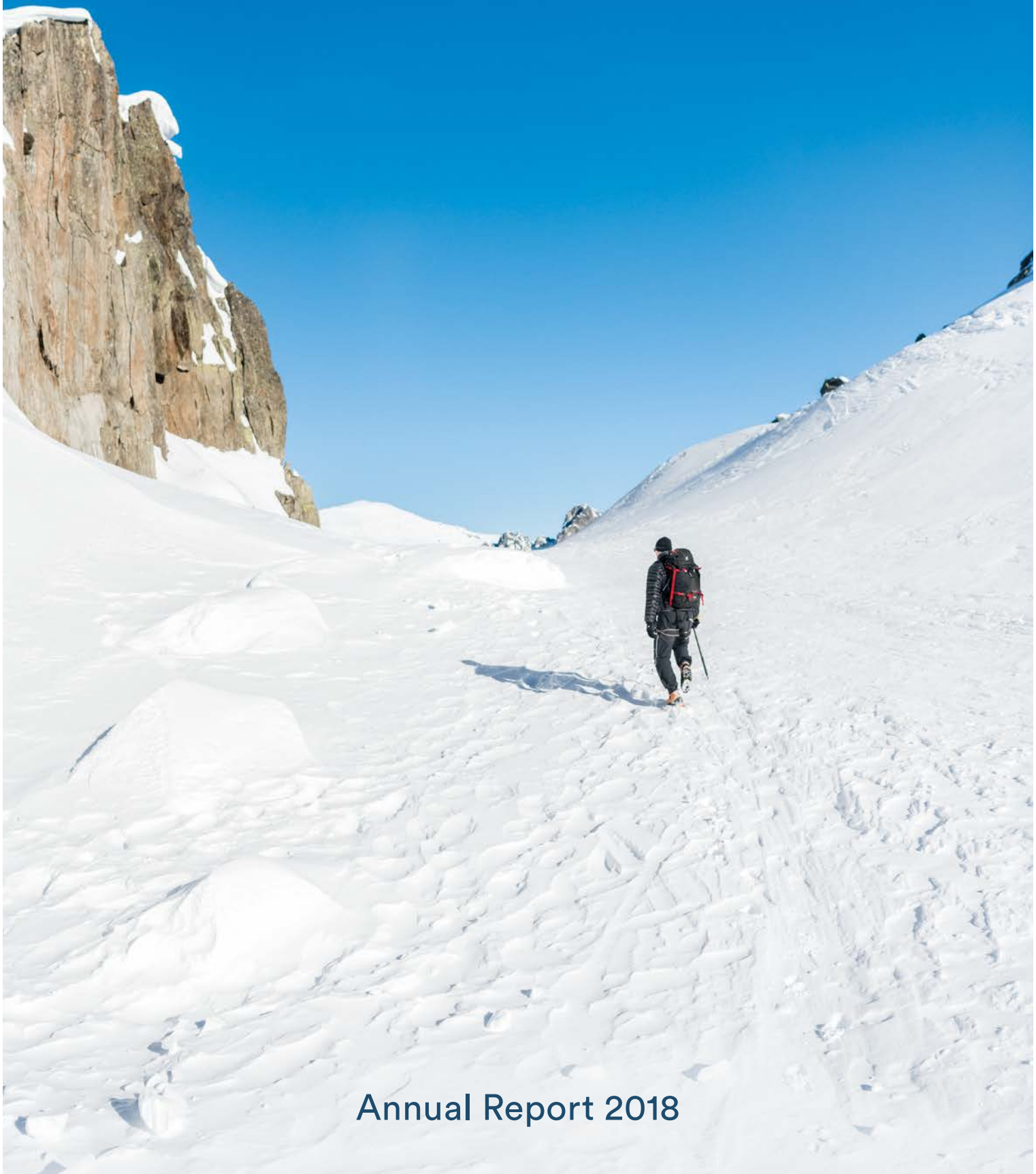
basilea
PHARMACEUTICA

Focus and Innovation



Annual Report 2018

~225 employees from 14 countries

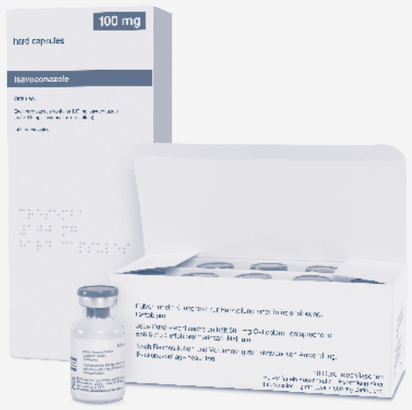
Three oncology product candidates in development

BAL101553
Derazantinib (BAL087)
BAL3833

Solid cash and investments at year-end 2018

CHF 223 mn

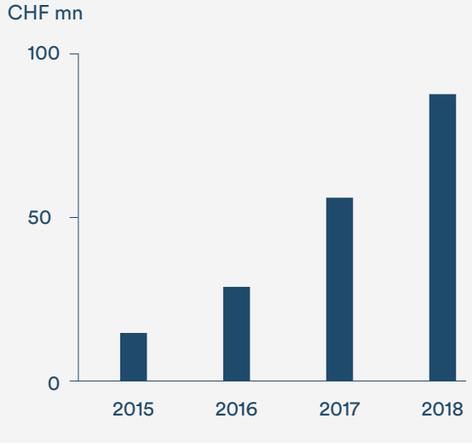
Two marketed anti-infective brands



Cresemba® and
Zevtera®/Mabelio®

Increasing revenue contributions from Cresemba® and Zevtera®

Our future growth and value generation is based on increasing revenues and positive data from our innovative pipeline



HQ in Basel, Switzerland

Long-standing expertise

Founded in 2000 as spin-off from Roche

We focus on the medical challenges in oncology and anti-infectives

BSLN

Listed on SIX since 2004

11.9 mn shares issued,
incl. ~1.1 mn treasury shares

Partnerships cover >100 countries

Received ~USD 240 mn
in total upfront and milestone payments

“We must never forget patients are at the heart of what we do.”

Table of Contents

Our mission and vision

People are at the heart of everything we do. We strive towards making a difference to patients. With expertise, care and persistence.

We aim to be a leading provider of innovative medicines.
For the benefit of patients.

Our company

Basilea Pharmaceutica Ltd. is a commercial stage biopharmaceutical company, focused on the development of products that address the medical challenges in the therapeutic areas of oncology and anti-infectives. With two commercialized drugs, the company is committed to discovering, developing and commercializing innovative pharmaceutical products to meet the medical needs of patients with serious and life-threatening conditions. Basilea Pharmaceutica Ltd. is headquartered in Basel, Switzerland, and listed on the SIX Swiss Exchange (SIX: BSLN).

Additional information can be found on Basilea's website www.basilea.com.

Summary and key events

Strong revenue performance ahead of guidance

- Cresemba and Zevtera revenue contributions increased by 56% to CHF 82 million
  - CHF 10 million Cresemba milestone triggered, based on the continued strong sales performance in the U.S.
  - CHF 2 million Cresemba milestone payment received, based on first approval in Latin America
- Total revenue increased by 31% year-on-year to CHF 133 million
- Operating loss of CHF 24 million
- Year-end cash and financial investments of CHF 223 million
- Guidance 2019:
  - Cresemba and Zevtera revenue contributions of CHF 100–110 million
  - Total revenue of CHF 128–138 million
  - Operating loss of CHF 20–30 million
  - Net cash consumption of CHF 55–65 million

Strengthened our oncology pipeline

- In-licensed panFGFR kinase inhibitor derazantinib, currently in registrational phase 2 study in bile duct cancer (intrahepatic cholangiocarcinoma, iCCA)
  - Transferred sponsorship of registrational phase 2 study to Basilea
  - Reported positive interim data from registrational phase 2 study in iCCA early 2019
  - Started collaboration in 2019 to explore combination of derazantinib with Roche's PD-L1-blocking immune-checkpoint inhibitor atezolizumab (Tecentriq®) in patients with urothelial cancer
- Licensing and research collaboration on preclinical stage oncology assets

Broadened geographical reach for our two marketed brands

- Partners launched Cresemba (isavuconazole) and Zevtera (ceftobiprole) in ten additional countries
- Approval of Cresemba in Canada and first approvals in Latin America (Argentina, Peru) and the MENA region (Jordan)
- Approval of Zevtera in Peru and first approval in the MENA region (Jordan)
- Phase 3 study started by partner Asahi Kasei Pharma for future potential approval of isavuconazole in Japan

Enrolling into two phase 3 studies with ceftobiprole for gaining regulatory approval in the U.S.

- One study in acute bacterial skin and skin structure infections (ABSSSI)
- One study in *Staphylococcus aureus* bacteremia (SAB)

Increased the total non-dilutive funding for ceftobiprole phase 3 development

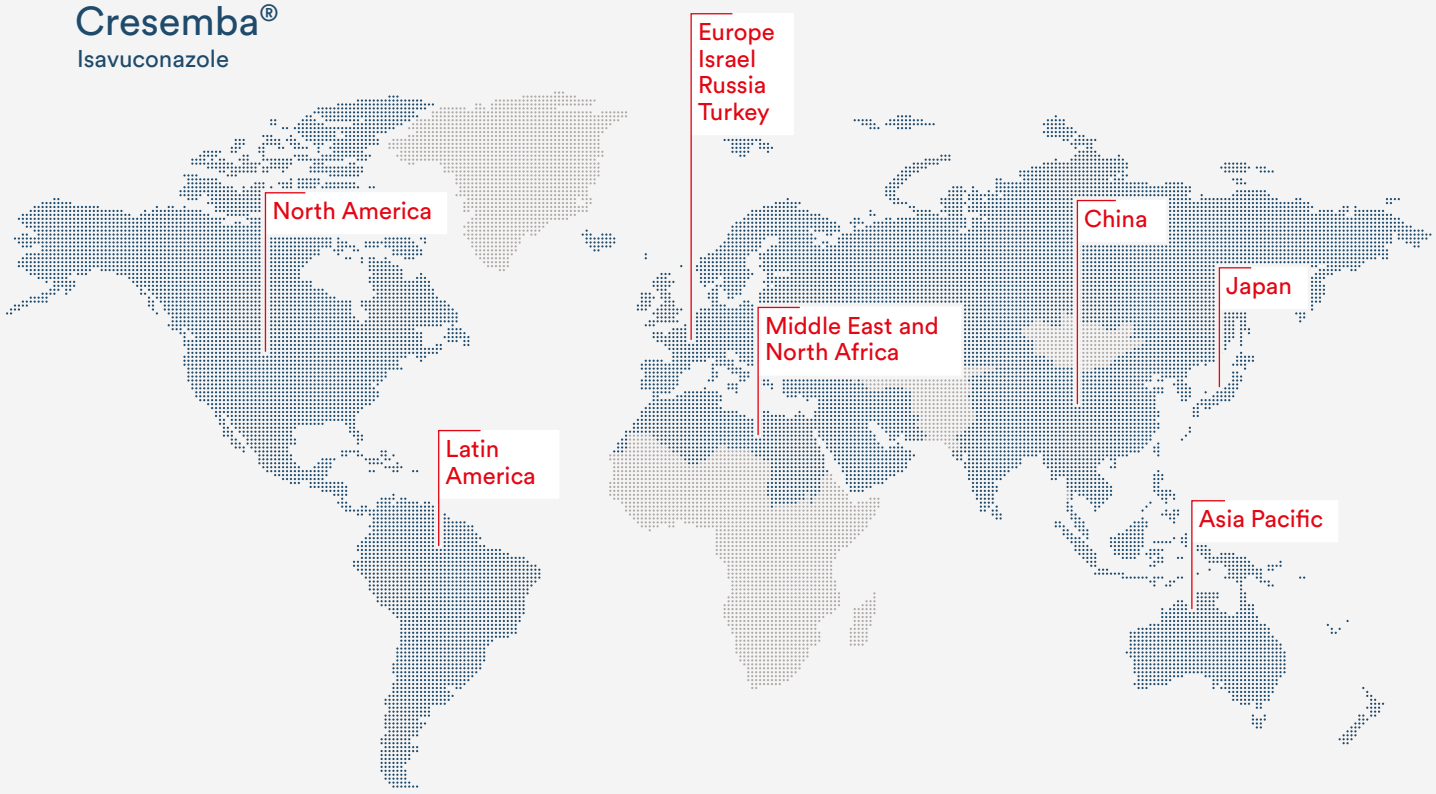
- BARDA funding up to approximately 70% of the estimated total program costs
- Now up to USD 128 million

Advanced clinical programs in oncology

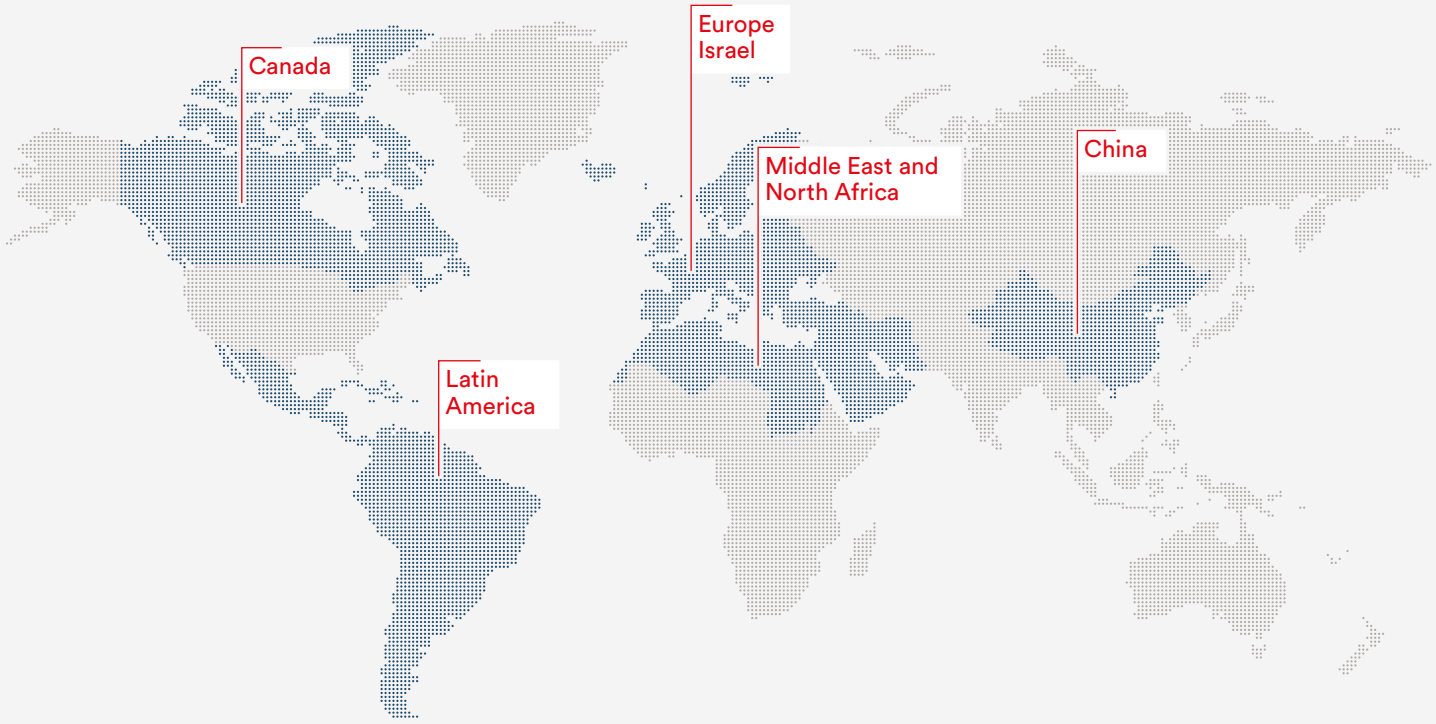
- Completed dose-escalation phase 1 studies with tumor checkpoint controller BAL101553 and defined maximum tolerated doses of two different dosing regimens
- Started phase 2a expansion study with intravenous BAL101553 in glioblastoma and ovarian cancer
- Completed phase 1 study with panRAF/SRC kinase inhibitor BAL3833

Global partnerships

Cresemba®
Isavuconazole



Zevtera®/Mabelio®
Ceftobiprole



Dear shareholders

2018 was a good year for Basilea in many ways. We were able to significantly increase our revenue from Cresemba and Zevtera. Global Cresemba sales by our partners exceeded USD 150 million in 2018, of which we participate in the form of royalties, transfer prices and milestone payments. The commercial success of our approved products allowed us to continue to invest in our R&D pipeline, which is crucial for the future success of our company. The board of directors and the management team has undergone key changes, including David Veitch, who became Basilea's new CEO in April. In his previous role as Chief Commercial Officer he had accomplished the successful launch of Cresemba and Zevtera in Europe, which laid the foundation for our promising commercial partnerships. Today, our innovative medicines are available to patients in more than twenty countries on four continents.

New hope for cancer patients

An important milestone was achieved in April, when we entered into a license agreement with ArQule for derazantinib, a promising medicine for the treatment of bile duct cancer (intrahepatic cholangiocarcinoma, iCCA) and potentially other types of cancer. The financial structure of the transaction is very attractive for such a promising medicine at an advanced stage of development, as the majority of the license fees to ArQule are only due once the medicine is approved and successfully launched. Derazantinib has orphan drug status for iCCA in Europe and the U.S. In the best case, it could receive accelerated approval in the United States as early as 2021.

Thanks to our highly qualified and experienced researchers and developers we believe that we can achieve significant progress in the cancer field.

Derazantinib is proof of our increased efforts in oncology, a field with great medical and commercial potential. We are pursuing a clear strategy here, and thanks to our highly qualified and experienced researchers and developers we believe that we can achieve significant progress in the cancer field. This strategy will help ensure Basilea's economic success in the long term.

Antibiotics for the future

At the same time, we remain committed to the research and development of new antibiotics. Resistance to current medicines is one of the significant medical challenges of the coming years. Patients urgently need new, highly effective antibiotics. The OECD, WHO and many experts worldwide share this conviction. Our extensive proven experience puts us in a good position to develop such medicines. Our antibiotic ceftobiprole is particularly promising: in 2018 we started the phase 3 studies, which are required to gain regulatory approval in the U.S. The prospects are good, as ceftobiprole is already on the market in a number of countries in and outside of Europe and the ongoing phase 3 development program is supported through non-dilutive funding from the U.S. government. For many other countries and regions we have entered into commercialization agreements with partners. We intend to follow the same strategy of establishing a commercial partnership for the U.S. market as well. Ceftobiprole clearly has significant potential in the U.S., especially as we are focusing on new indications in the ongoing phase 3 studies such as bloodstream infections, where patients currently have a high unmet medical need and the U.S. is the most important market from a commercial perspective.

Strong partnerships

Thanks to our successful partnerships, Cresemba and Zevtera have continued significant growth in our established markets and have also been launched in many additional countries throughout 2018. By the end of 2018, Cresemba was marketed in around 20 countries; we intend to increase this number to more than 60 in the course of the next three years. Continued growth in the revenues from our anti-infective medicines can therefore be expected.

We will continue to carry out focused research and development into new antibiotics. Our quest is to find therapies with new mechanisms of action, and we will only pursue truly innovative projects that have the potential to make a difference to patients' lives.

2019 will see the advancement of several projects in our pipeline. Important progress will be achieved as we continue to build on our focus areas of oncology and anti-infectives. The positive interim analysis of the phase 2 study with derazantinib to treat bile duct cancer (iCCA) was a keenly anticipated first important milestone. The results show that we are on the right track. We have great confidence in the potential of this medicine and are planning to commence studies in additional indications during 2019. Furthermore, we expect to see the results of the phase 3 study with ceftobiprole (Zevtera) for the treatment of bacterial skin infections (ABSSSI). The results from the phase 2a study with BAL101553 in patients with brain tumors (glioblastoma) and ovarian cancer are also due in 2019. New therapies for these conditions are urgently needed.

Last, but by no means least, future financial prospects are bright, as we anticipate continuing the growth of our cash-generating revenues and maintaining our operating costs at around the 2018 level. We believe this should also be positively reflected in Basilea's share price, the development of which was disappointing in 2018, despite the progress we have made across our programs.

A special thank you goes to our employees, who tirelessly explore innovative drugs to ultimately make them available to patients. Day after day, they are committed to giving fresh hope to people who are seriously ill.

Finally, we thank you, our shareholders, for your confidence in the company. It is also thanks to your continued support that we are able to accomplish our mission.

Basel, February 2019

Domenico Scala
Chairman of the Board

David Veitch
Chief Executive Officer

Domenico Scala, Chairman of the Board

David Veitch, Chief Executive Officer

“We must never forget patients are at the heart of what we do”

Basilea's Head of Development Stephan Braun has a mission: helping people with cancer. It is this sense of purpose that drives him to constantly explore new and creative designs of clinical studies. In his work, he draws on many years of experience as a physician, his capacity for reflection, his openness to new and innovative lines of thought, and a highly motivated team.

"I was never one to pack up at five in the afternoon," says Stephan Braun. "At the operating table, you can't just drop everything and leave for the day. You stay and finish what you've started." Braun has always lived by this principle, even after his career move to the pharmaceutical industry. But his years in the hospital as a gynecologist and oncologist continue to influence him. He witnessed and learned what cancer patients go through, the pain and uncertainty they have to endure. Having accompanied terminally ill patients on their last journey and shared the happiness of those who recovered, the emotional roller coaster of hope and disappointment is all too familiar to him.

Close to the human experience

"These kinds of experiences drove me to design better and more innovative clinical studies. You must never forget that you are dealing with people," Stephan Braun firmly believes. Not an easy task, given that the studies are designed at a desk, with no direct contact with patients. That's why it is all the more important to him to have many specialized professionals on his team as well as qualified doctors with extensive clinical experience. "In cancer research especially," Stephan Braun says, "there is often a poor understanding of what patients go through, which results in extremely technical studies that do not always achieve the desired objectives." He wants to take a different path.

> "A good team is the base of success." — STEPHAN BRAUN

Stephan Braun has served as Basilea's Head of Development since July 2018. His role involves building an oncology portfolio and in parallel quickly and successfully evaluating cancer medications in clinical studies with the ultimate goal to apply for regulatory approval. In addition, as part of the team, he is mapping out a strategy for the development of new anti-infectives, by building on the acknowledged competence of Basilea, but also treading new paths. Stephan is currently working in a team of about 20 people. He loves developing teams, communicating the goal and uniting them in a common cause, especially on challenging assignments. "I work most efficiently in creative, open-minded and performance-oriented teams. You can do your best, receive constructive feedback and make headway together."

Shaping relationships, making a difference

Stephan Braun shares the values championed by Basilea: a focus on people, trust in your team, a commitment to excellence, and the determination to make a difference. “In my clinical practice, I was able to help individual patients. That was gratifying, but I wanted to share my knowledge, experience and decisions with more people,” he says. Basilea has given him that opportunity. The company is large enough to put new products on the market, and yet small enough for one person to really contribute and make a difference. In his position, Stephan Braun can serve patients – with the wealth of his experience, expertise, creativity, and a strong focus: he wants to develop agents for cancer treatment that can be used in a more targeted fashion. Which drug is most suitable for which patient is a complex question, as the same type of cancer can show different characteristics from one patient to the next. Thus, there is no single drug that fits all patients with the same type of cancer. Finding answers requires patience and unwavering commitment, acknowledging that there is no easy route to success. The aim is to find the quickest route possible.

Designing clinical studies demands creative thinking: obstacles must be overcome, boundaries need to be pushed back. Sometimes it’s about recognizing opportunities hidden in the limitations. To find an answer to a study’s core question, patient selection is crucial. Along with many other criteria, patients must be willing to provide tissue samples so that their disease can be analyzed and undergo genetic examination. This involves highly complex, unpleasant interventions that are not undertaken lightly but can make all the difference in understanding which patients will benefit from which types of therapy.

What is possible and what is tolerable

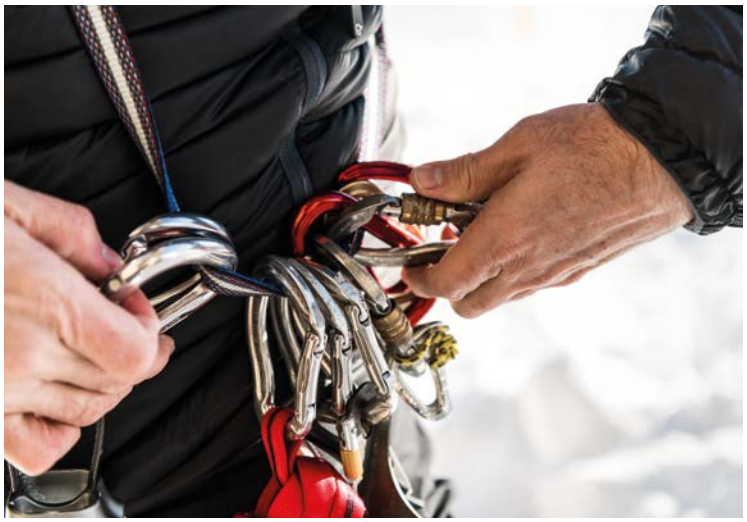
Thus, the design stage of a clinical study already requires a strong awareness of what can be done versus what patients can be expected to endure. Stephan Braun is convinced that specialized knowledge and clinical experience are indispensable: “It helps if you have experienced first-hand what it’s like to send patients to undergo a biopsy, or even conduct it yourself.”

As the selection of participants becomes more complex, the collaboration with the hospitals is more important than ever. “Basically, every study constitutes a massive interference with the hospital’s routine,” says Stephan Braun. The doctors function within a finely tuned and highly complex environment, in which a clinical study can quickly become a serious annoyance. Above all, physicians want to be sure that a drug works, specifically in oncology. Therefore, a study needs to be supported by convincing arguments and integrated into the hospital’s day-to-day operations. “We are not the only ones conducting such studies, so we need to be professionally convincing and creative.”

On the other hand, every study must conform to the strict rules laid out by the regulatory authorities, which focus mainly on patient safety. In this environment of conflicting interests, Stephan Braun and his team need to forge a viable path. Doing so takes careful communication, close monitoring and frequently changing interdisciplinary teams. “It’s an incredibly fulfilling task,” he says. “This stage, when a drug is tested on human patients for the first time, lays the foundation for both its scientific and commercial success.”

Reliability and performance

With all the work that goes into research and development, ultimately it needs to pay off – for both the patients and Basilea. A huge responsibility, and one Stephan Braun is fully aware of as he leads his team, encouraging participation while maintaining a clear focus on performance. He trusts his colleagues, in turn,



expecting them to excel rather than being content with an okay job. Stephan Braun considers it his job to create a supportive environment and make sure that everyone can fully contribute their strengths. So far, this attitude has served him well, and his teams have rewarded him in the past with reliability and performance.

Stephan Braun's leadership style is rooted in his upbringing: his parents gave him the freedom to try things out for himself, encouraging him to cut his own path – even as a child. Both parents had jobs, his father as a mechanical engineer, his mother as an administrator. Stephan Braun assumed responsibility in his everyday life at an early age, teaching himself many other skills and becoming a competitive athlete like his father. His mother taught him to be rigorous in everything he does.

The sky is the limit

Stephan Braun also inherited his passion for the mountains from his parents. From their home in Munich, they took their son hiking in the Alps. "I remember a particular photograph that my mother took of my father," he recounts. "He is standing on the summit of the Wallberg with me in a baby carrier on his back, behind him the autumn sun, beneath him a sea of fog. That's where I wanted to be, too, high above the clouds. The sky's the limit." And so the Alps became a constant in his life. First in Munich, then in Innsbruck. As often as possible, he went mountain hiking or climbing with friends. A few years ago, he purchased a flat in Chamonix with his wife, the bedroom window offering views of Montblanc.

Stephan Braun has thought a lot about why the mountains mean so much to him. They provide a horizon, a perspective, a focus. "The vastness and loneliness of the ocean is not for me," he says. "Hiking in the Alps demands endurance and concentration; you advance step by step at a steady pace. You plan ahead and then set off. In mountaineering, climbers are linked together by a rope and depend on one another. Without mutual trust and a sense of responsibility for each other, it can't be done. At work, the same qualities are required," says Stephan Braun: "planning, diligence, perseverance and focus. And finally, there is a shared sense of joy when you reach your common goal."

When his last position took him to Paris, far from the mountains, Chamonix became the home of Stephan Braun and his wife, who is from Austria, but has lived and worked in Switzerland for more than 12 years. Stephan Braun's move to Basilea has enabled them to live together in Switzerland. A positive change in all respects. However, he doesn't like the term "work-life balance", because keeping a constant balance between all areas of life is hardly feasible. Instead, he prefers the word harmony: "I like to give one hundred percent in everything I do. At work, I'm completely focused on business. Likewise, I enjoy my leisure time to the full. That is what I call harmony." And so, he doesn't mind the long workdays that sometimes come with the job.

A lifelong mission

Stephan Braun has reached a place of contentment. He used to be restless, always sensing that there must be something else. It was this feeling that drew him away from the hospital and into business. Several times, he switched companies, jobs, and cities, until finally arriving where he is today. "I have always had a mission: to help people with cancer," he says. It is this purpose that runs like a thread through his academic training and his whole career. He became a gynecologist almost by chance, through a scientific study on breast cancer, which in Germany is an integral subdivision of gynecology. It was a stroke of luck: "Gynecology is an impressive field. You witness the entire scope of human life, from the first to the last moments; you experience the joy of birth and the deep pain when a patient dies of cancer. You share the happiness when a cancer patient is cured and do your best, again and again, to accompany people with dignity on their last journey. It teaches you to face life with humility."

> **"I have always had a mission: to help people with cancer."** — STEPHAN BRAUN

When talking to Stephan Braun, this humility is palpable, coupled with the urge to drive things forward without wasting time. He calls it creative impatience, expressed in skillful action. This makes him optimistic about the future. He enjoys life with his wife, loves his second home in the mountains, keeps in close contact with his son Max, who studies abroad. Stephan is doing the work he always wanted to do. "I don't have to prove anything to myself anymore," he says. "But I still really enjoy a challenge."

Dr. Stephan Braun was born in Stuttgart in 1966 and grew up in Munich, where he studied medicine and specialized in gynecology and oncology.

After 14 years at the university hospitals of Munich and Innsbruck, he moved to the pharmaceutical industry, where he focused on the development of innovative cancer medications. As Head of Development at Basilea since July 2018, he is in charge of building and progressing an oncology portfolio and the maintenance of the anti-infectives portfolio. Stephan Braun now lives in Zurich with his wife. Chamonix is their second home, and they head into the mountains as often as possible.

Stephan Braun on ...

... Basilea

"Basilea is in an exciting phase. I think we will see positive developments. The company takes a very open attitude with a willingness to listen that I find fascinating. People exchange arguments and think them through, and in the end, the best concept is put into action. All of this happens in a very factual manner and without much ado; calmly, but with determination, focus and persistence."

... reason & intuition

"I am both rational and intuitive. I like to listen and give things a lot of thought. Understanding complex issues requires both reason and intuition. That is the contemplative, quiet phase. When an idea has taken shape, I become more outgoing and determine which direction to take. In this phase, I perhaps don't explain as much as I should, because I already have everything sorted out in my head."

... the mountains

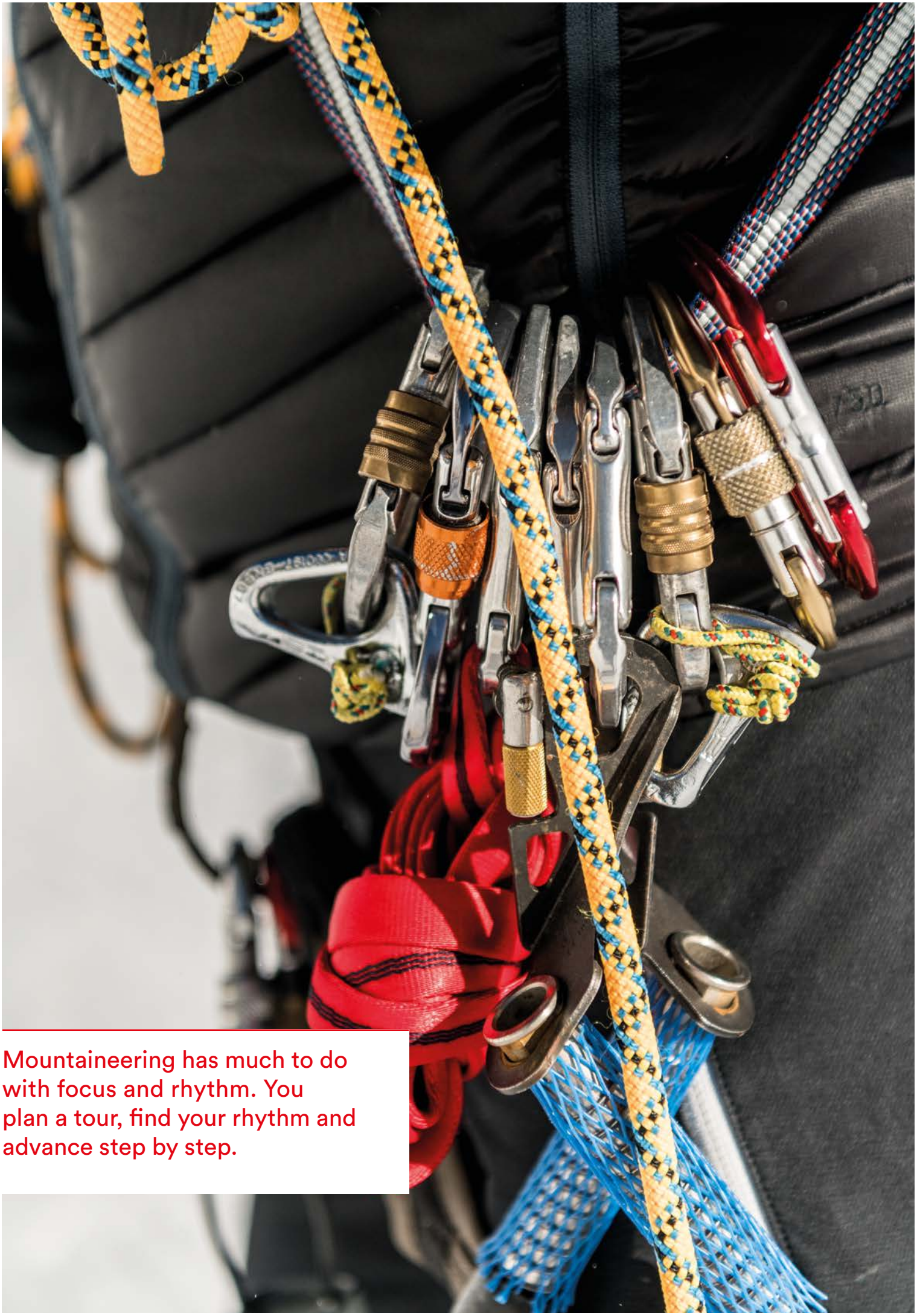
"I have spent my whole life near the mountains. They teach me to direct my gaze upward and provide a horizon and a goal. In the past, it was the thought of success that pushed me towards the summit. Now it's the idea of working as a team. You need to trust one another and reach your common goal collectively. Mountaineering has much to do with focus and rhythm. You plan a tour, find your rhythm and advance step by step. When you reach the top, the sense of focus is absolute."

... team work

"I used to think I could decide everything on my own. As a clinician, I often had to. Until I experienced how much more easily and effectively decisions can be implemented when they have been reached collectively: on the cancer ward, terminal care was among my duties. I worked side by side with a palliative care doctor. She had a different perspective on this last stage in the life of our patients. We discussed all decisions and made them together. It was a huge relief for me. Our close collaboration benefited the patients as well. It was an important and fulfilling experience."

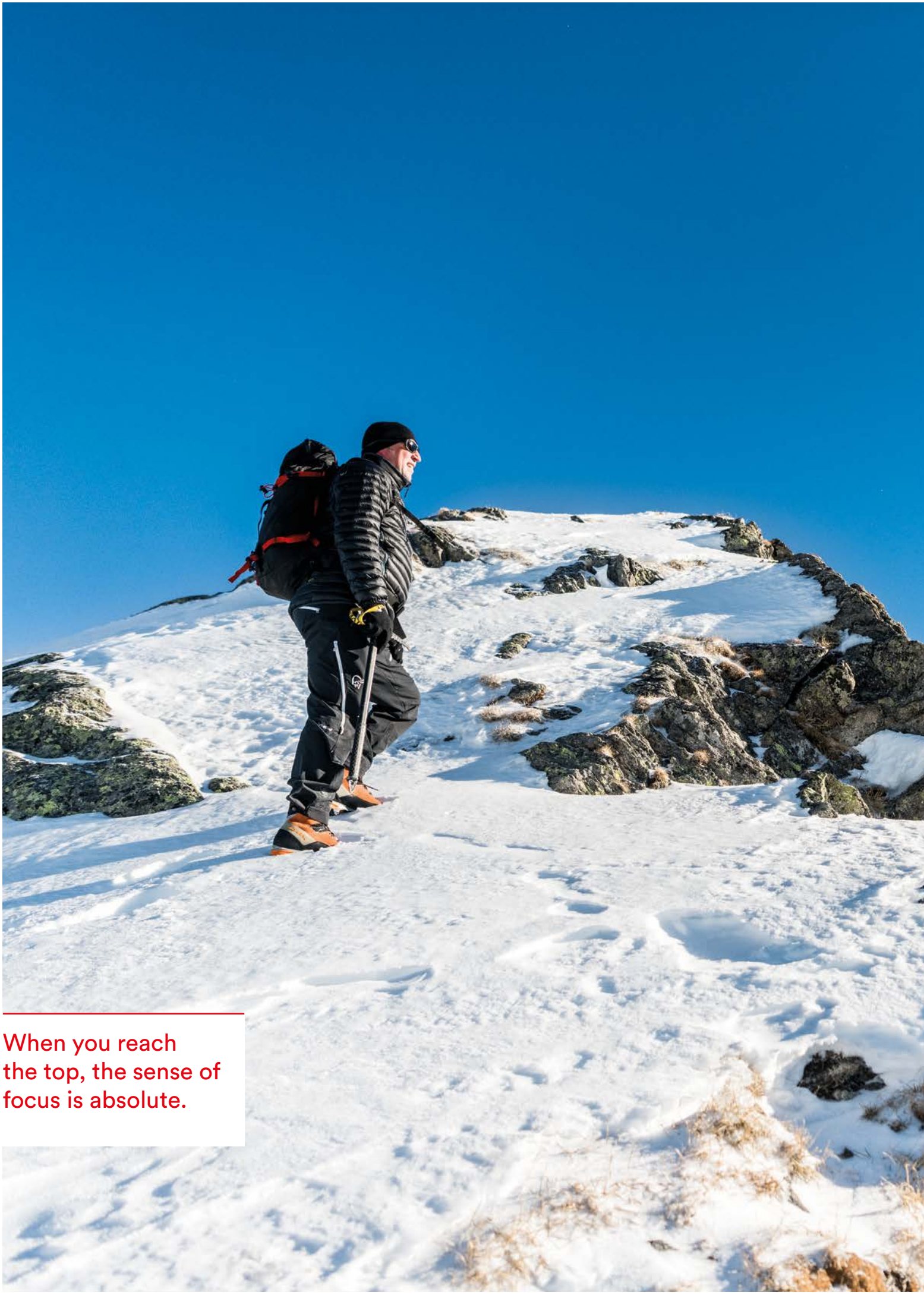
... regulations

"At first, I was surprised to see these strict regulations in the pharmaceutical industry and their diversity, and I almost took a critical stance. But I have quickly realized how important they are. Patient safety is non-negotiable and society trusts in medicine. It's important to me to respect that."



Mountaineering has much to do with focus and rhythm. You plan a tour, find your rhythm and advance step by step.

Mountains teach me to direct my gaze upward and provide a horizon and a goal.



When you reach the top, the sense of focus is absolute.

Products and clinical pipeline

We discover, develop and commercialize innovative medicines in the therapeutic areas of oncology and anti-infectives.

Anti-infectives

Anti-infectives, specifically antifungals and antibiotics, form one pillar in Basilea's strategy. We have successfully brought two anti-infective drugs to the market: the antifungal isavuconazole and the antibiotic ceftobiprole.

Isavuconazole (Cresemba)

Isavuconazole, marketed under its trade name Cresemba, is an antifungal drug for the treatment of the two most frequent invasive mold infections: invasive aspergillosis and mucormycosis.

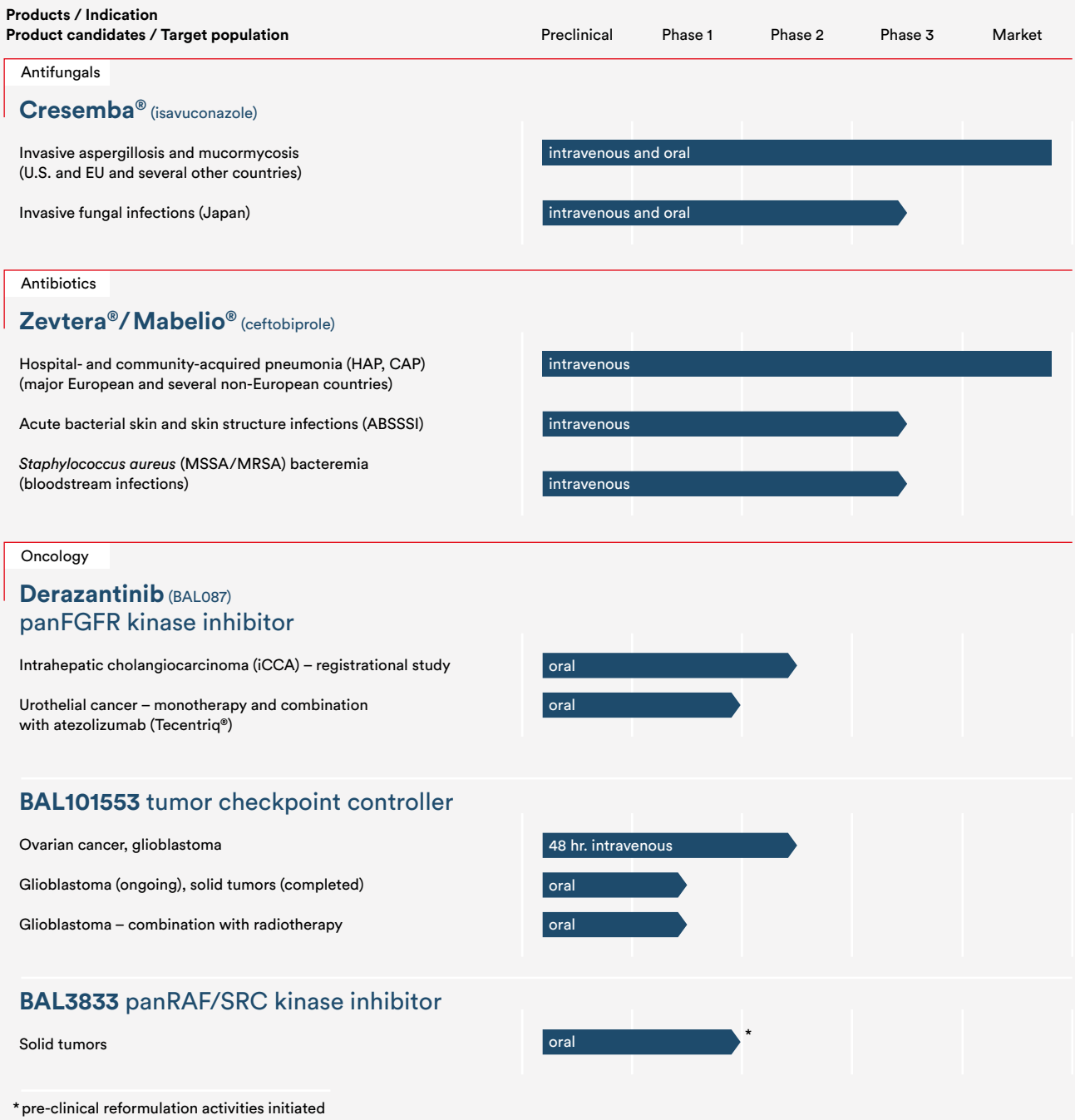
Invasive fungal diseases are an increasing global health issue due to the growing number of immunosuppressed patients who are at a higher risk of these infections. Isavuconazole was developed in response to this urgent medical need. Worldwide, more than 1.5 million deaths each year are attributed to invasive fungal infections. Invasive mold infections are mainly caused by airborne *Aspergillus* species; however, Mucormycetes, found for example in soil or rotting wood, have emerged as the second most frequent group of molds causing invasive infections. Over 50% of patients with mucormycosis die from this infection, so its mortality rate is particularly high. Today there are only limited available treatment options for invasive mold infections.

Isavuconazole belongs to the azole class of antifungal compounds, which block fungal growth and replication through inhibition of an enzyme required for essential building blocks of fungal cell walls. It is the only azole antifungal approved for the treatment of both invasive aspergillosis and mucormycosis. In addition, Cresemba is the only licensed medication for the treatment of mucormycosis that can be administered both orally and by infusion.

Isavuconazole has U.S. and EU orphan drug designation for its approved indications. In Europe, orphan drugs are granted ten years of market exclusivity, regardless of patent protection. In the U.S., orphan drugs are granted seven years of market exclusivity. Isavuconazole is also designated as a Qualified Infectious Disease Product (QIDP), which further extends the market exclusivity in the U.S. to a total of 12 years. In addition, we expect that isavuconazole will be granted an additional two years of exclusivity in the EU and six months in the U.S. upon completion of the currently ongoing pediatric investigation plan. We therefore anticipate that isavuconazole will have market exclusivity until 2027, both in Europe and the U.S.

Basilea has established license and distribution agreements for isavuconazole covering 115 countries. The commercialization partners include Astellas Pharma Inc. for the U.S. and Pfizer for most of Europe (excluding the Nordic countries, where Unimedic is our distribution partner), Russia, Turkey, Israel, China and further countries in Asia Pacific. Moreover, we have strong regional partners for Latin America, Japan, the Middle East and North Africa region (MENA) and Canada.

Portfolio



*pre-clinical reformulation activities initiated

Phase 1

Initial clinical studies with a new medicine, focused on safety and tolerability, i.e. how much of a drug can be safely given, and on measurements of study drug levels in the body. For each type of administration (oral, intravenous etc.) separate phase 1 studies have to be conducted.

Phase 1/2a

Sequential study, for instance in oncology, which starts with a phase 1 dose-escalation portion to determine the maximum tolerated dose (MTD), which will be explored in the phase 2a expansion in selected patient populations to look for initial efficacy signals.

Phase 2

Expanded clinical testing in a larger number of patients, usually in more narrowly defined patient populations, to confirm the best dose and further explore efficacy signals as well as potential side effects.

Phase 3

Even larger studies than in phase 2, designed to provide confirmatory evidence of the efficacy and provide further safety information. Phase 3 studies usually form the basis to obtain regulatory approval.

Cresemba sales continue to grow strongly: global in-market sales exceeded USD 150 million in 2018. Basilea continues to participate in the commercial success of Cresemba through royalties, regulatory and sales milestone payments by Basilea's commercialization partners, and by selling Cresemba to the distribution partners at a transfer price.

2018 saw the approval of Cresemba in Jordan, the first country in the MENA region, and a first approval in Latin America, in Peru, which triggered a CHF 2 million regulatory milestone payment from our partner for this region, Grupo Biotoscana. At the end of November, Cresemba sales in the U.S. exceeded a contractually defined threshold, which triggered a CHF 10 million sales milestone by Astellas.

For its full financial year, which ends in March 2019, Astellas has guided for annual Cresemba sales of USD 117 million, which is a 35% increase compared to the preceding twelve-month period. Basilea expects increasing payments from its partners as the product is being launched in additional countries, making Cresemba available to many more patients around the world. By the end of 2021, Cresemba should be on the market in over 60 countries, about three times more than now.

By the end of 2021, Cresemba should be on the market in over 60 countries.

Regulatory and sales milestones from all license agreements for Cresemba could amount to approximately USD 1 billion over the lifetimes of these partnerships.

Ceftobiprole (Zevtera/Mabelio)

Ceftobiprole, marketed in most countries under the trade name Zevtera, is an antibiotic currently approved for the treatment of pneumonia, especially the pneumonia acquired in hospitals. Based on its broad spectrum of activity, we believe that the drug could also be effective in the treatment of other bacterial infections. We are therefore currently evaluating ceftobiprole in two clinical studies, in bacterial skin infections and in bloodstream infections caused by *Staphylococcus aureus* bacteria, in view of a potential approval in the U.S. These studies are financially supported by the Biomedical Advanced Research and Development Authority (BARDA), a division within the U.S. Department of Health and Human Services.

Ceftobiprole was developed for the treatment of severe bacterial infections in the hospital. According to recent estimates, there are more than 2.5 million healthcare-associated infections each year leading to more than 91,000 deaths in the European Union alone. More than half of these deaths have been attributed to hospital-acquired pneumonia and to hospital-acquired bloodstream infections. Ceftobiprole has demonstrated activity against a wide spectrum of clinically relevant Gram-positive and Gram-negative bacteria, including methicillin-resistant *Staphylococcus aureus* (MRSA). Patients with MRSA infections are more than twice as likely to die from this infection as patients with the methicillin-susceptible form of the infection, MSSA.

We have established license and distribution agreements for ceftobiprole with several partners covering more than 80 countries. This includes Correvio (formerly named Cardiome) for Europe as well as strong regional partners for Latin America (Grupo Biotoscana), the MENA region (Hikma), China (Gosun) and Canada (Avir). By the end of 2018, Zevtera was approved in about 20 countries, not only in Europe, but also in Canada, Latin America (Argentina and Peru) and the MENA region (Jordan and Saudi Arabia). As with Cresemba, we participate in the commercial success of Zevtera through royalties, regulatory and milestone payments, and by selling the drug to our distributors.

As mentioned above, we have started two phase 3 studies in 2018 with the goal to achieve regulatory approval for ceftobiprole in the U.S for bacteremia and skin infections. These two studies are conducted under Special Protocol Assessments with the U.S. Food and Drug Administration (FDA) and are cross-supportive for a potential future U.S. filing.

There are several reasons why the U.S. market plays an important role for ceftobiprole. We estimate that, in terms of value, the U.S. represents more than 70 % of the global market for new branded hospital antibiotics. Furthermore, MRSA rates in the U.S. have been reported in the range of 50 %. In comparison, a median MRSA rate of 17 % has been reported for Europe (EU/EEA) in 2017, with significantly higher MRSA rates of up to about 45 % in Southern European countries.

Staphylococcus aureus bacteremia (SAB) may become the most important indication for ceftobiprole in the U.S. This bacterial bloodstream infection is associated with significant morbidity and reported mortality rates of about 20 %. It can result in infective endocarditis, an inflammation of the heart, which is associated with poor patient outcomes. Only few antibiotics that cover both MSSA and MRSA are approved for the treatment of SAB. Hence, there is an urgent need for new effective antibiotics in this indication.

The Biomedical Advanced Research and Development Authority (BARDA) in the U.S. is providing non-dilutive financial support for the phase 3 program with ceftobiprole. BARDA is a division within the Office of the Assistant Secretary for Preparedness and Response in the U.S. Department of Health and Human Services. It was established by the U.S. Congress to provide federal investments in later stage development of novel countermeasures to public health emergencies and has become an important source of public funding for the development of novel antibiotics for U.S. patients. According to our agreement, BARDA reimburses a large part of the development costs. In total, BARDA could provide up to USD 128 million, which is about 70 % of the total expected development cost.

While we expect top-line results from the study in acute bacterial skin and skin structure infections (ABSSSI) in the second half of 2019, the SAB study is anticipated to continue for another two and a half years. Importantly, if approved in the U.S., ceftobiprole will have ten years of regulatory market exclusivity, as it has QIDP designation in respect of the ABSSSI and SAB indications.

Oncology

Oncology is the second pillar of Basilea's strategy. Over the last decade, Basilea has built an oncology research and development portfolio of novel drug candidates intended to address areas of high unmet medical need. We have strong in-house competencies and excellent researchers in the field of cancer biology, oncology research and development and in medicinal chemistry. We are taking a targeted approach to oncology, focusing on establishing biomarkers very early on in development, which are used to elucidate the mode of action of a drug, to optimize clinical dosing strategies and to identify patients most likely to respond to treatment.

Derazantinib

Derazantinib has the potential for the targeted treatment of a broad range of different cancers. It is initially being evaluated in bile duct cancer (intrahepatic cholangiocarcinoma, iCCA), which is a rare form of cancer with a high unmet medical need. The second indication in which derazantinib is to be investigated as a single agent and in combination therapy is bladder cancer (urothelial cancer).

We are taking a targeted approach to oncology.

Derazantinib is the clinically most advanced oncology drug candidate in our portfolio. We in-licensed it in April 2018 from the U.S. company ArQule Inc. for an upfront payment of USD 10 million. ArQule is also eligible for regulatory and sales milestone payments of up to USD 326 million, as well as staggered single to double-digit royalties on sales upon commercialization. These payments are only due upon reaching certain clinical, regulatory and commercial milestones. The exclusive license is worldwide, excluding the People's Republic of China, Hong Kong, Macau and Taiwan.

Derazantinib is an orally administered small molecule inhibitor of the fibroblast growth factor receptor (FGFR) family of kinases with strong activity against FGFR1, 2, and 3. Therefore, it is called a panFGFR kinase inhibitor. FGFR kinases are key drivers of cell proliferation, differentiation and migration. FGFR alterations, e.g. gene fusions, overexpression or mutations, have been identified as potentially important therapeutic targets for various cancers. Besides iCCA and urothelial cancer, this also includes breast, gastric (stomach) and lung cancer.

Derazantinib has demonstrated favorable clinical data in previous clinical studies, including a biomarker-driven phase 1/2 study in patients with FGFR2 fusion positive iCCA. In iCCA, FGFR2 gene fusions have been reported in 13–22 % of the cases and FGFR gene mutations have been reported in up to 5 % of the cases.

Derazantinib is currently in a registrational phase 2 study in FGFR2 fusion positive iCCA. The age-adjusted incidence rate of iCCA in the U.S. has been increasing over the past decade and is currently estimated to be approximately 1.2 per 100,000 people. Patients are often diagnosed with advanced or metastatic disease that cannot be surgically removed. Current first-line standard of care for iCCA is the chemotherapy combination of gemcitabine and platinum agents. The prognosis for patients with advanced disease is poor, with a median survival of less than one year. There is no established standard treatment for patients who progress on first-line chemotherapy, thus there is a high unmet medical need, and patients with iCCA urgently need effective treatments. Derazantinib has U.S. and EU orphan drug designation for this disease.

In January 2019, Basilea reported results from an interim analysis from this study. The efficacy results were encouraging and the analysis also confirmed the safety profile and tolerability of derazantinib observed in previous clinical studies. The objective response rate, defined as the proportion of patients in the study that experienced a shrinkage of the tumor of more than 30 % (partial response), was 21 %; in comparison to the literature which cites objective response rates of less than 10 % for iCCA patients receiving second-line chemotherapy. The study is expected to be completed in mid-2020, and, if the results are positive, we may be able to use the data to apply for accelerated approval in the U.S.

Derazantinib has demonstrated favorable data in clinical studies.

To investigate whether the application of derazantinib can be expanded, we are planning to extend the current iCCA study by including an additional group of patients with other FGFR gene aberrations. We also plan to broaden the clinical development program mid-2019 by starting a phase 1/2 study with derazantinib as single drug and in combination with Roche's immune-checkpoint inhibitor atezolizumab (Tecentriq®) in patients with advanced urothelial cancer (bladder cancer). We believe that the combination of inhibiting FGFR while at the same time enhancing the effect of tumor immunotherapy could be a promising new approach in cancer therapy.

BAL101553

BAL101553 is a novel drug candidate that is able to cross the blood-brain barrier, which makes it a promising candidate for the treatment of brain cancer. The drug is currently being evaluated in patients with glioblastoma (an aggressive form of brain cancer) and ovarian cancer.

BAL101553 is the second most advanced oncology drug in Basilea's portfolio after derazantinib. It has been shown to be active in cancer cells resistant to taxanes, a well-established class of anti-cancer drugs. Taxanes are microtubule-targeting agents that have been used in the treatment of cancer for many years. Microtubules play an important role in cell division, for instance in the alignment and separation of the chromosomes during mitosis. If this process is disrupted, the cancer cells die. However, resistance to taxanes and other microtubule-targeting agents (MTAs) is frequently observed, either because the tumor is inherently resistant to the drug or because resistance develops during treatment. BAL101553 binds to microtubules at a different site than taxanes, or any other currently approved microtubule-targeting anti-cancer agent, and induces tumor cell death by activating the so-called "spindle assembly checkpoint". This is why BAL101553 is called a tumor checkpoint controller.

BAL101553 is a small molecule drug and is thus more easily chemically synthesized than approved MTAs derived from complex natural products. Furthermore, unlike many large-molecule cancer drugs, BAL101553 is able to cross the blood-brain barrier which normally prevents the entry of large molecules and pathogens, thus addressing a major challenge in the development of drugs that target pathological changes in the brain. Preclinical studies also strongly support the potential utility of BAL101553 for the treatment of brain cancer.

Basilea is currently conducting three clinical studies with BAL101553. The first of these studies is a phase 2a expansion study conducted in Switzerland, which investigates the use of a weekly 48-hour infusion of BAL101553 in patients with recurrent glioblastoma

(brain tumor) and platinum-resistant ovarian cancer. Two phase 1 dose-escalation studies were completed in 2018 in patients with solid tumors. In these studies, the maximum tolerated doses for the weekly 48-hour infusion as well as daily oral administration were defined. In addition, a phase 1 dose-escalation study is ongoing in the UK with advanced or recurrent glioblastoma patients or patients with high-grade gliomas using daily oral administration. Finally, a phase 1 study is being conducted in the U.S. with BAL101553 in combination with radiotherapy in patients with newly diagnosed glioblastoma who have a reduced sensitivity to chemotherapy with the standard-of-care drug temozolomide. The study was started in late 2017 and is conducted in collaboration with the Adult Brain Tumor Consortium (ABTC). The ABTC is a multi-institutional consortium consisting of investigators at renowned cancer research institutions across the United States. Its aim is to develop effective treatment for malignant brain tumors. It is funded by the U.S. National Cancer Institute (NCI).

BAL3833

The drug candidate BAL3833 blocks the transmission of certain signals in cells responsible for uncontrolled tumor growth. Melanoma, the most aggressive type of skin cancer, is often caused by such a mechanism. However, BAL3833 also has potential for the treatment of other types of cancer, such as colorectal, pancreatic or lung cancer.

BAL3833 is a small-molecule drug directed to stop tumor cell growth. Basilea in-licensed the compound in 2015. The compound was developed by scientists at The Institute of Cancer Research (ICR) in London, funded by Cancer Research UK and the Wellcome Trust. BAL3833 inhibits cell signaling cascades by blocking the so-called RAF and SRC kinases that, like switches, transmit external growth and proliferation signals to the cell nucleus. If these pathways are deregulated, the key signal transmitters are permanently activated, which may lead to uncontrolled growth. In particular, melanoma, the most aggressive type of skin cancer, is often linked to a mutated BRAF kinase. However, the activity of BAL3833 is not limited to mutated BRAF, it also blocks CRAF; hence, it is called a panRAF kinase inhibitor. Both CRAF and SRC signaling is upregulated in tumors resistant to commercially available BRAF-specific kinase inhibitors, leading to reactivation of pathways involved in tumor growth and progression.

Based on its profile, BAL3833 has potential for the treatment of melanoma as well as various other tumor types. In preclinical studies, BAL3833 demonstrated activity in a range of tumor models derived from melanoma with intrinsic or acquired resistance to selective BRAF inhibitors. It also showed activity in tumor models derived from colorectal, pancreatic and lung cancers associated with genetic changes that activate the RAF pathway, including KRAS-driven tumors.

Basilea is currently conducting three clinical studies with tumor checkpoint controller BAL101553.

In 2018, ICR, in cooperation with the Christie and Royal Marsden NHS Foundation Trusts and the Cancer Research UK Institute at the University of Manchester, completed the first-in-human phase 1 dose-escalation study with daily oral administration of BAL3833 in patients with solid tumors including metastatic melanoma. A broad dose range was investigated in the study, without defining a maximum tolerated dose.

Following detailed analysis of the available data, it was concluded that an alternative formulation of the drug candidate would be required to achieve appropriate and consistent drug levels in patients. Pre-clinical activities to explore alternative formulations have been initiated, as BAL3833 continues to show very encouraging anti-cancer activity in pre-clinical models and the medical need for cancer patients with RAF- and RAS-driven tumors remains high.

Research at Basilea

Basilea has a proven track record of bringing drugs from research into clinical development and through development all the way to the market.

Our research team is comprised of experienced scientists with the know-how required for successful drug discovery, including screening, biochemistry, microbiology, tumor biology, modelling, medicinal chemistry, pharmacology, chemical synthesis, analytics and more. They work in an innovative R&D environment in the heart of the life sciences hub of Basel. The internal activities are complemented by collaborations with both industry partners and well-known academic groups.

Our Basel headquarters' experts are supported in all their key R&D projects by scientists at Basilea's wholly-owned subsidiary Basilea Pharmaceutica China Ltd. There, the focus is on organic and medicinal chemistry, analytics and process research and development. Basilea China was founded in 2002 as one of the first foreign-invested biotech companies in China. It is located near Shanghai in the Haimen Economic-Technological Development Zone.

Oncology

In oncology research, we focus on novel targets and approaches to discover drug candidates which address resistance or non-response to current treatment options. A major emphasis is put on the implementation of a broad biomarker strategy, which may allow to select patients more likely to respond to treatment. Biomarker discovery is integrated into all projects at a very early stage.

Our oncology research portfolio includes several internal projects and one externally sourced project, all focused on the biomarker-driven development of potential first-in-class selective inhibitors of key processes in cancer development and progression.

Anti-infectives

In anti-infectives research, we are focusing on projects based on new or commercially unexploited clinically relevant targets and other therapeutic approaches with the potential to show medically relevant superiority against established anti-infective drugs. Through the research of novel treatment options we are addressing the challenges posed by difficult-to-treat pathogens, in particular by the development of drugs against Gram-negative pathogens such as carbapenem-resistant Enterobacteriaceae, multidrug-resistant *Pseudomonas aeruginosa* and *Acinetobacter baumannii*.

We also actively support the development of new antibiotics as a member of the BEAM Alliance (Biotech companies in Europe combating AntiMicrobial resistance) and the Antimicrobial Innovation Alliance (AIA). Moreover, we participate in research programs resulting from the European Commission's "Action plan against the rising threats from antimicrobial resistance", which is supported by the Innovative Medicines Initiative (IMI).

In 2019, our research team will continue to focus on further strengthening Basilea's oncology and anti-infectives pipeline through internal research activities and external collaborations, with the goal to advance novel drug candidates into clinical development.

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Table of Contents

Corporate governance

Group structure and shareholders

Group structure

The Basilea group is composed of the parent company Basilea Pharmaceutica Ltd. ("Basilea"); the Swiss operating subsidiary Basilea Pharmaceutica International Ltd. ("Basilea International"); BPh Investitionen Ltd. ("BPh"), a subholding company; Basilea Pharmaceutica China Ltd. ("Basilea China"), a Chinese operating subsidiary held through BPh; and wholly-owned subsidiaries in Germany, and the United Kingdom (collectively the "Company").

As of December 31, 2018, the Company had 227 full-time equivalents (FTEs).

Basilea subsidiaries and subholdings (as of December 31, 2018)

- Basilea Pharmaceutica China Ltd., Haimen, China
- Basilea Pharmaceutica Deutschland GmbH, Lörrach, Germany
- BPh Investitionen Ltd., Baar, Switzerland
- Basilea Pharmaceutica International Ltd., Basel, Switzerland
- Basilea Medical Ltd., Rickmansworth, U.K.
- Basilea Pharmaceuticals Ltd., Rickmansworth, U.K.

The operating activities of the Company are currently focused on research, development, and commercialization of pharmaceutical products through its business partners. The Company's operating activities are directed by and primarily undertaken by Basilea International.

In 2018, Basilea International was operationally organized to focus on its core activities. The Chief Executive Officer leads the Management Committee, consisting of the Chief Financial Officer, the Chief Medical Officer, the Chief Scientific Officer, the Chief Technology Officer, and the Chief Corporate Development Officer. The members of the Extended Management Committee, representing the legal, human resources and quality management functions, do also report to the Chief Executive Officer. For further information, please refer to the section "Management Committee/Extended Management Committee" on page 52.

Basilea is represented on the Board of Directors of all its wholly-owned subsidiaries. In addition, there is close operational cooperation between Basilea International and Basilea's subsidiaries.

Basilea Pharmaceutica Ltd.

Basilea is located at Grenzacherstrasse 487, 4058 Basel, Switzerland, and Basilea's shares were listed on the SIX Swiss Exchange on March 25, 2004, under the Swiss security number ("Valorennummer") 1143244. The ISIN is CH0011432447. The Common Code is 018859220. The ticker symbol is BSLN. Basilea's LEI is 391200TTZP8EIPSJ5J20.

As of December 31, 2018, the market capitalization of Basilea amounted to CHF 474,667,098 (11,878,556 registered shares issued with a nominal value of CHF 1 per share).

Basilea Pharmaceutica China Ltd.

Basilea China is a wholly foreign owned enterprise ("WFOE"), founded on May 29, 2002 and incorporated with limited liability under the laws of The People's Republic of China, with a fully paid-in registered capital of USD 7 million as of December 31, 2018. Basilea China is located near Shanghai in the Haimen Economic-Technological Development Zone, Jiangsu Province, People's Republic of China. The subsidiary supports Basilea International's key research and development, projects with chemical synthesis, analytical development, and process research and development. The shares of Basilea China are not listed on any stock exchange. All of its shares are held and controlled by BPh, a Swiss stock corporation with registered office at Schochenmühlestrasse 4 in 6340 Baar, Switzerland. BPh has a share capital of CHF 131,950, divided into 10,150 fully paid-in registered shares with a par value of CHF 13 each, all held and controlled by Basilea.

For information on the non-listed companies belonging to the Company, please refer to note 2 (investments, page 137) to the financial statements.

Significant shareholders

As of December 31, 2018, Basilea had 11,878,556 registered shares issued.

According to the Company's share register, RBC Investor + Treasury Services, Swane Lane, Riverbank House 2, London EC4R 3AF, U.K., held 693,877 Basilea shares as of December 31, 2018, corresponding to 5.84% of the issued share capital, but registered without voting rights.

Furthermore, Basilea received the following notifications in accordance with the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading from shareholders who held more than three percent as of December 31, 2018 (the significant shareholdings were disclosed on the basis of the number of total issued shares according to the entry in the Commercial Register at that time):

On January 7, 2019, Credit Suisse Group AG, Zurich, notified Basilea that Credit Suisse AG, Zurich, Credit Suisse (Schweiz) AG, Zurich, Credit Suisse AG, Dublin Branch, Dublin, Ireland, Credit Suisse Securities (USA) LLC, New York, USA, Credit Suisse Prime Securities Services (USA) LLC, New York, USA, Credit Suisse Securities (Europe) Limited, London, England, Credit Suisse International, London, England, Credit Suisse Hedging-Griffo Wealth Management S.A., Sao Paulo, Brazil, and Credit Suisse Quantitative and Systematic Asset Management Limited, London, England, held 1,149,444 (9.68%) purchase positions as of December 28, 2018. These purchase positions included 795,658 Basilea shares, thereof 671,982 from securities lending and comparable transaction, in addition to 353,786 voting rights from diverse derivative holdings such as conversion and share purchase rights. Furthermore, sale positions from a number of derivative

holdings amounting to 255,989 voting rights were reported, which corresponded to 2.16%.

On February 27, 2017, Credit Suisse Funds AG, Zurich, Switzerland, notified Basilea of its holdings of 386,587 Basilea shares, corresponding to 3.28% of the issued share capital, as of February 21, 2017.

On December 7, 2015, CI Investments Inc., 2 Queen Street East, 20th Floor, Toronto, ON M5C 3G7, Canada, notified Basilea that Black Creek International Equity Fund, Black Creek Global Balanced Fund, Black Creek Global Balanced Corporate Class, Black Creek Global Leaders Fund, United International Equity Alpha Corporate Class, Select International Equity Managed Fund and Select International Equity Managed Corporate Class held 536,298 Basilea shares, corresponding to 5.07% of the issued share capital, as of December 1, 2015.

Additionally, Basilea reported that, as of April 21, 2016, the number of conversion rights based on the issuance of the convertible bonds held by Basilea amounted to 40,000, related to 1,586,017 voting rights which corresponded to 13.44%. Basilea also reported that as of the same date, the outstanding options amounted to 1,428,028 which corresponded to 12.10% (fully diluted: 10.79%).

All disclosures of shareholdings, including those of shareholders that fell below three percent during 2018, are published on the website of the SIX Disclosure Office and can be accessed there (https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=BSLN).

Basilea has not entered into any shareholder agreement regarding the voting rights or holding of Basilea shares.

Cross-shareholdings

No cross-shareholdings existed as of December 31, 2018.

Capital structure and shares

Share capital

As of December 31, 2018, Basilea's issued fully paid-in share capital consists of CHF 11,878,556 divided into 11,878,556 common registered shares with a nominal value of CHF 1.00 each and no preferred shares. The share capital is fully paid in. As of December 31, 2018, Basilea and Basilea International held 1,133,852 (9.55%) shares of Basilea.

Authorized capital and conditional capital

In January 2016 CHF 1,000,000 reserved shares were created out of authorized capital in connection with the conversion rights attached to the convertible bonds. Under Article 3b of the articles of association, the Board of Directors is authorized at any time until April 18, 2020, to further increase the share capital by a maximum aggregate amount of CHF 2,000,000 through the issuance of not more than 2,000,000 registered shares, which would have to be fully paid in, with a nominal value of CHF 1.00 each (Basilea's articles of association are available on the Basilea website at www.basilea.com/articles-of-association). As of December 31, 2018, the authorized capital amounts to a maximum of CHF 2,000,000 which equates to 16.84% of the existing share capital.

Increases in partial amounts are permitted. The Board of Directors has the power to determine the type of contributions, the issue price and the date on which the dividend entitlement starts.

As of December 31, 2018, the conditional capital amounts to a maximum of CHF 2,521,585 which equates to 21.23% of the existing share capital as of December 31, 2018.

Under Article 3a of the articles of association, the share capital may be increased by a maximum aggregate amount of CHF 1,881,585 through the issuance of not more than 1,881,585 common registered shares, which would have to be fully paid in, with a nominal value of CHF 1.00 each, by the exercise of option rights which have been granted or may be granted in the future in accordance with the stock option plan. The subscription rights of shareholders are excluded. The issue price shall be determined by the Board of Directors. As of December 31, 2018, 1,471,695 options were outstanding.

Further 640,000 shares under conditional capital reserved for the exercise of option or conversion rights have been linked by the Board to the convertible bonds, (page 41, convertible bonds and options). The share capital may be increased by a maximum aggregate amount of CHF 640,000 through the issuance of not more than 640,000 common registered shares, which would have to be fully paid-in, with a nominal value of CHF 1.00 each, by the exercise of conversion rights granted in connection with the convertible bonds issued on December 23, 2015 by the Company.

Any shares issued under authorized or conditional capital are subject to the transfer restrictions set forth under "limitations on transferability of shares and nominee registrations" on page 40.

Changes in capital

In 2018, Basilea increased its share capital by CHF 6,900 (6,900 registered shares with a par value of CHF 1 per share) as a result of the exercise of stock options under Basilea's stock option plan.

In 2017, Basilea increased its share capital by CHF 59,683 (59,683 registered shares with a par value of CHF 1 per share) as a result of the exercise of stock options under Basilea's stock option plan.

In 2016, Basilea increased its share capital by CHF 11,350 (11,350 registered shares with a par value of CHF 1 per share) as a result of the exercise of stock options under Basilea's stock option plan.

For further information on changes in capital in 2018, 2017, and 2016, including changes in reserves and retained earnings, please refer to the consolidated statement of changes in shareholders' equity as well as note 15 (shareholders' equity, page 125) to the consolidated financial statements, and note 3 (share capital, page 137) to the financial statements of Basilea. Please also refer to the consolidated statement of changes in shareholders' equity included in the annual reports 2017 and 2016 for information on changes in equity in the respective years (available online at www.basilea.com/reports-archive).

Shares, participation and profit sharing certificates

Basilea has only one class of shares (registered shares) with a par value of CHF 1 per share. Each share is fully paid in and carries one vote and equal dividend rights, with no special privileges. Basilea has not issued any participation or profit sharing certificates.

Limitations on transferability of shares and nominee registrations

Basilea's shares are uncertificated securities ("*Wertrechte*", within the meaning of art. 973c of the CO) and, when administered by a financial intermediary ("*Verwahrungsstelle*", within the meaning of the Federal Act on Intermediated Securities (FISA)), qualify as intermediated securities ("*Bucheffekten*", within the meaning of the FISA). In accordance with art. 973c of the CO, Basilea maintains a non-public register of uncertificated securities ("*Wertrechtebuch*"). Basilea may at any time convert uncertificated securities into share certificates (including global certificates), one kind of certificate into another, or share certificates (including global certificates) into uncertificated securities. Following entry in the share register, a shareholder may at any time request a written confirmation in respect of the shares. Basilea may print and deliver certificates for shares at any time. Shareholders are not entitled, however, to request the printing and delivery of certificates.

Shares in uncertificated form ("*Wertrechte*") may only be transferred by way of assignment. Shares that constitute intermediated securities ("*Bucheffekten*") may only be transferred when a credit of the relevant intermediated securities to the acquirer's securities account is made in accordance with the relevant provisions of the FISA.

According to Article 5 of the articles of association (available on the Basilea website at www.basilea.com/articles-of-association), voting rights may be exercised only after a shareholder has been entered in the share register ("*Aktienbuch*") with his or her name and address (in the case of legal entities, the registered

office) as a shareholder with voting rights. Basilea enters an acquirer of shares as shareholder with voting rights if the acquirer discloses its name, citizenship or registered office, respectively, and address and explicitly states that the acquirer acquired the shares in its own name and for its own account.

Failing registration by the deadline set by the Board of Directors, a shareholder or usufructuary ("Nutzniesser") may not vote at or participate in a general meeting of shareholders, but is still entitled to receive dividends and other rights of financial value. No exemptions were granted from the above restrictions in 2018.

A nominee, meaning a person or legal entity not explicitly stating in its registration request that it will hold the shares for its own account may be entered as a shareholder in the share register with voting rights for shares up to a maximum of 3% of the issued nominal share capital, provided such nominee enters into a nominee agreement with Basilea. Shares held by a nominee that exceed this limit are only registered in the share register with voting rights if such nominee declares in writing to disclose the name, address, and shareholding of any person or legal entity for whose account the nominee is holding 0.5% or more of the issued nominal share capital. The limit of 3% applies correspondingly to nominees who are related to one another through capital ownership or voting rights or have a common management or are otherwise interrelated.

Basilea's articles of association do not further limit the transferability of shares. A qualified majority of at least two-thirds of the share votes represented as well as the majority of the par values of shares represented at a general meeting of shareholders are required for resolutions on transfer restrictions of Basilea's shares. For further information on the registration in the share register, please refer to the section "registration in the share register" on page 59.

Convertible bonds and options

On December 9, 2015, Basilea placed senior unsecured convertible bonds due December 23, 2022. The aggregate principal amount of the bonds is CHF 200 million and is divided into bonds with denominations of CHF 5,000 each. The bonds carry a coupon of 2.75% per annum, payable semi-annually in arrears on December 23 and June 23 and were payable for the first time on June 23, 2016. The bonds are listed on the SIX Swiss Exchange (security number: 30.539.814; ISIN: CH0305398148).

Existing eligible shareholders were granted advance subscription rights to subscribe for the newly issued bonds in proportion to their then current shareholding. Unless previously redeemed, converted or repurchased and cancelled, the bonds will be convertible into shares of Basilea at the option of the bondholder from February 2, 2016 up to and including the earlier of (i) seven trading days before December 23, 2022 or (ii) ten trading days prior to an early redemption. The bonds have a conversion price of CHF 126.1020. The shares delivered upon conversion will be or are sourced from conditional capital and authorized capital of Basilea.

Upon execution of the Conversion right, the relevant bondholder will receive 39.6504 Basilea shares per bond, subject to adjustment pursuant to anti-dilution provisions. The bonds are thus convertible into a total number of 1,586,017 shares. Basilea may redeem all outstanding bonds at their principal amount of CHF 5,000, together with unpaid accrued interest, if any (i) at any time on or after January 7, 2021, if the volume weighted average price of a Basilea share on each of at least twenty out of thirty consecutive trading days ending not earlier than five trading days prior to the giving of notice of redemption is at least 130%

of the prevailing conversion price; or (ii) at any time provided that less than 15% of the aggregate principal amount of the bonds originally issued is outstanding. As of December 31, 2018, the nominal amount of the bonds of CHF 200 million was outstanding.

For information on the stock option plan and on the number of options granted thereunder, please refer to Basilea's Compensation Report (page 77), and note 14 (stock-based compensation, page 123) to the consolidated financial statements included in this annual report.

Board of Directors

Board of Directors as of December 31, 2018 (from left to right):
Ronald Scott, Thomas Werner, Martin Nicklasson, Nicole Onetto, Steven D. Skolsky, Domenico Scala

Members, functions and other activities

The following table sets forth the names and terms of the current members of the Board of Directors as of December 31, 2018. A description of each member's nationality, business experience, education and activities is provided further below.

Name	Year of first election	End of current term
Domenico Scala, Chairman	2011	2019
Thomas Werner, Vice-Chairman	2011	2019
Martin Nicklasson, Director	2013	2019
Nicole Onetto, Director	2017	2019
Ronald Scott, Director	2018	2019
Steven D. Skolsky, Director	2008	2019

Daniel Lew and Thomas M. Rinderknecht did not stand for re-election at the 2018 annual general meeting and resigned as members of the Board of Directors with effective date April 18, 2018.

Domenico Scala, Chairman of the Board of Directors | Nationality: Swiss and Italian | Year of Birth: 1965.
Domenico Scala has been a member of the Board of Directors since 2011 and has been serving as the Chairman of the Board of Directors since 2016. He is also Chairman of the Audit Committee.
Mr. Scala served as chairman of the audit and compliance committee of FIFA (Fédération Internationale de Football Association) from 2012 to 2016. From 2007 to 2011, Mr. Scala was president and CEO of Nobel Biocare Holding AG and from 2003 to 2007, he was CFO of Syngenta International AG. Prior to that, he held various senior leadership positions at Roche Holding AG and was finance director with Panalpina Italy Spa and senior auditor with Nestlé SA.
Mr. Scala is chairman of the board of Oettinger Davidoff AG and a member of the board of Implantica MediSwiss AG. He is a member of the bank council of the Basler Kantonalbank, president of BaselArea, and chairman of the board of BAK Basel Economics AG.
Mr. Scala graduated with a master in economics from the University of Basel and holds executive development degrees from INSEAD and London Business School.

Thomas Werner, Ph.D., Vice-Chairman of the Board of Directors | Nationality: German | Year of Birth: 1956
Thomas Werner, Ph.D., has been a member of the Board of Directors since 2011 and has been serving as the Vice-Chairman of the Board of Directors since 2018. He is also Chairman of the Corporate Governance Committee and a member of the Compensation Committee.
Mr. Werner served as senior vice president & managing director of Glaxo SmithKline Germany from 2001 to 2008. From 1997 to 2000, he was managing director for Glaxo Wellcome Germany and director of the Central European Region. He also led Bristol-Myers Squibb Germany and Convatec Germany/Central Europe.
Mr. Werner is chairman of the board of Fertin Pharma and a member of the board of Vectura Group plc. He also serves as the chairman of the investment advisory committee of the Health for Life Capital Fund of Seventure Partners.
Mr. Werner graduated with a doctorate in chemistry from the University of Göttingen, Germany.

Martin Nicklasson, Ph.D., Member of the Board of Directors | Nationality: Swedish | Year of Birth: 1955
Martin Nicklasson, Ph.D., has been a member of the Board of Directors since 2013. He is also Chairman of the Compensation Committee and a member of the Audit Committee.
Mr. Nicklasson served as president and CEO of Biovitrum AB and Swedish Orphan Biovitrum AB from 2007 to 2010. From 1999 to 2007 he held various executive vice president positions and was a member of the executive committee of AstraZeneca Plc.
Mr. Nicklasson is chairman of the board of Kymab Group Ltd., of Orexo AB and of Zealand Pharma A/S. He also serves as consultant at Excore Consulting KB.
Mr. Nicklasson is a certified pharmacist and holds a doctorate in pharmaceutical technology from the University of Uppsala. He is an honorary associate professor at the Pharmaceutical Faculty of the University of Uppsala.

Nicole Onetto, M.D., Member of the Board of Directors | Nationality: Canadian and French | Year of Birth: 1953

Nicole Onetto, M.D., has been a member of the Board of Directors since 2017. She is also a member of the Corporate Governance Committee.

Ms. Onetto is an independent consultant in oncology, drug development and translational research. She was deputy director & chief scientific officer at the Ontario Institute for Cancer Research from 2009 to 2016. From 2005 to 2009 she was senior vice president and chief medical officer at ZymoGenetics Inc. From 2002 to 2005, she served at OSI Pharmaceuticals, Inc., first as executive vice president Oncology, and then as chief medical officer and executive vice president. Her career in the pharmaceutical industry also includes senior management positions at Bristol-Myers Squibb and Nexstar Pharmaceuticals, which was acquired by Gilead Sciences, Inc.

Ms. Onetto is a member of the board of Sierra Oncology, Inc. and of NBE Therapeutics AG. Previously she served for eleven years as a board member of ImmunoGen Inc.

Ms. Onetto holds a doctor of medicine from the University of Paris and a master of pharmacology from the University of Montréal.

Ronald Scott, Member of the Board of Directors | Nationality: Swiss | Year of Birth: 1955

Ronald Scott has been a member of the Board of Directors since 2018. He is also a member of the Corporate Governance Committee.

Mr. Scott served as Basilea's CEO from 2013 to 2018. Before that he held other key leadership positions at Basilea, including COO and from the Company's founding in 2000 through January 2012 as CFO. From 2004 to 2011, Mr. Scott served on the Board of Directors and was also a co-founding Board member of the Company in 2000. Prior to joining Basilea, Mr. Scott worked at Roche Holding AG in management positions in finance, licensing and in the mergers & acquisitions group. Prior to joining Roche, Mr. Scott worked for Prudential Investment Corporation in the United States as director in Prudential's finance and international business development units, managing divestitures and joint venture transactions.

Mr. Scott is a member of the board of Medigene AG and of KIDpharma AG.

Mr. Scott holds a bachelor's degree from Utah State University and a master's degree from Harvard University.

Steven D. Skolsky, Member of the Board of Directors | Nationality: American | Year of Birth: 1956

Steven D. Skolsky has been a member of the Board of Directors since 2008. He is also a member of the Compensation Committee and of the Audit Committee.

Mr. Skolsky is principal at Expis Partners, a life science consultancy. He served as a senior executive at Quintiles Transnational Holdings from 2011 to 2016, most recently as senior vice president & managing director and formerly, head of global clinical operations. From 2006 to 2011, Mr. Skolsky served as the president & CEO of Sequoia Pharmaceuticals Inc. and from 2004 to 2006 as CEO of Trimeris Inc. Mr. Skolsky joined Trimeris from GlaxoSmithKline, where he had served for more than 20 years in a range of senior leadership roles, including senior vice president, global product strategy & clinical development, and managing director of GlaxoSmithKline's operations in Australia and New Zealand.

Mr. Skolsky serves on the board of Clinipace Clinical Research and also on the foundation board of the Kenan-Flagler School of Business and the board of visitors at the University of North Carolina at Chapel Hill.

Mr. Skolsky holds a B.A. in biology from the University of North Carolina at Chapel Hill.

The Board of Directors is fully composed of non-executive members. Except Ronald Scott (see above), no current member of the Board of Directors has ever served in the management of Basilea or any of its subsidiaries.

There are no significant business connections between members of the Board of Directors and Basilea or any of its subsidiaries. For further information, please refer to note 20 (related party transactions, page 130) to the consolidated financial statements.

Apart from the activities indicated above, members of the Board have no other activities in governing and supervisory bodies of important Swiss or foreign organizations, institutions or foundations under private or public law, permanent management or consultancy functions for important Swiss or foreign interest groups or official functions and political posts.

Article 26 of Basilea's articles of association provides the following with respect to permissible mandates of members of the Board of Directors in addition to their mandate for Basilea (the articles are available online at www.basilea.com/articles-of-association):

- No member of the Board of Directors may hold more than twelve additional mandates and whereof not more than four mandates in listed companies.
- The following mandates are not subject to these limitations:
  - mandates in companies which are controlled by Basilea or which control Basilea;
  - mandates which a member of the Board of Directors holds by order and on behalf of Basilea or companies under its control. No member of the Board of Directors shall hold more than ten such mandates; and
  - mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Board of Directors shall hold more than ten such mandates.

The articles of association only cover mandates in the supreme governing body of a legal entity which is required to be registered in the Commercial Register or a similar foreign register. Multiple mandates in different legal entities which are under joint control are deemed one mandate.

Elections and terms of office

Article 13 of Basilea's articles of association provide that the Board of Directors shall consist of at least one and not more than eleven members. Members of the Board of Directors are appointed and may be removed exclusively by shareholders' resolution. The members of the Board of Directors and the Chairman are elected annually by the general meeting of shareholders and serve for a period until the completion of the subsequent ordinary general meeting of shareholders; they are eligible for re-election. Each member of the Board of Directors must be elected individually.

The current members of the Board of Directors were elected at the general meeting of shareholders held on April 18, 2018. For an overview of the years of first election and of expiry of the current terms of each member of the Board of Directors, please refer to the table on page 43.

According to Section 4.1.3 of the current organizational regulations of Basilea enacted by the Board of Directors (available online at www.basilea.com/organizational-regulations), each member of the Board of Directors shall resign effective as per the ordinary general meeting of shareholders immediately following completion of his or her 70th year of age.

Areas of responsibility

Responsibilities of the Board of Directors

The Board of Directors is entrusted with the ultimate direction of Basilea and the supervision of management. It has the following non-delegable and inalienable powers and duties:

- the determination of the strategy of the Company and issuing of relevant directives; establishing the organization of the Company; formulating accounting procedures, financial controls and financial planning;
- nominating and removing persons entrusted with the management and representation of the Company and regulating the power to sign for the Company;
- the ultimate supervision of those persons entrusted with management of the Company, specifically the CEO and Management Committee, with particular regard to adherence to law, the articles of association, and regulations and directives of the Company;
- issuing the annual report and the compensation report, and preparing the general meeting of shareholders and carrying out its resolutions; and
- informing the court in case of over-indebtedness.

The Board of Directors may, while retaining such non-delegable and inalienable powers and duties, delegate some of its powers, in particular direct management, to a single or to several of its members, managing directors, committees or to third parties who need be neither members of the Board of Directors nor shareholders. Pursuant to Swiss law and Article 16 of the articles of association, details of the delegation and other procedural rules such as quorum requirements must be set in the organizational regulations issued by the Board of Directors.

However, the Board of Directors specifically retains certain powers, including setting the strategy and short- and long-term goals of Basilea; approving all M&A transactions for which no shareholder approval is required; making decisions on annual budgets; the general direction of research and development (e.g. therapeutic areas covered, areas of priority and third party co-operations); setting general policies in relation to personnel matters, including further specifying the basic principles of the articles of association relating to benefit and incentive plans; communicating with shareholders and the public as required by applicable laws and regulations; and setting general policies on outsourcing versus internal functions for manufacturing, sales and marketing.

Internal organization

According to Section 4.2 of Basilea's organizational regulations (available online at www.basilea.com/organizational-regulations), resolutions of the Board of Directors are passed by way of simple majority. To validly pass a resolution, a quorum of more than half of the members of the Board of Directors must attend the meeting. No quorum is required for confirmation resolutions ("*Feststellungsbeschlüsse*") and adaptations of the articles of association in connection with capital increases pursuant to articles 651a, 652g and 653g of the Swiss Code of Obligations.

Chairman of the Board of Directors

The Chairman of the Board of Directors is elected by the general meeting of shareholders. The Chairman of the Board calls, prepares, and chairs the meetings of the Board of Directors. The Chairman also chairs the general meetings of shareholders. He supervises the implementation of the resolutions of the Board of Directors and regularly supervises the CEO and the Management Committee. The CEO regularly reports to the Chairman on the meetings of the Management Committee and on all important matters of the Company. The Chairman is also entitled to attend the meetings of the Management Committee. For urgent matters that do not allow for the Board of Directors to take resolutions in time, the Chairman is entitled to take decisions that fall within the competencies of the Board of Directors. At the ordinary general meeting of shareholders on April 18, 2018, Domenico Scala was elected as Chairman of the Board of Directors.

Vice-Chairman of the Board of Directors

The Vice-Chairman of the Board of Directors is designated by the Board of Directors and exercises the powers of the Chairman in the Chairman's absence. In the meeting of the Board of Directors subsequent to the ordinary general meeting of shareholders on April 18, 2018, Thomas Werner was elected as Vice-Chairman of the Board of Directors.

Board committees

The Board of Directors can set up specialized committees to analyze specific issues and advise the Board of Directors on those issues. The committees are advisory bodies only and decision-making remains with the Board of Directors. The Board of Directors determines each committee's organization, procedures, policies and activities. The Board of Directors has established an Audit Committee and a Compensation Committee in 2003. In addition, the Board of Directors established a Corporate Governance Committee in 2012. The members of the Compensation Committee are elected by the shareholders at each annual general meeting. In the meeting of the Board of Directors subsequent to each ordinary general meeting of shareholders, the Board appoints Members to the Audit and Corporate Governance Committees.

In the meeting of the Board of Directors subsequent to the ordinary general meeting of shareholders on April 18, 2018, the following board members were appointed to the **Audit Committee:** Domenico Scala (Chairman), Martin Nicklasson, and Steven D. Skolsky.

The Audit Committee assists the Board of Directors in overseeing accounting and financial reporting processes and audits of the financial statements. In addition, it is responsible for the guidelines of the risk management and internal control system, and review of their adequacy and effectiveness, review of compliance, assessment of the external auditors' quality and work and review of their audit plans, monitoring of the independence of the external auditors (including authorizing of non-audit services by the auditors and their compliance with applicable rules), proposal of new auditors, if necessary, to the Board of Directors, review of annual and interim financial statements, review of the audit results, and monitoring of the implementation of any findings by the Management Committee.

The Audit Committee held three meetings at Basilea's offices in 2018, lasting between two and three hours. The main topics at these meetings were review of the year-end financial statements and Annual Report 2017; review of the half-year financial statements 2018; review of the annual budget 2018 and 2019 as well as midterm financial planning; financial and non-financial risk management; the scope of the external audit 2018 as well as the scope and results of the internal

audit 2018. The external auditors were present at all three Audit Committee meetings in 2018 to report on the results of the full-year 2017 audit, the half-year 2018 review and in preparation of the full-year 2018 audit. The recommendations of the Audit Committee were then provided to the full Board of Directors.

At the ordinary general meeting of shareholders on April 18, 2018, the following board members were re-elected as members of the **Compensation Committee:** Martin Nicklasson (Chairman), Steven D. Skolsky, and Thomas Werner.

The Compensation Committee assists the Board of Directors in compensation-related matters, including providing recommendations on the compensation of the members of the Board of Directors and the Management Committee, the policies for the compensation of the Management Committee and Company employees and the basic principles for the establishment, amendment and implementation of the stock option plan.

The Compensation Committee held two meetings in 2018, lasting approximately three hours. The main topics at these meetings were review of the 2017 Company's achievements of planned Company objectives and determination of the performance-related bonus pool; evaluation of the achievements of the CEO and the Management Committee and determination of their variable compensation; annual general salary increases; grant of options; and the general remuneration of the Board of Directors, the Management Committee, and employees. The recommendations of the Compensation Committee were then provided to the full Board of Directors.

In the board meeting following the annual general meeting of shareholders on April 18, 2018, the following board members were appointed to the **Corporate Governance Committee:** Thomas Werner (Chairman), Nicole Onetto, and Ronald Scott.

The Corporate Governance Committee is responsible for developing, updating as necessary and recommending to the Board of Directors corporate governance principles and policies applicable to the Company, and for monitoring compliance with such principles and policies.

The Corporate Governance Committee held two meetings in 2018, each with an approximate duration of an hour. The main topics at these meetings were the Company's governance principles, policies, and ongoing compliance activities.

Members of the Board of Directors' committees

Audit Committee	Compensation Committee	Corporate Governance Committee
Domenico Scala (Chairman)	Martin Nicklasson (Chairman)	Thomas Werner (Chairman)
Martin Nicklasson	Steven D. Skolsky	Nicole Onetto
Steven D. Skolsky	Thomas Werner	Ronald Scott

Working methods of the Board of Directors and its committees

According to Section 4.2 of the organizational regulations (available online at www.basilea.com/organizational-regulations), the Board of Directors must hold at least four meetings per year. When required, the Board of Directors holds ad hoc meetings or telephone conferences to discuss specific issues or passes resolutions by way of written circular resolutions.

In 2018, the Board of Directors held seven meetings. Five of these meetings were held at the offices of Basilea or at the location of the ordinary general meeting of shareholders, each with a typical duration of one day. Two meetings were held by telephone conference. All meetings, both in-person and teleconferences, were attended by all members of the Board of Directors.

The members of the Management Committee report to the Board of Directors at each board meeting on the status of operations including the progress of research and clinical development, commercialization activities, including by its partners, the status of drug supply, licensing, financial activities, and human resources. In addition, an update on investor relations activities and the development of the Company's share price is given.

The board committees report about their committee meetings to the full Board of Directors at the board meeting following the relevant committee meeting. Any resolutions on matters assigned to the committees are taken by the Board of Directors on the basis of recommendations of the relevant committee.

Delegation to the Management Committee

In accordance with the Articles and the organizational regulation (available online at www.basilea.com/articles-of-association and www.basilea.com/organizational-regulations), the Board of Directors has delegated all areas of management of Basilea that are not reserved to the Board of Directors by law, the articles of association or the organizational regulations (see section "responsibilities of the Board of Directors" on page 47), to the CEO and the Management Committee reporting to the CEO. The main duty of the CEO with the assistance of the Management Committee is to manage the business operations, to implement the strategies and other decisions of the Board of Directors, to make proposals to the Board of Directors regarding matters within the decision making competency of the Board of Directors, and to set the operative focus and priorities as well as to procure the necessary resources.

Information and control instruments of the Board of Directors

The Board of Directors is responsible for the oversight of the Company's risk management activities and has delegated the responsibility of assisting the board in this task to the Audit Committee. While the board oversees risk management, the Management Committee is responsible for day-to-day risk management processes. The Board of Directors has directed the Management Committee to consider risk and risk management in each business decision, to proactively develop and monitor risk management strategies and processes for day-to-day activities and to effectively implement risk management strategies.

Board meetings are the Board of Directors' main platform to supervise and control the Company's management. At board meetings, the CEO and members of the Management Committee report on the financial, research and development, commercial, drug supply, business development, and human resources activities with a particular focus on the main risks of the Company related to its key value drivers, respective measures taken and related strategic proposals.

In addition, management provides interim updates to the Board of Directors as necessary on the status of operations and other issues that may be requested by the Chairman and the Board of Directors. The main components of these updates are the status of development and research programs, marketing activities, the status of drug supply, and partnering activities. Furthermore, management

provides a monthly management report to the Chairman and a financial report to the Board of Directors including an unaudited consolidated balance sheet, a statement of operations and a statement of cash flows for the respective month. The financial report further includes comparisons of actual versus budgeted numbers.

Draft consolidated financial statements for the previous financial year and draft consolidated financial interim statements, as prepared by Basilea management, are provided to the Audit Committee for review and to the external auditors for performing their audit and review, respectively. Each year at the end of January or beginning of February (for the audited consolidated financial statements) and end of July or beginning of August (for the unaudited consolidated half-year statements) the Audit Committee makes its recommendation regarding the approval of the respective financial statements to the full Board of Directors.

At the end of each year, upon recommendation of the Audit Committee, the Board of Directors reviews and approves the annual budget of the Company for the following year. The Audit Committee reviews any budget changes as may occur from time to time related to strategic changes or opportunities. In the event the Audit Committee recommends any changes to the budget, the Board of Directors considers and may determine to approve such budget changes consistent with the strategy of the Company.

In addition, the Board of Directors is provided with a written report by the auditors on any of their findings with respect to internal controls.

Management Committee/ Extended Management Committee

Members, functions and other activities

The Management Committee, appointed by the Board of Directors, is responsible for the operational management of the Company pursuant to the organizational regulations (available online at www.basilea.com/organizational-regulations). The Chief Executive Officer is the head of the Management Committee and the members of the Management Committee and of the Extended Management Committee report to him. The Board of Directors and in particular the Chairman of the Board is responsible for regular supervision of the CEO and the Management Committee. Under the direction of the CEO, the Management Committee focuses on the corporate goals, budget, portfolio review and risk management, and as needed on organizational structure, corporate policies and corporate strategies. In addition, regular operational management meetings for the different functions are held. These operational management meetings, chaired by the responsible Management Committee member, focus on significant operational issues concerning execution of goals, budget, resources, new business proposals, and priorities. The participants of these management operational meetings are key managers, the CEO, and Management Committee members as required.

The following table sets forth the name, date of appointment and position of the members of the Management Committee as of December 31, 2018. A description of each member's nationality, business experience, education, and activities is outlined further below.

Name	Appointed	Position
David Veitch	2018	Chief Executive Officer
Marc Engelhardt	2018	Chief Medical Officer
Gerrit Hauck	2018	Chief Technology Officer
Adesh Kaul	2018	Chief Corporate Development Officer
Laurenz Kellenberger	2009	Chief Scientific Officer
Donato Spota	2013	Chief Financial Officer

During the reporting period Ronald Scott retired from his function as CEO and left the Management Committee with effective date April 19, 2018. Günter Ditzinger left his function as Chief Technology Officer and the Management Committee as of April 30, 2018.

David Veitch, Chief Executive Officer | Nationality: British | Year of Birth: 1965
David Veitch has been Chief Executive Officer of Basilea since 2018.
Mr. Veitch joined Basilea in 2014 as Chief Commercial Officer. Before that, from 2012 to 2013, he served as the president of European operations at Savient Pharmaceuticals. From 2007 to 2011, he served as senior vice president of European marketing & brand commercialization at Bristol-Myers Squibb Pharmaceuticals. From 2004 to 2007, he was vice president & general manager UK at Bristol-Myers Squibb Pharmaceuticals. Prior to this Mr. Veitch held various general management and commercial roles in Bristol-Myers Squibb Pharmaceuticals and prior to that with SmithKline Beecham Pharmaceuticals.
Mr. Veitch holds a B.Sc. in Biology from the University of Bristol.

Marc Engelhardt, M.D., Chief Medical Officer | Nationality: German and American | Year of Birth: 1964
Marc Engelhardt, M.D., has been Chief Medical Officer of Basilea since 2018. He is a member of the Management Committee of Basilea.
Mr. Engelhardt previously held the position of Head of Development, leading Basilea's clinical research and development group. He joined Basilea in 2010 as Head of Clinical Research. Before that, he served as global program medical director at Novartis Pharma AG and held various positions with increasing responsibility at Bracco-Altana, Germany and Bracco Diagnostics, USA.
Mr. Engelhardt holds a medical degree and a Ph.D. from the University Frankfurt/Main and is board certified in internal medicine.

Gerrit Hauck, Ph.D., Chief Technology Officer | Nationality: German | Year of Birth: 1964
Gerrit Hauck, Ph.D., has been Chief Technology Officer of Basilea since 2018. He is a member of the Management Committee of Basilea.
Mr. Hauck joined Basilea from Sanofi, where he held various technical operations and management functions during his 24-year career at Sanofi and its predecessor companies, including formulation development, plant management and global CMC leadership. Most recently he was cluster head synthetic molecules, overseeing most of Sanofi's technical development programs for synthetic molecules from pre-clinical candidates to launch. Since January 2012 he was a member of Sanofi's research stage gate committee, which was responsible for the transition of candidate molecules from research into development.
Mr. Hauck graduated as a pharmacist from the University of Heidelberg and holds a Ph.D. from Saarland University.

Adesh Kaul, Chief Corporate Development Officer | Nationality: Swiss | Year of Birth: 1974

Adesh Kaul, has been Chief Corporate Development Officer of Basilea since 2018. He is a member of the Management Committee of Basilea.

Mr. Kaul previously held the position of Head of Corporate Development. He joined Basilea in 2009 as Head Business Development & Licensing, Investor Relations and as Head Public Relations & Corporate Communications. From 2015 to 2016, he held the positions of CFO and head corporate development at Polyphor AG. From 2006 to 2009 Mr. Kaul was senior financial analyst at Neue Zürcher Bank and before that he held several senior executive positions in general management and in sales & marketing at Genedata AG.

Mr. Kaul holds master's degrees in economics and in biochemistry from the University of Basel, and an Executive MBA from the University of St. Gallen.

Laurenz Kellenberger, Ph.D., Chief Scientific Officer | Nationality: Swiss | Year of Birth: 1967

Laurenz Kellenberger, Ph.D., has been Chief Scientific Officer of Basilea since 2009. He is a member of the Management Committee of Basilea.

Mr. Kellenberger joined Basilea in 2000 and held several leadership positions in research management with responsibilities for key projects from lead finding and optimization through to preclinical development, including as Head of Chemistry. He started his career as a researcher at the University of Cambridge and at F. Hoffmann-La Roche, where he held different positions in preclinical research and chemical technologies.

Mr. Kellenberger holds a Ph.D. in Organic Chemistry from the Swiss Federal Institute of Technology Zurich (ETH Zürich) and is author of numerous scientific publications.

Donato Spota, Chief Financial Officer | Nationality: German and Italian | Year of Birth: 1971

Donato Spota has been Chief Financial Officer of Basilea since 2013. He is a member of the Management Committee of Basilea.

Mr. Spota joined Basilea in 2002 and held several leadership positions in Finance, including Global Head of Finance & Services and Head of Global Controlling. Prior to joining Basilea, Mr. Spota held positions in financial planning and controlling at F. Hoffmann-La Roche, Basel, in the area of pharma global informatics.

Mr. Spota has a degree in Information Technology from the Swiss BBT (Bundesamt für Berufsbildung und Technologie) and holds a master's degree in business administration from the Hochschule für Wirtschaft und Umwelt Nürtingen-Geislingen.

In addition to the above-mentioned members of Management Committee, the Extended Management Committee (EMC, not part of the Management Committee as per the SIX Swiss Exchange Directive on Information relating to Corporate Governance) is appointed by and reports to the CEO. As of December 31, 2018, the EMC comprises Ursula Eberhardt, Head of Global Human Resources, Damian Heller, General Counsel & Corporate Secretary, and Anne Stehlin, Head of Global Quality Management.

A description of each EMC's member's nationality, business experience, and education is outlined below:

Ursula Eberhardt, Head of Global Human Resources | Nationality: Swiss | Year of Birth: 1962
Ursula Eberhardt has been Head of Global Human Resources of Basilea since 2017. She is a member of the Extended Management Committee of Basilea.
Mrs. Eberhardt joined Basilea in 2006 and held various leadership positions in Human Resources, including Deputy Head of Global Human Resources. Prior to joining Basilea, she worked in various marketing, communications and administration positions at Barclays Bank Ltd, Zurich and Dubach Advertising Agency.
Ms. Eberhardt holds a Swiss Federal Diploma in Marketing Communication and a Swiss Advanced Federal Diploma of Higher Education in Human Resources Management.

Damian Heller, General Counsel & Corporate Secretary | Nationality: Swiss | Year of Birth: 1966
Damian Heller has been General Counsel & Corporate Secretary of Basilea since 2017. He is a member of the Extended Management Committee of Basilea.
He joined Basilea in 2015 as Deputy General Counsel and Global Compliance Officer. Prior to joining Basilea, he worked for 20 years in the field of Legal, Compliance and Corporate Governance and held several leadership positions, including Director of the Basel Institute on Governance, Global Compliance Officer of Novartis Pharma AG and Corporate Secretary of Syngenta AG.
Mr. Heller holds a master's degree in Law from the University of Basel and a master's degree in Business Administration from the University of Rochester, New York.

Anne Stehlin, Ph.D., Head of Global Quality Management | Nationality: French | Year of Birth: 1976
Anne Stehlin, Ph.D., has been Head of Global Quality Management of Basilea since 2018. She is a member of the Extended Management Committee of Basilea.
Ms. Stehlin joined Basilea in 2018 as Deputy Head of Global Quality Management. Prior to joining Basilea, during her 13-year career at Novartis she held several positions with increasing responsibilities within Novartis Technical Operations, most recently as global head product quality lifecycle management at Novartis Pharma AG.
Ms. Stehlin is a certified pharmacist and holds a Ph.D. in Pharmaceutical Sciences from the University of Strasbourg.

Apart from the information given above, there are no other activities of the members of the Management Committee or Extended Management Committee in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, permanent management and consultancy functions for important Swiss and foreign interest groups as well as official functions and political posts.

Article 26 of Basilea's articles of association (available online at www.basilea.com/articles-of-association) provides the following with respect to permissible mandates of members of the Management Committee:

- No member of the Management Committee may hold more than five additional mandates and whereof not more than one mandate in listed companies.
- The following mandates are not subject to these limitations:
  - mandates in companies which are controlled by Basilea or which control Basilea;
  - mandates which a member of the Management Committee holds by order and on behalf of Basilea or companies under its control; and
  - mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Management Committee shall hold more than ten such mandates.

The articles of association only concern mandates in the supreme governing body of a legal entity which is required to be registered in the Commercial Register or a similar foreign register. Further, multiple mandates in different legal entities which are under joint control are deemed one mandate.

Management contracts

There are no management contracts between Basilea and any third parties.

Compensation, shareholdings and loans

Content and method of determining Board and Management compensation and the shareholding programs

For content and method of determining Board and Management compensation and the shareholding programs please see the Compensation Report on pages 64 to 71.

Shareholder participation

Voting rights and representation restrictions

Each share entitles a holder to one vote, regardless of the share's nominal value. The shares are not divisible. The right to vote and the other rights of share ownership may only be exercised by shareholders (including any nominees) or usufructuaries ("*Nutzniesser*") who are entered in the share register ("*Aktienbuch*") at the cut-off date determined by the Board of Directors. No exceptions from these restrictions were granted in 2018.

Those entitled to vote in the general meeting of shareholders may be represented by the independent proxy (annually elected by the general meeting of shareholders) or any other person with written authorization to act as the shareholder's representative.

Subject to the registration of shares in the share register within the deadline set by the Board of Directors before each annual general meeting of shareholders, Basilea's articles of association do not impose any restrictions on the voting rights of shareholders. Specifically, there is no limitation on the number of voting rights per shareholder.

For further information on the conditions for registration in the share register (including in relation to nominees) and for attending and voting at a general meeting of shareholders, please refer to the sections "limitations on transferability of shares and nominee registrations" on page 40 and "registration in the share register" on page 59.

A shareholder resolution with a qualified majority of at least two-thirds of the votes represented as well as the absolute majority of the nominal value of the shares represented at a general meeting of shareholders is required for the creation of shares with privileged voting rights.

Statutory quorums

Shareholder resolutions and elections (including the election of members of the Board of Directors) require the affirmative vote of the absolute majority ("*absolutes Mehr*") of shares represented at the general meeting of shareholders, unless otherwise stipulated by law or the articles of association.

A resolution of the general meeting of the shareholders passed by two-thirds of the shares represented at the meeting, and the absolute majority of the nominal value of the shares represented is required for:

- amending the Company's corporate purpose;
- creating or cancelling shares with preference rights or amending rights attached to such shares;
- cancelling or amending the transfer restrictions of shares;
- creating authorized or conditional share capital ("*genehmigte oder bedingte Kapitalerhöhung*");
- increasing the share capital out of equity, against contributions in kind ("*Kapitalerhöhung aus Eigenkapital gegen Sacheinlage*") or for the purpose of acquiring specific assets ("*zwecks Sachübernahme*") and granting specific benefits;
- limiting or withdrawing shareholders' pre-emptive rights;
- changing the domicile of the Company;
- dissolving or liquidating the Company; or
- the amendment of the articles of association with respect to the limitation of the acquisition of own shares with voting right, the transformation of registered shares into bearer shares, and the amendment of the provision that provides for the increased voting requirements for these two matters.

The same or, in certain instances, even more restrictive voting requirements apply to resolutions regarding transactions among corporations based on Switzerland's Federal Act on Mergers Demergers, Transformations and the Transfer of Assets (Merger Act) (including a merger, demerger or conversion of a corporation).

The general meeting of shareholders may at any time convert registered shares into bearer shares into registered shares through an amendment of the articles of association.

Convening of shareholders meetings and agenda items

The general meeting of shareholders is the supreme corporate body of Basilea. The ordinary general meeting of shareholders must be held annually and within six months of the end of a corporation's financial year. In case of Basilea, this means the ordinary general meeting must be held annually on or before June 30.

The general meeting of shareholders is convened by the Board of Directors by way of a notice appearing in Basilea's official publication medium, currently the Swiss Official Gazette of Commerce ("*Schweizerisches Handelsamtsblatt*") at least 20 days before the date of the meeting. Registered shareholders may also be informed by ordinary mail. The notice of the general meeting of shareholders must state the date, time, and place of the general meeting as well as the agenda items, the proposals to be acted upon and, in case of elections, the names of the nominated candidates.

An extraordinary general meeting of shareholders may be called by a resolution of the Board of Directors or, under certain circumstances, by the Company's auditor, liquidator or the representatives of convertible bond holders, if any. In addition, the Board of Directors is required to convene an extraordinary general meeting of shareholders if shareholders representing at least ten percent of the share capital request such general meeting of shareholders in writing. Such request must set forth the agenda items and the proposals to be acted upon. The Board of Directors must convene an extraordinary general meeting of shareholders and

propose financial restructuring measures if, based on the Company's stand-alone annual statutory balance sheet, half of the share capital and reserves are not covered by the assets. Extraordinary general meeting of shareholders can be called as often as necessary, in particular, in all cases required by law.

Pursuant to Swiss law and Article 7 of the articles of association (available online at www.basilea.com/articles-of-association), one or more shareholders whose combined shareholdings represent the lower of (i) one tenth of the share capital or (ii) an aggregate nominal value of at least CHF 100,000, may request that an item be included in the agenda for an ordinary general meeting of shareholders. To be timely, the shareholder's request must be received at least 45 calendar days in advance of the meeting. The request must be made in writing and contain the agenda items as well as the proposals of the shareholders for the respective agenda items.

Registration in the share register

The Board of Directors determines the relevant deadline for registration in the share register giving the right to attend and to vote at the general meeting of shareholders ("*Stichtag*"). Such deadline is published by Basilea in the Swiss Official Gazette of Commerce and the Company's website, usually in connection with the publication of the invitation to the general meeting of shareholders.

In 2018, the deadline for registration in the share register in order to participate and to vote at the ordinary general meeting of shareholders of April 18, 2018 was April 10, 2018.

The registration deadline for the ordinary general meeting of shareholders to be held on April 10, 2019 has been set as April 2, 2019.

Basilea has not enacted any rules on the granting of exceptions to these deadlines.

For further information on the registration in the share register, please refer to the section "limitations on transferability of shares and nominee registrations" on page 40.

Changes of control and defense measures

Duty to make an offer

The shares are listed on the SIX Swiss Exchange. Therefore, the Financial Market Infrastructure Act (FMIA) applies to the shares. The FMIA provides that any person that acquires the shares, directly or indirectly, and thereby exceed the threshold of 33 1/3% of the voting rights (whether exercisable or not) attributable to all of the shares, must submit a takeover bid to acquire all of the shares. This rule also applies to persons acting in concert to acquire the shares, and their holding is aggregated to measure whether they reached the mandatory bid threshold. Basilea's articles of association do not provide for an exemption (opting out or opting up) from such mandatory bid rules.

Clauses on changes of control

Basilea's stock option plan contains provisions in respect of changes to Basilea's shareholder base (so called "material changes"). The material change definition in

the stock option plan includes a change of control over the Company; a sale of all or substantially all assets of the Company; a merger or similar agreement which results in the Company being dissolved or in the Company's shareholders prior to such agreement not continuing to be the controlling shareholders of the Company; a delisting from SIX Swiss Exchange or any dissolution and liquidation of the Company. The change of control definition includes the launch of any offer for the shares of the Company, which exceeds the mandatory offer threshold of 33 1/3% of all shares of the Company, if such offer becomes, subject only to conditions subsequent, unconditional.

In case of a material change, the provisions of the stock option plan cannot be changed to the detriment of the option holders, and all unvested stock options held by all option holders, including but not limited to stock options held by members of the Board of Directors and of the Management Committee, vest and all vested options are exercisable.

In such a case, Basilea will use its commercially reasonable best efforts to provide for a cashless exercise and provide for the difference in the share price realized in such cashless exercise and the price offered for the underlying shares. Alternatively, Basilea will use its commercially reasonable best efforts to procure that the offeror will offer to purchase the options. The stock option plan provides, however, that any increase in fair value of the stock options and stock appreciation rights due to accelerated vesting will not accrue to any members of the Management Committee or the Board of Directors.

In addition, in such a case, with regard to all employment agreements of indefinite nature (except for those of members of the Management Committee), the period for terminations for any cause by the Company, will automatically and immediately be extended to 12 months. In the event of any material change of the particulars of the contract regarding the position and location, Management Committee members have the right to terminate employment with notice as provided in their contracts and other employees have the right to terminate employment with immediate effect resulting in a payment of the amount of an annual salary by the Company.

In this regard, material change means a planned downgrading of more than one level in terms of position. In terms of work place, any location outside the greater Basel area is considered material.

No other change of control provision exists for the benefit of members of the Board of Directors or of the Management Committee.

Auditors

Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers is the statutory auditor of Basilea. PricewaterhouseCoopers has held the function of statutory auditor since inception of Basilea on October 17, 2000, and acts as group auditor since 2002. Since September 1, 2015, the lead auditor of Basilea is Mr. Bruno Rossi. The Audit Committee ensures that the position of the lead auditor is changed at least every seven years.

Auditing fees

In 2018, PricewaterhouseCoopers charged the Company auditing fees in the amount of CHF 200,204 (2017: CHF 212,305). No further auditing services were provided in 2018 and 2017.

Additional fees

In 2018, PricewaterhouseCoopers rendered consulting services related to a reporting and publishing application to the Company in the amount of CHF 34,200 (2017: CHF 109,000).

Information instruments of the auditors

The Board of Directors has delegated the task of supervising the auditors to the Audit Committee. The Audit Committee meets with the external auditors at least twice a year related to the half-year review and the full-year audit. In 2018, the Audit Committee met with the auditors three times to discuss the scope and results of their year-end audit for 2017, the scope of the 2018 audit as well as the scope and results of their review of the half-year financial statements.

Information policy

Basilea publishes financial results twice a year in the form of an annual report and a half-year interim report. In addition, Basilea informs shareholders and the public about the Company's business through press releases, conference calls and roadshows. Where required by law or Basilea's articles of association, publications are also made in the Swiss Official Gazette of Commerce.

The annual report is customarily published within three months of the end of the financial year, while the interim report is customarily published within two months of the end of the half-year reporting period. Key financial figures for each reporting period are disclosed in a press release for that period. Both, the report and the related press release are usually published on the same day. The intended release dates for the annual and interim report will be posted in the investors calendar on Basilea's website (www.basilea.com/calendar) at the latest six months prior to the event.

The annual report may be sent in printed form to all registered shareholders. Annual reports, interim reports and press releases can be obtained free of charge in either German or English upon request and are also made available on the Company's website.

Basilea's website is the permanent source of information for investors and stakeholders. It also provides information on the Company's products, research and development programs as well as contact information. In addition, it includes an investors calendar with information on events such as general meetings of shareholders, publication dates of half- and full-year financials, and information on investor conferences where Basilea is presenting. The investors calendar is continuously updated throughout the financial year.

The Company provides general guidance to support the investment community and the public in their assessment of the Company and its business prospects.

The Company's investor relations department is available to respond to queries from shareholders or potential investors by email to investor_relations@basilea.com or via post to Basilea Pharmaceutica International Ltd., Investor

Relations, P.O. Box, 4005 Basel, Switzerland. Additionally, investor relations inquiries may also be made by phone to +41 61 606 1102.

A subscription service to Basilea's press releases is provided at www.basilea.com/subscription.

Ethical business conduct

The Company is committed to the highest standards of ethical business conduct. As a biopharmaceutical company, the Company is operating in a highly regulated business environment. Strict compliance with all legal and health authority requirements, as well as requirements of other regulators, is mandatory. To fulfill these goals, the Board of Directors issued a Code of Conduct (available online at www.basilea.com/code-of-conduct). The Code of Conduct sets forth the Company's policy embodying the high standards of business ethics and integrity required of all employees, contractors and agents when conducting business affairs on behalf of the Company. The Company's internal Compliance Committee is comprised of representatives of the Company's assurance functions to oversee and coordinate compliance. The Company is committed to complying with the spirit and letter of all applicable laws and regulations where the Company engages in business.

Table of Contents

Compensation Report

Report of the statutory auditor on the compensation report

Report of the statutory auditor to the General Meeting of Basilea Pharmaceutica Ltd., Basel

We have audited pages 80 to 82 of the Compensation Report of Basilea Pharmaceutica Ltd. for the year ended December 31, 2018.

Board of Directors' responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on the 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 compensation, as well as assessing the overall presentation of the Compensation Report.

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

Opinion

In our opinion, the Compensation Report of Basilea Pharmaceutica Ltd. for the year ended December 31, 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Bruno Rossi
Audit expert
Auditor in charge

Stephen Johnson

Basel, February 14, 2019

Letter from the Chairman of the Compensation Committee

Dear Shareholders,

I am pleased to share with you Basilea's Compensation Report for the financial year 2018.

2018 was a year of significant leadership changes at Basilea. As a result of the Board's succession planning, we were pleased to appoint David Veitch as Basilea's new CEO, upon the retirement of Ronald Scott. Basilea made additionally three new appointments to the Management Committee during the period; Marc Engelhardt, Chief Medical Officer, Adesh Kaul, Chief Corporate Development Officer, and Gerrit Hauck, Chief Technology Officer. Ronald Scott was elected as a new member of the Board of Directors at the Annual General Meeting of shareholders in April 2018. Thomas M. Rinderknecht and Daniel Lew did not stand for re-election as Board members at the 2018 Annual General Meeting.

Due to the focus of the organization and its leadership, Basilea achieved its key Company goals for 2018:

- **Revenues:** Basilea's revenues from commercialization partnerships for its marketed anti-infectives Cresemba and Zevtera were significantly increased by 56% to CHF 82 million including a sales milestone of CHF 10 million from licensing partner Astellas, based on the continued impressive Cresemba sales in the U.S.

- **Portfolio development:** The Company remained focused on innovation and thus expanded its product portfolio by in-licensing the worldwide rights (excluding the People's Republic of China, Hong Kong, Macao and Taiwan) to the clinical-stage oncology drug candidate derazantinib from ArQule, Inc. In addition, the Company in-licensed the worldwide rights to a series of pre-clinical stage oncology compounds, which have the potential to become "first-in class" cancer medications. These strategic investments were made to support sustainable growth and future value creation of the Company for the benefit of its investors, employees and patients.

- **Research & development:** Basilea continued to significantly advance its pipeline. Most importantly the Company initiated two clinical phase 3 studies which are required for gaining regulatory approval for ceftobiprole in the United States. The pediatric studies for Cresemba and Zevtera were also advanced and completion will lead to extended market exclusivity for Cresemba in Europe and the U.S. In addition, Basilea secured significant additional non-dilutive funding for a development project.

Despite the significant revenue growth of the commercial-stage assets and progress made in advancing and expanding the pipeline, the share price development did not reflect the Company's significant achievements. I remain confident that the members of Basilea's Management Committee, supported by the Board, will draw upon their extensive experience and proven skills to build a successful business for the future that will be reflected in the creation of long-term sustainable shareholder value.

In 2018, the shareholders supported the Board's compensation proposals for 2018/2019 by approving the proposed compensation budget for the Board of Directors and the Management Committee at the Annual General Meeting. Shareholders also approved the Management Committee's variable compensation for financial year 2017 in a non-binding advisory vote. I would once again like to offer my thanks to our shareholders for their continued support.

During 2018, the Compensation Committee continued to review and monitor Basilea's compensation policy and programs on an ongoing basis in order to ensure their alignment with the Company's business strategy and with the long-term interests of our shareholders. External factors such as regulatory and legal developments and benchmarking data as compared to similar companies were also taken into account. Throughout the year, the Compensation Committee undertakes regular performance-related activities including performance goal setting at the beginning of the year and performance assessment at year-end. It also assesses Board members' and the Management Committee's compensation, prepares the Compensation Report and proposes the budget for shareholders' say-on-pay vote at the Annual General Meeting.

Long-term compensation in the form of employee stock options continues to be an important component of the Management Committee's and key employees' compensation. Employee stock options are an adequate and effective form of long-term compensation for a company of Basilea's stage of development and an important component to incentivize and retain key employees. However, to cap the potential dilutive effect of employee stock options to below 10% of the share capital on a fully diluted basis, the Board decided in 2018 to amend the Company's long-term incentive plan. The new rules entitle the Board to decide on the application of either gross or net share settlement of employee stock options. The application of net share settlement provides control over the maximum potential dilution related to all outstanding employee stock options and ensures that such potential dilution will be limited.

Further information on the activities of the Compensation Committee and on Basilea's compensation system and governance can be found on the following pages. Basilea strives to maintain a high level of transparency by disclosing to shareholders detailed and comprehensive information on company goals, performance criteria and compensation.

It is the opinion of the Compensation Committee that this Compensation Report complies with regulatory requirements and provides a comprehensive view of Basilea's compensation policy and programs. The Compensation Committee and the Board remain committed to providing compensation policies and packages that are performance based and align the interests of our employees and our shareholders.

Martin Nicklasson

Chairman of the Compensation Committee

This Compensation Report provides the information required by the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). It also includes the compensation-related disclosures as required by the Directive on Information relating to Corporate Governance issued by the SIX Swiss Exchange and the Swiss Code of Best Practice for Corporate Governance.

Compensation principles

Core principles

For the Company's short- and long-term success, Basilea's compensation approach is fundamental to attract, incentivize and retain Management Committee members and employees with exceptional skills:

- We offer competitive compensation. Our compensation considers the market practice of our peer group as we compete for talented employees with other companies in the sector.
- We aim for the median. Median values are used as reference point for Basilea's compensation packages.
- We reward performance. Both company performance and individual performance are evaluated and rewarded.
- We balance our compensation packages. Compensation components are balanced between rewarding short-term achievements and long-term value creation.
- We aim for commitment to long-term success. The long-term incentive plan is linked to the Company's long-term success and aligns the Management Committee's compensation with the interests of shareholders.
- We guard against risk. Management Committee members are protected against risks through appropriate pension and insurance plans.

Basilea can only achieve its goals with dedicated, experienced and highly motivated employees who are committed to Basilea's company values and who deliver outstanding performance. Basilea's compensation structure closely links overall compensation to sustainable value creation through a balanced mix of fixed and variable elements and is committed to a pay-for-performance approach that ties compensation to the achievement of the financial, operational and strategic goals of the Company. It includes elements such as base salary, pensions and other benefits, as well as a combination of short-term incentives such as bonuses and long-term incentives in the form of stock options. The compensation of the members of the Board of Directors does not include performance-related elements.

Compensation evaluation & benchmarking practice

The compensation of the members of the Board of Directors and of the Management Committee is reviewed annually by the Compensation Committee.

The Compensation Committee makes recommendations to the Board of Directors regarding the compensation of the members of the Board of Directors and the Management Committee, the compensation policies covering the Management Committee and the Company's employees, and the Company's stock option plan. Under the Company's compensation policies, the Board may decide to adjust employees' salaries on an annual basis depending on the Swiss inflation rate and the overall reported salary increases in the pharmaceutical industry in the greater Basel area in which Basilea operates. In addition, the Board may adjust the salaries of Management Committee members if there is a change in responsibility or

based on performance. Increases in salary for the Management Committee are generally expected to be low and in line with general increases across the broader workforce.

In its 2018 review of Management Committee compensation, the Compensation Committee considered the professional experience and areas of responsibility of each Management Committee member and also took into account compensation packages of other companies in the biotech and pharmaceutical industry in Switzerland and Europe that are comparable to Basilea with respect to size or business model. As in prior years, the Compensation Committee engaged an independent consulting firm (Towers Watson) to provide compensation benchmarking services and specifically to conduct a comprehensive benchmarking analysis on executive compensation as compared to relevant peers in the healthcare sector across different geographical markets. The compensation level of the CEO and Management Committee members was evaluated by Towers Watson according to its Global Grading System (GGS), taking into consideration company criteria such as size, complexity, responsibility and geographic scope. This independent evaluation found that the base salary and the total direct compensation of the CEO and the Management Committee members were generally at the median of the peer group. The evaluation further found that the performance-related bonus opportunities for the CEO and the Management Committee members were slightly below the market median.

In addition, the Compensation Committee also engaged HCM International Ltd. (HCM) to provide advice regarding Basilea's long-term incentive plan which is currently stock option-based. The Committee asked HCM to evaluate trends in the design of equity compensation practices among Swiss and European bio- and med-tech companies. Basilea currently provides a significant part of the variable compensation of the CEO and the Management Committee members in the form of stock options which cannot be exercised during the vesting period and have no cash value unless the Company's share price increases over the share price on the grant date, thereby aligning management's and shareholders' interests.

Basilea's long-term incentive plan was amended in order to limit potential dilution and to strengthen the link between remuneration and performance by introducing net share settlement and performance-adjusted option grant sizes respectively. More information on these changes as well as any potential upcoming changes that are being considered by Basilea can be found under the section "Forward Looking Compensation Topics" (page 79).

Compensation governance

Rules in the Articles of Association

Articles 18 and 25 of the Articles of Association (which are published on www.basilea.com/articles-of-association) contain the basic compensation rules applicable to the Board of Directors and the Management Committee:

- Compensation may be paid or granted to the Board of Directors and the Management Committee in the form of cash, shares, and similar financial instruments and/or units. The Management Committee may be granted employee stock options.
  The Board of Directors has decided not to include shares and similar financial instruments and/or units in its compensation.
- The Board of Directors and the Management Committee may be paid variable compensation, depending on the achievement of certain performance criteria.

The Board of Directors has decided not to include performance-related variable elements in its compensation.

- Variable compensation: The performance criteria relating to variable compensation may include individual targets, targets of the Company or parts thereof and targets in relation to the market, other companies or comparable benchmarks, taking into account the position and level of responsibility of the recipient of the variable compensation. The Board of Directors or, where delegated to it, the Compensation Committee determines the performance criteria and the respective target values.
- Employee stock options: The Board of Directors or, where delegated to it, the Compensation Committee shall determine the terms of employee stock options, including grant, forfeiture, vesting and exercise conditions. The Company may procure the required shares through purchases on the market or by an increase of its share capital from conditional capital.
- In case a new or additional member of the Management Committee is appointed after the maximum aggregate amount of compensation for the Management Committee has been approved by the general meeting of shareholders and such aggregate amount is not sufficient to cover the compensation of a new or additional member, the Articles of Association provide for a supplementary amount which shall not exceed 40% of the aggregate amount of compensation approved by the general meeting of shareholders.

Article 6 of the Articles of Association (which are published on www.basilea.com/articles-of-association) provides the following compensation competences to the general meeting of shareholders:

- The approval of the maximum aggregate amount of compensation for the Board of Directors for the prospective period from one general meeting to the following general meeting of shareholders;
- The approval of the maximum aggregate amount of fixed compensation for the Management Committee for the period from July 1 of the current year to June 30 of the next year;
- The approval of the maximum aggregate amount of variable compensation for the Management Committee for the period from January 1 to December 31 of the current year.
- Those approvals require an absolute majority (more than 50% of the shares represented at the general meeting of shareholders). It should be noted that the time periods of the compensation budgets subject to shareholder approval differ from the reporting period covered in this Compensation Report (financial year 2018).

In addition to its non-transferable and irrevocable duties, Article 15 of Articles of Association (which are published on www.basilea.com/articles-of-association) provides additional compensation competences to the Board of Directors:

- The Board of Directors may submit for approval by the general meeting proposals in relation to maximum aggregate amounts of compensation relating to different periods, in relation to amounts for specific compensation elements for the same or different periods, and in relation to contingent amounts.
- In the event a proposal of the Board of Directors has not been approved by the general meeting of shareholders, the Board of Directors shall determine, taking into account all relevant factors, the respective maximum aggregate amount of compensation or partial maximum amounts for specific compensation elements, and submit the amount(s) so determined for approval by a general meeting.
- The Company or companies under its control may pay out compensation prior to approval by the general meeting subject to subsequent approval.

Compensation Committee

The Compensation Committee consists of up to three independent and non-executive members of the Board of Directors only, and all members of the Committee are individually elected by the shareholders at each General Meeting. The Compensation Committee currently consists of Martin Nicklasson as Chairman with Thomas Werner and Steven D. Skolsky as members.

The Compensation Committee supports the Board of Directors in developing, establishing and reviewing the Company's compensation strategy and guidelines as well as performance criteria and targets.

After each meeting, the Chairman of the Compensation Committee reports to the Board of Directors on the Committee's activities and recommendations. The minutes of the Compensation Committee meetings are provided to all members of the Board of Directors.

Compensation approval process

Topic	CEO	Compensation Committee	Board of Directors	AGM
Compensation policy and guidelines in line with Basilea's Articles of Association		Proposes	Approves	
Maximum aggregate amount of compensation for the Board of Directors and the Management Committee		Proposes	Endorses	Approves
Actual aggregate amount of the Management Committee's variable compensation of the previous period.		Proposes	Approves	Non-binding advisory vote
Individual compensation of the members of the Board of Directors		Proposes	Approves	
Individual compensation of the CEO		Proposes	Approves	
Individual compensation of the other members of the Management Committee	Proposes	Endorses	Approves	
Plan design and grant of long-term incentives	Proposes	Endorses	Approves	

Compensation structure & design

Board of Directors compensation

The compensation for members of the Board of Directors consists of:
- a fixed annual cash compensation for service on the board for the elected term from one general meeting of shareholders to the next;
- a meeting fee per Board meeting attended;
- a Committee membership fee;
- the payment of social security contributions, where such contributions apply; and
- reimbursement of board-related out-of-pocket expenses.

The members of the Board of Directors are not entitled to any performance-based compensation, nor do they participate in the employee stock option plan. No additional fees are paid for committee chairmanship.

The following compensation has been paid to the Board in the period from the general meeting of shareholders 2018 (AGM 2018) to general meeting of shareholders 2019 (AGM 2019):

In CHF	AGM 2018 to AGM 2019
Chairman of the Board of Directors	
Fixed compensation	238 363
Board meeting fee [1]	9 375
Committee membership fee [2]	7 875
Members	
Fixed compensation	150 382
Board meeting fee [3]	6 250
Committee membership fee [2]	5 250

1 Fee per meeting attended with the maximum cumulative amount paid for meeting attendance limited to CHF 46,875 from AGM to AGM.
2 Fee per board committee membership.
3 Fee for each board meeting attended with the maximum cumulative amount for meeting attendance limited to CHF 31,250 from AGM to AGM.

For further information on the compensation for the members of the Board of Directors, please refer to the section “Disclosure of the compensation for the Board of Directors” on page 80.

Management Committee compensation

Compensation system

The compensation of the members of the Management Committee includes a base salary, performance-related cash bonus, long-term incentive (currently in the form of stock options), pension plan contributions, certain disability insurance, and eligibility for special performance awards for exceptional performance. The total Management Committee compensation is limited by the aggregate amount of compensation approved by the general meeting of shareholders.

Elements of Management Committee members' compensation

Element	Paid in form of	Purpose	Performance measures
Base salary	Cash (paid out monthly)	Attract and retain	Role and experience; periodic increase based on performance and/or market trend
Performance-related cash bonus	Cash (paid out annually in the following year)	Align management and Company goals and pay for performance	Company and individual performance
Special bonus	Cash (within a budget set annually by the Board of Directors and according to its guidance)	Reward for successful performance on special projects outside of the usual scope of job responsibilities	Successful completion of project and achievement of an important Company goal
Long-term incentive plan (LTIP)	LTIP currently consists of stock options that vest in two tranches: 50% vest 3 years from grant date and 50% vest 4 years from grant	Foster long-term focus, retention and alignment to shareholders' interests	Individual performance aligned with shareholders' interests and Company and departmental goals
Indirect benefits	Pension contributions, insurance premiums, and allowances	Protection against risks	Market practice

Compensation elements

Base salary

Base salary is determined by the position, responsibilities, experience and skills of each Management Committee member. The Compensation Committee reviews Management Committee members' base salaries at the beginning of each year, taking into account individual performance, with any changes in base salaries becoming effective as of April each year. Base salaries may be further adjusted throughout the year as deemed necessary by the Board, for example due to an increase in responsibilities. Increases in base salary for the Management Committee are generally expected to be low and in line with general increases across the broader workforce.

Performance-related cash bonus

Performance related cash bonuses vary annually and are based on the achievement of Company goals, individual contributions to Company goals, and on department objectives. Target bonuses ranging from 35 % to 50 % of the respective base salaries are included in each Management Committee member's employment contract. Actual cash bonuses are capped at 140% of the target bonus for the CEO and 130% of the target bonus for other Management Committee members.

The amount of each Management Committee member's bonus payment is determined by the Board of Directors upon recommendation of the Compensation Committee based on each Management Committee member's performance and contribution to achievement of the Company's goals. The CEO is not present when his own compensation is being determined by the Compensation Committee.

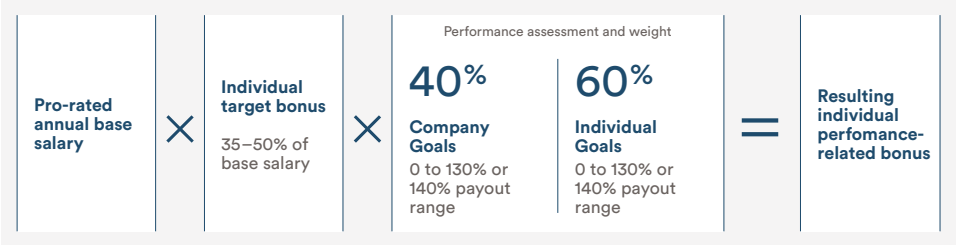
Special bonus

The Board of Directors annually approves a special bonus pool to allow the CEO to provide a one-off reward to recognize extraordinary performance by employees. Special bonuses are project related and the amount paid to an employee may vary from 1 to 4 weeks of salary. All employees are entitled to receive a special bonus if so determined by the CEO. The CEO will inform the Compensation Committee if special bonus payments are made to Management Committee members.

In 2018, a total of CHF 264'000 was paid out in the form of special bonuses to 31 employees.

Assessment and calculation of the performance-related cash bonus for the members of the Management Committee

Management Committee members' performance assessment is based on:



Company goals (40% of the target bonus): The Company goals used for performance evaluation of all Basilea employees in 2018 are linked to key value drivers with a combination of financial and non-financial Key Performance Indicators (KPIs):

- Financial KPIs are related to the financial performance of the Company, including revenues, upfront and milestone payments, and accessing of funding.
- Non-financial KPIs are related to achievement of operational milestones in the areas of portfolio development and research & development (such as advancement of clinical product candidates, completion of clinical trials, submission of marketing authorization and new drug applications, or product approvals), commercialization, manufacturing, and portfolio development.

Individual objectives (60% of the target bonus): Relate to the roles and responsibilities of the members of the Management Committee and are aligned with the Company strategy and annual Company goals and related to specific and measurable department objectives. The CEO's individual objectives are identical to the Company goals.

Capping: In the event that the Board of Directors determines that certain upside Company goals were achieved, or in case of extraordinary individual performance, the Company goal portion and the individual portion may be rated above 100%. This is to a maximum of 140% of the target amount for the CEO and 130% of the target amount for the rest of the Management Committee.

Overall company bonus: The Company-wide goals (40%) and the individual goals (60%) are the same for all employees. On an aggregate company level, the total individual portion of the performance-related cash bonus for all employees (excluding the CEO) cannot exceed 100% of the respective target amount.

Key company goals 2018

Financial KPIs	Non-financial KPIs
Revenues – Achieve budgeted product-related revenues	Research & development – Ceftobiprole: start both phase 3 studies necessary for gaining U.S. approval – Isavuconazole: advance pediatric investigation program – BAL101553: progress drug candidate to phase 2a expansion after completion of phase 1 – BAL3833: complete enrollment into phase 1 study – Advance internal oncology research pipeline Portfolio development – Expand clinical and pre-clinical oncology pipeline through in-licensing

2018 performance highlights

Basilea focuses on the discovery, development and commercialization of innovative medications to address the medical needs of patients with serious and life-threatening conditions. For 2018, the Board of Directors considered the achievement of the following financial and operating Company goals that support the execution of Basilea's strategic priorities when determining the performance-related cash bonus for the Management Committee members:

- Significantly increasing revenues from the commercialization partnerships for the marketed anti-infectives Cresemba (isavuconazole) and Zevtera (ceftobiprole) by 56% to CHF 82 million. Cresemba continued its impressive in-market sales growth triggering a sales milestone of CHF 10 million from licensing partner Astellas based on Cresemba sales in the U.S.
- Supporting Basilea's partners in launching Cresemba and Zevtera in additional countries in Europe, Canada, Latin America and the Middle East North Africa (MENA) regions well as supporting our partner's product development and regulatory activities related to marketing authorization applications in further countries around the world
- Expanding the clinical oncology pipeline by in-licensing the panFGFR-kinase inhibitor derazantinib and completing the transfer of the sponsorship for the ongoing registrational phase 2 study to Basilea
- Starting the two cross-supportive clinical phase 3 studies with ceftobiprole which are required for gaining regulatory approval of the antibiotic in the U.S.
- Advancing pediatric studies with Cresemba and Zevtera, which will upon completion, in accordance with the PIP "Binding Elements", lead to an extended market exclusivity in Europe and the U.S. for Cresemba.
- Moving tumor checkpoint controller BAL101553 into a phase 2a expansion study in glioblastoma and ovarian cancer after establishing the maximum tolerated dose (MTD) in the preceding phase 1

– Completing the first-in-human phase 1 dose-escalation study with the pan-RAF/SRC inhibitor BAL3833, conducted by Basilea's partner and co-licensor, the Institute of Cancer Research (ICR) in the U.K in conjunction with The Christie and Royal Marsden NHS Foundation Trusts and the Cancer Research UK Manchester Institute at The University of Manchester
– Further complementing our oncology pipeline by starting two additional internal oncology programs and by entering into a licensing and research collaboration on pre-clinical stage assets

Achievements 2018 company goals

KPI	Allocation	Achievement*
Portfolio development	35%	62.3%
Revenue	25%	36.5%
Research + development	40%	41.2%
Total	**100%**	**140.0%**

*Capped at 140% for CEO and at 130% for all other employees

Key company goals 2019

Financial KPIs

Revenues

– Achieve budgeted product-related revenues

Share price performance

– Outperform the SPI on an annual basis

Non-financial KPIs

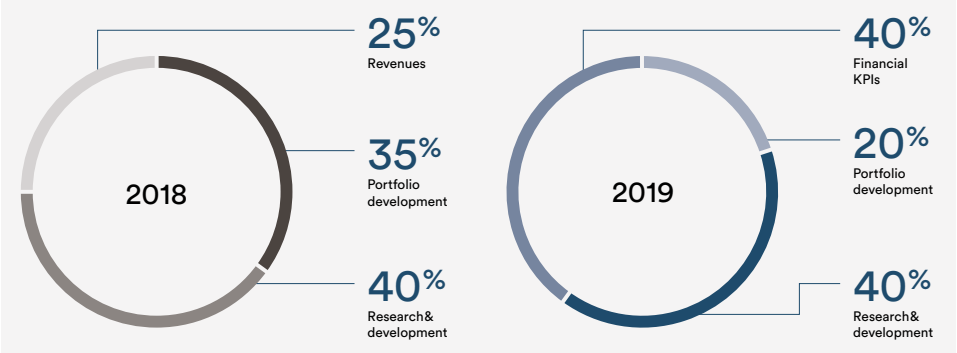
Research & development

– Derazantinib: Initiate phase 2 development in other FGFR-driven solid cancer types
– Ceftobiprole: Complete enrollment into ABSSSI study and meet enrollment targets into SAB study
– Isavuconazole: Initiate safety study of the pediatric investigation program

Portfolio development

– Expand clinical oncology portfolio and pre-clinical pipeline through in-licensing

A key strategic priority for Basilea in 2018 was to advance and expand its R&D portfolio as a prerequisite for supporting continued growth and sustainable shareholder value creation. While R&D portfolio development remains a key objective, the 2019 Company Goals put an equal weight on the achievement of financial targets such as revenues and share price development.



Long-term incentive plan

Equity incentives currently granted in the form of stock options are intended to focus members of the Management Committee and key employees on the mid- and long-term success of the Company. The plan is designed to reward performance in a manner that strongly aligns employees' interests with shareholders' interests and is also critical to enable the Company to attract and retain individuals with exceptional skills.

Key factors considered by the Board of Directors based on the recommendation of the Compensation Committee in the grant of stock options are:
- Benchmarks derived from the market and relevant companies;
- individual performance of the Management Committee members which is related to specific Company goals or department objectives;
- the amount of shareholder approved conditional capital; and
- the potential dilution impact of the granted stock options.

The general decision to grant stock options under the plan is a competence of the Board of Directors and is decided on an annual basis. The Board of Directors limited the number of annually granted stock options by approving an overall grant of no more than 1.51 % of the share capital on a fully diluted basis for 2018 (equal to the grant in 2017). No employee, including members of the Management Committee, is guaranteed to receive a set value in respect of his or her individual grant.

In 2018, the Board of Directors amended the plan to allow for net share settlement of stock options in order to significantly reduce potential dilution. The net share settlement of stock options will help to ensure that the maximum potential dilution related to all granted options remains below 10% of the share capital on a fully diluted basis.

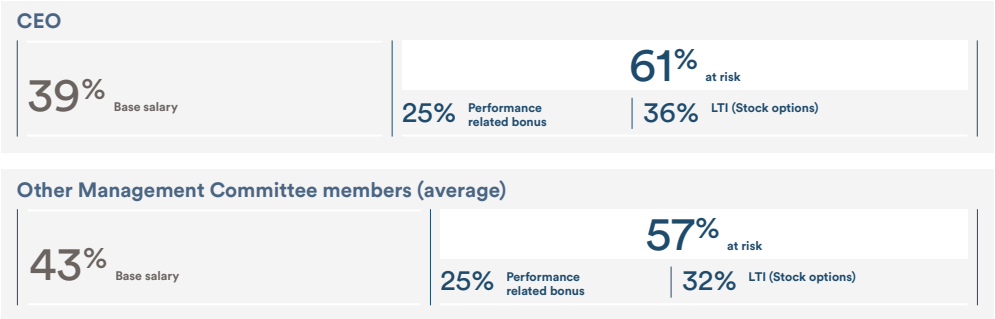
The strike price of the stock options equals the closing price of the Basilea shares on the Swiss Stock Exchange (SIX) on the grant date which is determined by the Board of Directors. The strike price of the options granted in the business year 2018 was CHF 67.50 (in 2017 it was CHF 85.70), with 50% of the options received vesting three years from the grant date and 50% of the options vesting four years from the grant date. The term of the stock option grant is 10 years. For the options issued in 2016 and thereafter, an employee's unvested options will be forfeited upon termination of employment by the Company or resignation by the employee; however, vested options may be exercised within 12 months of the termination date, after which time all vested options expire. In the event that employment ceases due to death or disability or in the event of retirement, unvested options will not forfeit and may be exercised when vested. For options issued in 2015 and prior years, an employee's unvested options are forfeited upon termination of employment resulting from notice provided by the employee to

the Company, or upon termination of employment by the Company for cause. The stock option program permits granting of stock options and/or stock appreciation rights; however to date only stock options have been granted.

There is no cash value of the options at grant, and the fair value of the stock options granted in 2018 was determined at the grant date using a binomial model as CHF 27.27 (in 2017 as CHF 35.84) per option. The assumptions used for the fair value calculation of options can be found on page 124. Stock options inherently incentivize shareholder value creation, since employees will receive no value unless the Basilea share price increases after the grant date.

Any value, income or other benefit derived from any stock option is not considered part of the participant's salary or compensation for the purposes of calculating any pension or retirement benefits.

Percentage of direct compensation at risk for the CEO and the other Management Committee members



The majority of compensation for each Management Committee member is at risk and dependent on the execution of our strategic priorities and achievement of Company goals and individual performance, with 61% of Basilea's CEO's compensation and 57% of the average compensation of all other active Management Committee members based on such performance and paid in the form of stock options and a performance-related cash bonus.

Indirect benefits

The Company contributes to the pension plan and maintains certain disability insurance for the members of the Management Committee. New members may be eligible for reimbursement of relocation costs, compensation for lost benefits or stock granted by a prior employer, and limited reimbursement of international school for children.

Loans and credits

The Company did not grant any loans, quasi-loan credits or guarantees to members of the Board of Directors or of the Management Committee in 2018 or 2017.

Employment conditions

The notice period of the employment agreements for the members of the Management Committee is 12 months and, during the notice period, variable compensation may be received, depending on Company and individual performance. Such compensation would be within the contractually established range for such member, as explained above. Members of the Management Committee are subject to the Standard Basilea Terms and Conditions for Basilea employees. Basilea has no contractual termination payment obligations to members of the Management Committee.

For further information on the compensation for the members of the Management Committee, please refer to the section “Disclosure of the compensation for the members of the Management Committee” on page 82.

Forward-looking compensation topics

In order for its Management Committee compensation approach to remain aligned to best practices and the interests of its shareholders, Basilea’s Compensation Committee continuously evaluates Basilea’s Management Committee compensation practices against market trends and discusses the use of alternative remuneration methods.

In 2018, the Board of Directors formalized the performance allocation criteria for the option grant size. Starting in 2019, the overall number of stock options for an annual grant will be linked to Company goal achievement of the previous year. At 100% Company goals achievement the grant size corresponds to a potential dilution level of 1.33%. The overall grant size will then be increased or decreased depending on the performance level of the Company and capped at the maximum of 1.53% potential dilution. Individual performance continues to define the number of stock options to be allocated to each participant.

In 2019, the following Management Committee compensation decisions are being considered:

- Replacing the current Stock Option-based long-term Incentive Plan with the use of Performance Share Units starting in 2021
- Introducing additional Key Performance Indicators to its long-term incentive plan
- Expressing the amount of long-term incentive income granted to Management Committee members as a fixed percentage of their base salary at target, threshold and maximum

Compensation disclosure

Disclosure of the compensation for the Board of Directors

The total compensation of the members of the Board of Directors in calendar years 2018 and 2017 are outlined below:

In CHF	Fixed compensation	Committee fees	Board meeting fees	Social security and other fringe benefits [9]	Total
2018					
Domenico Scala, Chairman [1]	238 363	7 875	46 875	36 825	329 938
Thomas Werner, Vice-Chairman [2]	150 382	9 188	31 250	24 631	215 451
Martin Nicklasson, Director [3]	150 382	10 500	31 250	39 771	231 903
Nicole Onetto, Director [4]	150 382	5 250	31 250	—	186 882
Ronald Scott, Director [5]	—	—	—	—	—
Steven D. Skolsky, Director [6]	150 382	9 188	31 250	—	190 820
Thomas M. Rinderknecht, Vice-Chairman [7]	37 596	2 625	—	14 154	54 375
Daniel Lew, Director [8]	37 596	1 313	—	8 743	47 652
Total	**915 083**	**45 939**	**171 875**	**124 124**	**1 257 021**

1 Domenico Scala is Chairman of the Board of Directors and Chairman of the Audit Committee.
2 Thomas Werner is Vice-Chairman of the Board of Directors since April 18, 2018. He is also a member of the Compensation Committee and since April 18, 2018 Chairman of the Corporate Governance Committee.
3 Martin Nicklasson is Chairman of the Compensation Committee and a member of the Audit Committee.
4 Nicole Onetto is a member of the Corporate Governance Committee.
5 Ronald Scott is a member of the Board of Directors and a member of the Corporate Governance Committee since April 18, 2018. Ronald Scott, the former CEO, continues to receive compensation during the remaining term of his employment contract. No additional compensation is paid for his board contribution. Please refer to the disclosure of compensation of the members of the Management Committee for further information.
6 Steven D. Skolsky is a member of the Compensation Committee and since April 18, 2018 a member of the Audit Committee.
7 Thomas M. Rinderknecht was the Vice-Chairman of the Board of Directors, the Chairman of the Corporate Governance Committee and a member of the Audit Committee until April 18, 2018.
8 Daniel Lew was a member of the Board of Directors and a member of the Corporate Governance Committee until April 18, 2018.
9 Includes the Company's and the Board members' contributions to social security, etc., where such contributions occur.

In CHF	Fixed compensation	Committee fees	Board meeting fees	Social security and other fringe benefits[7]	Total
2017					
Domenico Scala, Chairman[1]	238 363	7 875	46 875	36 825	329 938
Thomas M. Rinderknecht, Vice-Chairman[2]	150 382	15 500	37 500	26 129	229 511
Martin Nicklasson, Director[3]	150 382	11 813	31 250	40 043	233 488
Daniel Lew, Director[4]	150 382	5 250	31 250	18 375	205 257
Steven D. Skolsky, Director[5]	150 382	5 250	31 250	—	186 882
Thomas Werner, Director[5]	150 382	5 250	31 250	24 162	211 044
Nicole Onetto, Director[6]	112 787	3 938	31 250	—	147 975
Total	**1 103 060**	**54 876**	**240 625**	**145 534**	**1 544 095**

1 Domenico Scala is Chairman of the Board of Directors and Chairman of the Audit Committee.
2 Thomas M. Rinderknecht is Vice-Chairman of the Board of Directors. He is also Chairman of the Corporate Governance Committee and a member of the Audit Committee.
3 Martin Nicklasson is Chairman of the Compensation Committee and a member of the Audit Committee. He was also a member of the Corporate Governance Committees until April 27, 2017.
4 Daniel Lew is a member of the Corporate Governance Committee.
5 Steven D. Skolsky and Dr. Thomas Werner are members of the Compensation Committee.
6 Nicole Onetto is a member of the Board of Directors and a member of the Corporate Governance Committee since April 27, 2017.
7 Includes the Company's and the Board members' contributions to social security, etc., where such contributions occur.

Attendance at board meetings in 2018

2018	Eligible to attend	Attended[1]
Domenico Scala, Chairman	7	7
Thomas Werner, Vice-Chairman	7	7
Martin Nicklasson, Director	7	7
Nicole Onetto, Director	7	7
Ronald Scott Director	5	5
Steven D. Skolsky, Director	7	7
Thomas M. Rinderknecht, Vice-Chairman	2	2
Daniel Lew, Director	2	2

1 Meeting fees paid out to Board members are capped at 5 meetings.

Disclosure of the compensation for the members of the Management Committee

In CHF	Cash compensation	Cash compensation variable	Stock options [6]	Social security and other fringe benefits [7]	Total
2018					
Chief Executive Officer David Veitch [1]	529 377	348 242	485 761	142 295	1 505 675
Total Management Committee [2]	**3 294 735 [3]**	**1 681 106 [4]**	**2 376 062**	**830 580 [3]**	**8 182 483**
2017					
Chief Executive Officer Ronald Scott	577 808	405 369	761 313	180 569	1 925 059
Total Management Committee	**2 353 153**	**1 193 859 [5]**	**2 656 138**	**668 217**	**6 871 367**

1 Includes the compensation of David Veitch as CEO since April 19, 2018 and the compensation from January 1, 2018 until April 18, 2018 in his previous role as CCO.
2 Includes the compensation of the new members as of the date on which they joined the Management Committee as well as the compensation of the members who left the Management Committee in 2017 or 2018 and continued to receive compensation during the remaining term of their employment contract. Ronald Scott, who was the CEO until April 18, 2018 and the member of the Management Committee with the highest individual compensation, continues to receive compensation during the remaining term of his employment contract. His total compensation amounts to CHF 1,760,440, comprised of cash compensation of CHF 579,098; cash compensation variable of CHF 405,369; stock options with a total fair value as of the grant date of CHF 623,829; and social security and other fringe benefits of CHF 152,144.
3 CHF 303,893 of compensation of new Management Committee members was funded out of the supplementary amount pursuant to article 25 para. 3 of the Articles of Association (which can be found on www.basilea.com/articles-of-association) and used as follows: Marc Engelhardt, CMO, CHF 101,298, Adesh Kaul, CCDO, CHF 67,532 and Gerrit Hauck, CTO, CHF 135,063.
4 Includes a cash bonus true-up of CHF – 27,332 between actual pay-out and accrued cash bonus in 2017 and in addition, a replacement award granted to Gerrit Hauck, CTO, with a fair value at grant of CHF 129,876. The award will vest in 2019 and 2020, subject to vesting and performance conditions.
5 Includes a cash bonus true-up of CHF – 20,465 between actual pay-out and accrued cash bonus in 2016.
6 Based on the grant-date fair value per stock option of CHF 27.27 (2018) and CHF 35.84 (2017) using a binomial valuation model.
7 Includes employers' contributions to pension plans, social security, life insurance etc.

Granting of stock options

The development of stock option holdings for the total Management Committee and the CEO in 2018:

For year 2018	Number of vested stock options at the beginning of the year	Number of unvested stock options at the beginning of the year	Number of stock options granted during the year	Number of stock options exercised during the year	Number of stock options expired during the year	Number of vested stock options at the end of the year	Number of unvested stock options at the end of the year
Chief Executive Officer David Veitch	13 720	29 681	17 813	—	—	19 208	42 006
Total Management Committee [1]	**220 546**	**195 526**	**87 131**	**—**	**17 355**	**233 601**	**252 247**

1 Includes the stock options of the current members of the Management Committee as well as the stock options of the members who left the Management Committee during the period.

Table of Contents

Financial Report

Financial Review

Overview

The following discussion of the financial condition and results of the operations of Basilea Pharmaceutica Ltd. ("Basilea") and its subsidiaries (the "Company") should be read in conjunction with the consolidated financial statements, which have been prepared in accordance with U.S. GAAP, and the related notes thereto included in this annual report. This discussion contains forward-looking statements which are based on assumptions about the Company's future business that involve risks and uncertainties. The Company's actual results may differ materially from those anticipated in these forward-looking statements.

Basilea Pharmaceutica Ltd., through its operating company Basilea Pharmaceutica International Ltd. ("Basilea International"), is a commercial stage biopharmaceutical company, focusing on the development of products that address the medical challenges in the therapeutic areas of oncology and anti-infectives.

In 2018, the Company entered into a license agreement with ArQule Inc. for the oncology drug candidate ARQ 087 (derazantinib). The exclusive license is worldwide, excluding China, Taiwan, Hong Kong and Macau. The Company made an upfront payment to ArQule Inc. of USD 10.0 million (CHF 9.6 million).

The Company recognized operating income of CHF 132.6 million in 2018 (2017: CHF 101.5 million). Operating income in 2018 included CHF 82.0 million (2017: CHF 52.6 million) from Basilea's two marketed products, the antifungal Cresemba (isavuconazole) and the antibiotic Zevtera (ceftobiprole) and CHF 23.9 million (2017: CHF 37.7 million) contract revenue related to the agreement with Stiefel, a GSK company, for Toctino. Moreover, operating income included other revenue in the amount of CHF 26.5 million (2017: CHF 10.8 million) and revenue from R&D services in the amount of CHF 0.2 million (2017: CHF 0.3 million).

In 2018, the Company invested CHF 104.9 million (2017: CHF 55.1 million) in research and development activities related to its antibiotic ceftobiprole, its oncology drug candidates derazantinib, BAL101553 and BAL3833, the antifungal isavuconazole and further components in the Company's research portfolio.
Selling, general and administrative expenses including costs for the commercialization of Cresemba and Zevtera amounted to CHF 31.4 million in 2018 (2017: CHF 54.5 million).

The cash and cash equivalents and investments amounted to CHF 223.0 million as of December 31, 2018, compared to CHF 310.7 million at year-end 2017.

Results of operations

The following table outlines the Company's consolidated results of operations for the fiscal years 2018 and 2017:

In CHF million	2018	2017
Product revenue	26.2	16.3
Contract revenue	79.7	74.0
Revenue from R&D services	0.2	0.3
Other revenue	26.5	10.8
Total revenue	**132.6**	**101.5**
Cost of products sold	(20.3)	(9.0)
Research & development expenses, net	(104.9)	(55.0)
Selling, general & administrative expenses	(31.4)	(54.5)
Total operating expenses	**(156.7)**	**(118.6)**
Operating loss	**(24.1)**	**(17.1)**
Interest income	0.0	0.0
Interest expense	(6.6)	(6.7)
Other financial income	2.2	4.8
Other financial expenses	(3.7)	(3.1)
Other components of net periodic pension cost	1.0	2.9
Income taxes	(0.2)	(0.3)
Net loss	**(31.4)**	**(19.4)**

Note: Consistent rounding was applied.

Revenues

Operating income included product revenue in the amount of CHF 26.2 million (2017: CHF 16.3 million) and contract revenue in the amount of CHF 79.7 million (2017: CHF 74.0 million). Product revenue mainly resulted from sales to Pfizer of CHF 21.8 million (2017: CHF 4.3 million).

The recognized contract revenue mainly resulted from Astellas of CHF 41.5 million (2017: CHF 30.2 million) in connection with the upfront payment of CHF 67.5 million in 2010, the regulatory milestone of CHF 12.0 million in 2014 and CHF 30.0 million in 2015, which were recorded as deferred revenue, the sales milestone payments of CHF 10.0 million in 2018 (2017: CHF 5.0 million), the royalty payments of CHF 20.8 million and services provided by the Company to Astellas for isavuconazole of CHF 0.0 million (2017: CHF 0.1 million).

In addition, in 2018, the Company recognized contract revenue from Stiefel of CHF 23.9 million (2017: CHF 37.7 million) related to the upfront payment of CHF 224.1 million in 2012.

Furthermore, the Company recognized contract revenue from Pfizer of CHF 8.5 million (2017: CHF 1.7 million) related to the upfront payment of CHF 2.9 million in 2018 for APAC and related to royalty payments of CHF 5.6 million (2017: CHF 1.7 million).

Finally, the Company recognized contract revenue in the amount of CHF 5.8 million (2017: CHF 4.4 million) from upfront, sales and regulatory milestone payments from other distribution and license agreements.

In other revenue, the Company recognized CHF 25.9 million in 2018 related to its agreement with BARDA (2017: CHF 10.5 million).

Moreover, the Company recognized revenue from research and development in the amount of CHF 0.2 million (2017: CHF 0.3 million).

Costs of products sold

The Company recognized cost of products sold of CHF 20.3 million (2017: CHF 9.0 million) for Cresemba and Zevtera.

Research and development expenses, net

Research and development expenses amounted to CHF 104.9 million (2017: CHF 55.1 million), representing 67% of the total operating expenses (2017: 46%).

Research and development expenses in 2018 were mainly related to activities for the U.S. phase 3 program of the antibiotic ceftobiprole, the phase 2 development of oncology drug candidate derazantinib, the phase 1/2a development of oncology drug candidate BAL101553, phase 1 clinical development of oncology drug candidate BAL3833, costs for the pediatric programs for ceftobiprole and isavuconazole as well as further compounds in the Company's research portfolio.

The increase of CHF 49.9 million as compared to 2017 is mainly driven by the ceftobiprole U.S. phase 3 program and the in-licensing and costs related to the ongoing development program for derazantinib.

Payments which the Company makes or receives related to its co-development arrangement with Astellas for isavuconazole are recorded in research and development expenses. The research and development expenses in 2018 also included stock-based compensation expenses of CHF 2.7 million (2017: CHF 2.0 million).

Research and development expenses primarily consist of expenses for third-party services in connection with clinical studies and research projects, costs for producing substance to be used in such trials and projects, personnel expenses for the research and development groups of the Company, and depreciation of equipment used for its research and development activities. In addition, research and development expenses may contain expenses for producing pharmaceutical material which may be used for commercialization and was produced prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected.

Selling, general and administrative expenses

Selling, general and administrative expenses amounted to CHF 31.4 million (2017: CHF 54.5 million). Selling, general and administrative expenses included costs related to the general management of the company, the commercialization of isavuconazole and ceftobiprole and stock-based compensation of CHF 3.6 million (2017: CHF 2.6 million).

The decrease of CHF 23.1 million as compared to 2017 is mainly due to entering into license and distribution agreements in 2017.

Selling, general and administrative expenses mainly consist of expenses related to commercialization, marketing, medical affairs, corporate management, legal, finance, human resources, business development, licensing and investor relations, including any personnel expenses for these functions.

As of December 31, 2018, the Company had subsidiaries in Germany and the United Kingdom.

Net financial income/expenses, other components of net periodic pension cost

Net financial expenses, excluding interest, amounted to CHF 1.5 million (2017: Net financial income of CHF 1.7 million) and other components of net periodic pension cost to CHF 0.9 million (2017: CHF 2.9 million).

Net interest expenses amounted to CHF 6.6 million (2017: CHF 6.7 million).

Income taxes

Due to the losses incurred to date and the insufficient evidence related to the ability to realize deferred tax assets, the Company has not recognized any deferred tax assets as of December 31, 2018 and December 31, 2017. The Company incurred income taxes of CHF 0.2 million in 2018 and CHF 0.3 million in 2017 related to its operations in certain jurisdictions outside of Switzerland.

Liquidity and capital resources

As of the date of inception of Basilea, the Company had available cash funds in the amount of CHF 206.0 million as a result of an initial capital contribution from Roche. In June 2003, the Company performed a capital increase, in which the Company raised net proceeds of CHF 20.7 million through the issuance of new shares in a private placement. In March 2004, the Company issued 2.1 million registered shares in connection with its initial public offering and raised net proceeds of CHF 192.8 million. Beginning in 2005, the Company received non-refundable upfront and milestone payments under a license agreement with Johnson & Johnson in the total amount of CHF 114.4 million. In March 2007, the Company issued 1.4 million registered shares in connection with a secondary offering and realized net proceeds of CHF 310.1 million. In February 2010, the Company received a non-refundable net upfront payment under its licence, co-development and co-promotion agreement with Astellas in the amount of CHF 67.5 million. In December 2010, the Company was awarded CHF 126.9 million compensation in arbitration against Johnson & Johnson related to ceftobiprole, including milestones, other damages and interest. In July 2012, the Company received an initial payment of CHF 224.1 million under the agreement with Stiefel related to Toctino. In June 2013, the Company distributed CHF 5.00 per share corresponding to CHF 48.0 million from capital contribution reserves following shareholder approval at the annual general meeting. In September 2014 and March 2015, the Company received non-refundable milestone payments of CHF 12.0 million and CHF 30.0 million, respectively, from Astellas. In December 2015, the Company received CHF 194.7 million net of issuance costs from the issuance of convertible bonds. In 2018, the Company received non-refundable upfront and milestone payments of CHF 5.1 million (2017: CHF 86.0 million) from distribution and licensing partners.

The cash used by the Company in 2018 was primarily related to its operating activities, in particular the development programs as well as commercial activities.

The cash and cash equivalents and investments, available as of December 31, 2018, amounted to CHF 223.0 million (December 31, 2017: CHF 310.7 million).

The Company's policy is to invest its available funds in low risk investments, including interest-bearing deposits, bonds and other debt instruments. As of December 31, 2018, CHF 50.0 million were invested in short-term bank deposits denominated in Swiss Franc.

The Company has not entered and has not planned to enter into any commitments for any material investments other than for investments in the normal course of the business. The financial needs of Basilea's wholly-owned and fully consolidated subsidiaries are exclusively covered by the Company. None of the subsidiaries had any significant third-party debt outstanding as of December 31, 2018 and 2017.

Critical accounting policies

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. The preparation of the financial statements requires management to make estimates and assumptions, which have an effect on the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and on the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and management's knowledge of current events and actions the Company may undertake in the future, however, actual results ultimately may differ from those estimates.

The license agreement with Pfizer consists of three deliverables: grant of an exclusive commercialization license, obligation to supply isavuconazole to Pfizer during the supply service period and execution of the pediatric investigation plan (PIP) studies. The Company determined that the grant of the exclusive commercial license and obligation to supply isavuconazole to Pfizer represents one combined performance obligation, whereas the PIP studies represent a separate one. In 2017, the Company received a non-refundable upfront payment of CHF 70.0 million. The entire non-refundable upfront payment was allocated to the combined performance obligation for the grant of the exclusive commercial license and obligation to supply isavuconazole to Pfizer as for the PIP studies a separate pricing exists. The non-refundable upfront payment was deferred and is recognized as product revenue as each unit of isavuconazole is sold to Pfizer based on the standalone selling price of each unit during the supply service period.

The original license agreement was amended to extent the territory to China (including Hong Kong and Macao) and sixteen countries in the Asia Pacific region.

Any future milestone payments are recognized as contract revenue when towards satisfying its identified performance obligation. Royalty revenue is recognized when earned as the license is the predominant item of the contract.

As the Company acts as principal for the sale of the product during the supply service period, the sales of the product to Pfizer is recorded gross and recognized in product revenue upon delivery.

The license agreement with Astellas consists of several deliverables: the co-development services, the commercial-related manufacturing services, the grant of the license to Astellas, the European PIP studies and participation in the joint steering or coordination committee (the Committee). The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting, with the European PIP studies and the commercial-related manufacturing services consisting of two others. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting since they do not have value to Astellas on an individual stand-alone basis. The commercial-related manufacturing services and the European PIP studies are other units of accounting since they have value to Astellas and there is evidence of the stand-alone selling price for these obligations in the arrangement.

In 2010, the Company received an upfront payment of CHF 67.5 million net. The entire upfront payment was allocated to the unit of accounting composed of co-development services, the grant of the license, the participation in the Committee and the European PIP studies. The related revenue is recognized over the period where the performance obligation is satisfied, being the period over which the

services are rendered. The period during which the Company has to satisfy its contractual performance obligation is expected to be until October 2020.

The Company also received, respectively were eligible to receive, non-refundable regulatory milestone payments in the total amount of CHF 42.0 million and sales milestones of CHF 10.0 million (2017: CHF 5.0 million) from Astellas. The regulatory milestone payments were deferred and recognized in contract revenue as the Company satisfies its contractual performance obligation. The sales milestones were fully recognized upon achievement as contract revenue.

The agreement with BARDA for the phase 3 development of ceftobiprole aiming to gain regulatory approval in the United States is considered as part of the Company's ongoing major operations. Hence, other revenue is recorded when recoverable costs are incurred.

In a license agreement with Asahi Kasei Pharma Corporation, the Company granted to Asahi Kasei Pharma an exclusive license to develop, register and commercialize isavuconazole in Japan. In addition to the license, the Company has an obligation to manufacture and supply the product for clinical trials and to provide materials, documentation and support. Because the separation criteria is not met, the license and the ongoing documentation and information transfer obligation are accounted for as one unit of accounting and the entire upfront payment was allocated to the unit of accounting. The related revenue is recognized over the period over which the ongoing documentation and information transfer obligation is provided up to submission of a new drug application (NDA), expected to be in the fourth quarter 2021. The commercial manufacturing service is not a deliverable because the service is dependent on the clinical results, the approval of the NDA, and the agreement of specific commercial manufacturing terms. Further milestone payments will be recognized as contract revenue upon satisfaction of the criteria associated with the milestone. Royalty revenue will be recognized when earned. The Company received a non-refundable upfront payment of CHF 7.0 million. The upfront payment was deferred and is recognized as contract revenue over the remaining service period, expected to be until the fourth quarter of 2021 in line with the period over which the Ongoing Documentation and Information Transfer Obligation is provided up to submission of the NDA.

The Company received upfront payments under other distribution- and license agreements for isavuconazole and ceftobiprole which were deferred and are recognized as contract revenue over the remaining performance period, approximately until 2032.

Under the license agreement with ArQule Inc., ArQule grants the Company rights to research, develop, manufacture are exclusively commercialize derazantinib worldwide, excluding China, Taiwan, Hong Kong and Macau. The Company made an upfront payment of USD 10.0 million (CHF 9.6 million) upon execution of the agreement which was recorded in research & development expenses, net.

Expenses relating to the Company's products sold consisting of the manufacturing cost, capacity reservation costs, shipping and handling costs are presented in cost of products sold.

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company recorded total expenses related to stock-based compensation of CHF 6.3 million in 2018 (2017: CHF 4.6 million).

Research and development costs are expensed as incurred. Costs of research and development equipment with alternative future use are capitalized and depreciated over its respective useful life. Payments that the Company makes or receives related to its co-development arrangement for isavuconazole are recorded in research and development expenses. Costs related to the manufacturing of inventories which occurred after the receipt of regulatory approval or evidence being available that regulatory approval can reasonably be expected, are capitalized. The Company expenses costs as research and development expenses related to manufacturing of inventories when incurred prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected. If regulatory approval is subsequently obtained, the recorded expenses are not reversed. Accordingly, the costs of products sold do not and will not include manufacturing costs for material, which was produced prior to obtaining regulatory approval, when the respective commercial material is sold.

In 2015, the Company received total net proceeds from the sale of the Convertible Senior Unsecured Bonds of CHF 194.7 million, after deducting issuance costs of CHF 5.3 million. The Convertible Senior Unsecured Bonds are accounted for at amortized costs. The Convertible Senior Unsecured Bonds were issued bearing interest at a fixed rate of 2.75% per year. In 2018 and 2017, the Company recognized interest expense of CHF 5.5 million for contractual coupon interest and CHF 0.8 million for accretion of the issuance costs. The remaining un-amortized debt issuances costs of CHF 3.0 million will be accreted over the remaining term of the Convertible Senior Unsecured Bonds, which is approximately 4 years.

The Company assesses deferred taxes regularly and provides for a valuation allowance on deferred tax assets if it is more likely than not that deferred tax assets are not realized. As a consequence, the Company has recorded a valuation allowance on net deferred tax assets in the amount of CHF 124.9 million as of December 31, 2018 mainly due to the history of operating losses and the uncertainty related to the ability to realize such deferred tax assets.

Please refer to the consolidated financial statements of the Company included elsewhere in this annual report for further information on the Company's accounting policies.

Foreign currency exchange rate risk

The functional currency of the Company is the Swiss Franc. Besides the expenses, which are denominated in Swiss Francs, the Company also incurs expenses in foreign currencies, especially in Euro, US Dollars, British Pounds, Canadian Dollars, Chinese Yuan Renminbi and Japanese Yen. Although the Company believes that the current exposure to foreign currency risk is not significant, it cannot be excluded that unfavorable developments of the value of the Swiss Franc could have a material adverse effect on the Company's financial condition, results of operations, and prospects in the future.

As the subsidiaries of Basilea are mainly located outside Switzerland, the value of the assets and liabilities of these subsidiaries are translated into Swiss Francs for purposes of the Company's consolidated financial statements. Consequently, the values of these assets and liabilities are subject to foreign currency fluctuations. However, due to the limited relative book value of the assets and liabilities involved in the subsidiaries, the related exposure to foreign currency risk is not deemed to be significant for the Company.

Subsequent events

There were no subsequent events through February 14, 2019, the date on which the financial statements were available to be issued.

Report of the statutory auditor on the consolidated financial statements

Report of the statutory auditor to the General Meeting of Basilea Pharmaceutica Ltd., Basel

As statutory auditor, we have audited the consolidated financial statements of Basilea Pharmaceutica Ltd. which comprise the consolidated balance sheet, the consolidated statements of operation, comprehensive income/loss, cash flow statement and changes in shareholders' equity and the notes (pages 96 to 130) for the year ended December 31, 2018.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2018 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
License agreement with Pfizer related to isavuconazole for Europe, Russia, Turkey and Israel In June 2017, the Company entered into a license agreement with Pfizer Inc. (Pfizer) for isavuconazole. The transaction completed on July 19, 2017. Under the terms of the agreement Pfizer has the right to exclusively commercialize the drug in Europe (excluding the Nordics), Russia, Turkey and Israel (the Territory) and to manufacture isavuconazole for the Territory. Under the terms of the agreement, the Company received a non-refundable upfront payment of CHF 70 million and is eligible to receive up to USD 427 million in additional milestone payments upon achievement of defined regulatory and sales milestones. The Company also receives royalties on Pfizer's sales in the Territory. Management concluded that the up-front payment is for the license and the supply obligation and therefore recognises the respective product revenue over time in line with the satisfaction of the performance obligation. We consider the assessment of the accounting implications of the contract to be a key audit matter given its complexity and the judgments involved specifically in relation to the revenue recognition model for the up-front and the royalty payments. *Refer to note 1 Summary of significant accounting policies – Revenue recognition (pages 103-105) and note 10 Agreements (pages 113 and 114) of the consolidated financial statements* .	We read the underlying contractual agreement and the respective accounting position paper prepared by Management. We specifically focused on the proposed accounting treatment of the non-refundable CHF 70 million up-front consideration which the Company received in 2017 as well as the recognition pattern of the royalties. We discussed with Management and the Audit Committee the substance of the contractual agreement focussing on the rights and obligations of each party. We determined the supply obligation to be a key feature of the contract for the Company. We interviewed Management (technical operations and quality Management) to gain an understanding of the current manufacturing process. We acknowledge the high specification in the manufacturing process and the contractual obligation of the Company to supply Pfizer for a certain time. We tested a sample of the supply shipped to Pfizer in 2018. As part of our assessment we considered alternative accounting treatments, including full income statement recognition of the up-front payment in 2017, but determined this accounting treatment not to be appropriate given the continuous involvement of the Company due to the supply obligation. We assessed the method selected by Management to recognise product revenue based on shipments to Pfizer and considered the method to be acceptable taking into consideration a contractual right of return. We assessed the contract revenue recognised for the royalty payments as part of the transaction through the supporting documents and considered the recognition pattern to be adequate. We found the judgments made by Management on the up-front and the royalty payments in respect of the timing of the income statement recognition, the measurement and the presentation in the income statement were reasonable and the disclosures made in respect of the transaction were appropriate.

Key audit matter	How our audit addressed the key audit matter
Contract with BARDA for ceftobiprole In 2016, the Company and the Biomedical Advanced Research and Development Authority (BARDA) entered into a contract for the clinical phase 3 development aiming to gain regulatory approval for Basilea's broad-spectrum antibiotic ceftobiprole in the United States. Under the terms of the agreement, BARDA provides funding in the form of reimbursing agreed development cost. As per December 31, 2018 the Company was awarded a total of USD 94.8 million to support the phase III development of ceftobiprole. Management concluded that the funding received from BARDA should be presented as other revenue as this best reflects the substance of the contract as the ceftobiprole development for the US is one of the on-going major operating activities. We consider the accounting implications of this contract to be a key audit matter given its magnitude and complexity and the judgments involved specifically relating to the proposed timing and measurement of recognizing expected payments from BARDA, the income statement presentation and the respective disclosures. *Refer to note 1 Summary of significant accounting policies – Revenue recognition (pages 103-105) and note 10 Agreements (pages 119 and 120) of the consolidated financial statements.*	We read the underlying contractual agreement and assessed the substance of the activities resulting from the contractual arrangement including the assessment of the rights retained by Basilea and rights transferred to BARDA. We discussed with Management and the Audit Committee the substance of the agreement and assessed their conclusion that the contract with BARDA forms part of the Group's on-going major activities, resulting in a presentation of the expected payments as other revenue. As part of our assessment we considered alternative presentations including treating the proceeds as a deduction from research and development expenses, but determined presentation as other revenue appropriate. We assessed the respective accounting position paper prepared by Management specifically focusing on the proposed timing and measurement of recognition and presentation of the expected payments from BARDA in the income statement. We tested a sample of the documentation supporting the recognition of other revenue of CHF 25.9 million in the year ended December 31, 2018. We found the judgments made by Management on the timing of recognition, the measurement and the presentation in the income statement were reasonable and the disclosures made in respect of the transaction were appropriate.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Bruno Rossi
Audit expert
Auditor in charge

Stephen Johnson

Basel, February 14, 2019

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Consolidated Financial Statements

Basilea Pharmaceutica Ltd. and subsidiaries

Consolidated balance sheets as of December 31, 2018 and 2017 (in CHF thousands, except for number of shares)

	Footnote reference	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	7	173 034	200 724
Short-term investments	6	50 000	60 000
Restricted cash		874	-
Accounts receivable	5	3 757	4 955
Other receivables	8	30 962	10 071
Inventories	9	14 411	15 320
Other current assets		1 700	1 906
Total current assets		**274 738**	**292 976**
Non-current assets			
Tangible assets, net	2	6 424	7 768
Intangible assets, net	3	372	326
Long-term investments	6	-	50 000
Other non-current assets		217	95
Total non-current assets		**7 013**	**58 189**
TOTAL ASSETS		**281 751**	**351 165**
LIABILITIES			
Current liabilities			
Accounts payable		6 399	4 353
Deferred revenue	10	25 025	49 923
Accruals and other current liabilities	12	35 260	25 215
Total current liabilities		**66 684**	**79 491**
Non-current liabilities			
Convertible senior unsecured bonds	11	196 982	196 224
Deferred revenue, less of current portion	10	69 945	100 403
Other non-current liabilities	17	14 827	16 487
Total non-current liabilities		**281 754**	**313 114**
Total liabilities		**348 438**	**392 605**
Commitments and contingencies	21		
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital [1]	15	11 879	11 872
Treasury shares [2]	15	(7 235)	(1 000)
Additional paid-in capital		924 194	917 701
Accumulated other comprehensive loss	15	(16 281)	(19 204)
Accumulated deficit:			
Loss carried forward		(947 892)	(931 449)
Net loss for the year		(31 352)	(19 360)
Total shareholders' equity (deficit)		**(66 687)**	**(41 440)**
TOTAL LIABILITIES AND EQUITY (DEFICIT)		**281 751**	**351 165**

1 As of December 31, 2018, 11,878,556 shares (December 31, 2017: 11,871,656) were issued and 10,744,704 shares (December 31, 2017: 10,871,656) outstanding with a par value of CHF 1.00 per share.
2 As of December 31, 2018, 1,133,852 shares (December 31, 2017: 1,000,000) with a par value of CHF 1.00.

These financial statements should be read in conjunction with the accompanying footnotes.

Basilea Pharmaceutica Ltd. and subsidiaries

Consolidated statements of operations for the years ended December 31, 2018 and 2017 (in CHF thousands, except per share amounts)

	Footnote reference	2018	2017
Product revenue	4	26 197	16 294
Contract revenue	4, 10	79 703	74 044
Revenue from research & development services	4	192	336
Other revenue	4	26 463	10 847
Total revenue		**132 555**	**101 521**
Cost of products sold		(20 299)	(9 025)
Research & development expenses, net		(104 942)	(55 055)
Selling, general & administrative expenses		(31 409)	(54 491)
Total cost and operating expenses		**(156 650)**	**(118 571)**
Operating loss		**(24 095)**	**(17 050)**
Interest income		25	22
Interest expense	11	(6 553)	(6 675)
Other financial income		2 191	4 819
Other financial expenses		(3 666)	(3 056)
Other components of net periodic pension cost		938	2 914
Loss before taxes		**(31 160)**	**(19 026)**
Income taxes	13	(192)	(334)
Net loss		**(31 352)**	**(19 360)**

Loss per share	16	**2018**	2017
Basic loss per share, in CHF		(2.89)	(1.79)
Diluted loss per share, in CHF		(2.89)	(1.79)

Basilea Pharmaceutica Ltd. and subsidiaries

Consolidated statements of comprehensive income/loss for the years ended December 31, 2018 and 2017 (in CHF thousands)

	Footnote reference	2018	2017
Net loss		**(31 352)**	**(19 360)**
Currency translation adjustments		(633)	712
Unrecognized pension costs		2 325	3 085
Amortization of unrecognized pension costs		1 231	1 871
Other comprehensive income, net of tax	15	**2 923**	**5 668**
Comprehensive loss		**(28 429)**	**(13 692)**

These financial statements should be read in conjunction with the accompanying footnotes.

Basilea Pharmaceutica Ltd. and subsidiaries

Consolidated statements of cash flows for the years ended December 31, 2018 and 2017 (in CHF thousands)

	Footnote reference	2018	2017
Cash flow from operating activities			
Net loss		(31 352)	(19 360)
Adjustments to reconcile net loss to net cash used in/provided by operating activities:			
Depreciation and amortization		1 852	1 991
Gain on disposal of assets, net		-	(5)
Stock-based compensation		6 251	4 621
Interest and accretion of debt issuance cost	11	758	758
Change in operating assets/liabilities:			
Accounts receivable		1 054	(2 277)
Other receivables		(20 947)	(5 126)
Inventories		741	(45)
Accounts payable		2 051	2 500
Deferred revenue		(52 437)	24 200
Accruals and other current liabilities		10 513	5 551
Other operating cash flow items		2 306	6 206
Net cash used in/provided by operating activities		**(79 210)**	**19 014**
Cash flow from investing activities			
Payments for short-term investments	6	-	(60 000)
Maturities of short-term investments	6	60 000	-
Proceeds from sale of assets		-	5
Investments in tangible assets	2	(419)	(711)
Investments in intangible assets	3	(190)	(234)
Net cash provided by/used in investing activities		**59 391**	**(60 940)**
Cash flow from financing activities			
Net proceeds from exercise of stock options	14	249	2 631
Purchase of treasury shares		(6 235)	-
Net cash used in/provided by financing activities		**(5 986)**	**2 631**
Effect of exchange rate changes on cash, cash equivalents and restricted cash		**(1 011)**	**989**
Net change in cash, cash equivalents and restricted cash		**(26 816)**	**(38 306)**
Cash, cash equivalents and restricted cash, beginning of period		**200 724**	**239 030**
Cash, cash equivalents and restricted cash, end of period		**173 908**	**200 724**
Supplemental information			
Cash paid for interest		5 795	5 756
Cash paid for income taxes		413	283

The following table shows the components of cash, cash equivalents and restricted cash as of December 31, 2018 and 2017:

In CHF thousands	2018	2017
Cash and cash equivalents	173 034	200 724
Restricted cash	874	-
Total cash, cash equivalents and restricted cash	**173 908**	**200 724**

These financial statements should be read in conjunction with the accompanying footnotes.

Basilea Pharmaceutica Ltd. and subsidiaries

**Consolidated statements of changes in shareholders' equity (deficit)
for the years ended December 31, 2018 and 2017
(in CHF thousands, except for number of shares)**

	Footnote reference	Share capital		Treasury shares		Additional paid-in capital	Accumulated other comprehensive income/loss	Accumulated deficit	**Total**
		Number of shares	Amount	Number of shares	Amount				
Balance at December 31, 2016		**11 811 973**	**11 812**	**(1 000 000)**	**(1 000)**	**910 509**	**(24 872)**	**(931 449)**	**(35 000)**
Net loss		-	-	-	-	-	-	(19 360)	(19 360)
Other comprehensive income		-	-	-	-	-	5 668	-	5 668
Exercise of stock options, net		59 683	60	-	-	2 571	-	-	2 631
Stock-based compensation, net		-	-	-	-	4 621	-	-	4 621
Balance at December 31, 2017		**11 871 656**	**11 872**	**(1 000 000)**	**(1 000)**	**917 701**	**(19 204)**	**(950 809)**	**(41 440)**
Opening balance adjustment (ASC 606 implementation)	1	-	-	-	-	-	-	2 917	2 917
Net loss		-	-	-	-	-	-	(31 352)	(31 352)
Other comprehensive income		-	-	-	-	-	2 923	-	2 923
Treasury shares transactions		-	-	(133 852)	(6 235)	-	-	-	(6 235)
Exercise of stock options, net		6 900	7	-	-	242	-	-	249
Stock-based compensation, net		-	-	-	-	6 251	-	-	6 251
Balance at December 31, 2018		**11 878 556**	**11 879**	**(1 133 852)**	**(7 235)**	**924 194**	**(16 281)**	**(979 244)**	**(66 687)**

These financial statements should be read in conjunction with the accompanying footnotes.

Basilea Pharmaceutica Ltd. and subsidiaries

Notes to the consolidated financial statements
(all amounts in CHF unless stated otherwise)

1 Summary of significant accounting policies

Business purpose and history

Basilea Pharmaceutica Ltd., Basel, Switzerland (Basilea), together with its subsidiaries (together, the Company), is a commercial stage biopharmaceutical company focusing on the development of products that address the medical challenges in the therapeutic areas of oncology and anti-infectives. The Company was founded in October 2000.

Basilea owns 100% of the shares of BPh Investitionen Ltd., Baar, Switzerland, a subholding company, which holds a 100% investment in Basilea Pharmaceutica China Ltd., Haimen, China, which supports the Company's key research and development projects with medicinal chemistry, analytical development and process research and development.

Supporting its commercial organization, the Company has operating subsidiaries in the United Kingdom and Germany. All subsidiaries are wholly-owned and fully consolidated.

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements are presented in Swiss Francs (CHF).

Principles of consolidation

Subsidiaries in which Basilea has a controlling financial interest directly or indirectly are consolidated. Investments in which the Company exercises significant influence (generally between 20% and 50% of the voting rights), but which the Company does not control, are accounted for applying the equity method of accounting. Investments in which the Company does not exercise significant influence (generally ownership of less than 20% of the voting rights) are accounted for at cost. Intercompany balances and transactions have been eliminated in consolidation. The Company holds only wholly-owned subsidiaries.

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions which have an effect on the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and on the reported amounts of revenues and expenses during the reporting period. Management evaluates these estimates on an ongoing basis, including those related to revenue recognition, accrued expenses, stock-based compensation, pension accounting and income taxes. These estimates are based on historical experience and management's knowledge of current events and actions the Company may undertake in the future; however, actual results ultimately may differ from those estimates.

Fair value measurements

The Company applies the Accounting Standard Codification (ASC) 820 "Fair Value Measurements and Disclosures". ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an

asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In measuring fair value, the Company evaluates valuation approaches such as the market approach, the income approach and the cost approach. A three-level valuation hierarchy, which prioritizes the inputs to valuation approaches that are used to measure fair value, is based upon whether such inputs are observable or unobservable.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the Company. The three-level hierarchy for the inputs to valuation approaches is briefly summarized as follows:

Level 1— Observable inputs such as quoted prices (unadjusted) for identical instruments in active markets;
Level 2— Observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-derived valuations whose significant inputs are observable for substantially the full term of the assets or liabilities; and
Level 3— Unobservable inputs that reflect the Company's estimate of assumptions that market participants would use in pricing the asset or liability.

The Company’s financial instruments consist mainly of short-term and long-term financial assets and liabilities, including cash and cash equivalents, short-term and long-term investments, accounts receivable, other receivables, other current assets, accounts payable, accruals and other current liabilities and the Company’s convertible senior unsecured bonds.

The fair value of the financial instruments included in working capital approximate their carrying value due to the short-term nature of these positions. The carrying values of the long-term investments approximate their fair values, since they bear interest at rates close to the prevailing market rates.

Financial instruments measured on a basis other than fair value are mostly comprised of the Company’s convertible senior unsecured bonds and are presented in the table below in terms of fair value. The fair value was estimated based on quoted market prices:

Estimated fair value

In CHF million	2018	2017
Convertible senior unsecured bonds (Level 1)	181.7	215.0

Cash and cash equivalents

The Company considers cash equivalents to be highly liquid investments which are readily convertible to cash with original maturities of not more than three months.

Restricted cash

Restricted cash includes bank accounts reserved for the purchase of treasury shares.

Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses from the settlement of such foreign currency balances and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized as a component of other financial income or other financial expenses in the statement of operations.

For consolidation purposes, income, expenses and cash flows are translated at the average exchange rate during the period. Assets and liabilities are translated at the period-end exchange rate. The resulting translation adjustment is recorded as other comprehensive income/loss in shareholders' equity (deficit).

Short- and long-term investments

Short-term investments include time deposits with banks with original maturities of more than three months and remaining maturities of up to twelve months. Long-term investments include time deposits with banks with original maturities of more than twelve months. These investments are carried at nominal value which approximates fair value. They are classified as level 2 instruments in the fair value hierarchy according to ASC 820. Gains and losses resulting from such investments are included as a component of other financial income or other financial expenses in the statement of operations.

Accounts receivable and other receivables

Accounts receivable and other receivables are recorded at net realizable value after consideration of an allowance for doubtful accounts. The Company generally maintains allowances for estimated uncollectible receivables based on historical experience and specifically identified at-risk accounts. The adequacy of the allowance is evaluated on an ongoing and periodic basis and adjustments are made in the period in which a change in condition occurs. Other receivables mainly include various prepayments as well as unbilled revenue, which consists of revenue earned but not yet invoiced.

Inventories

Costs related to the manufacturing of inventories are expensed as research and development expenses when incurred prior to obtaining regulatory approval or evidence being available that regulatory approval for respective product can reasonably be expected. If regulatory approval is subsequently obtained, the recorded expenses are not reversed.

Costs related to the manufacturing of inventories which occurred after the receipt of regulatory approval for respective product or evidence being available that regulatory approval can reasonably be expected are capitalized. Inventories are valued at the lower of cost and net realizable value. Cost is determined based on the first-in first-out principle. If inventory costs exceed the net realizable value, a provision is recorded. In addition, provisions are recorded due to obsolescence or lack of demand.

Tangible assets

Tangible assets are recorded at cost less accumulated depreciation and impairment. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets of approximately 20 years for buildings, 5 years for research & development equipment, 3 years for furniture and office equipment and 3 years for IT hardware and equipment. Leasehold improvements are depreciated over the shorter of 5-10 years or the lease term. Land is recorded at cost. Land-use rights are depreciated over the term of the granted right.

Expenditures for major renewals and improvements that extend the asset life are capitalized, while expenditures for maintenance and repairs are charged to the statement of operations as incurred.

The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the related accounts, and resulting gains or losses are reflected in the statement of operations.

Intangible assets

Intangible assets with finite lives are recorded at cost less accumulated amortization and impairment. Intangible assets with finite lives consist of external direct costs of materials and services consumed in developing or obtaining internal use software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which is 3 years for software.

Expenditures for maintenance are charged to the statement of operations as incurred.

The cost and related accumulated amortization of assets sold or otherwise disposed of are removed from the related accounts, and resulting gains or losses are reflected in the statement of operations.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment indicators throughout the year. Whenever events or changes in circumstances indicate that the carrying amounts of long-lived assets held for use, including tangible assets as well as intangible assets, may not be recoverable, the Company assesses such long-lived assets for impairment.

If the assessment indicates that a long-lived asset is not recoverable (i.e. the carrying amount is higher than the future projected undiscounted cash flows), its carrying amount would be reduced to the fair value.

Convertible senior unsecured bonds

The convertible senior unsecured bonds were initially measured as a liability based on the proceeds received and are presented net of issuance costs incurred. The issuance costs are amortized as interest expense over the life of the debt instrument resulting in the accretion of the liability of the convertible senior unsecured bonds until maturity.

Treasury shares

Treasury shares are recognized at the acquisition costs of the shares. Shares issued from treasury are recognized using the first-in first-out method.

Leases

Tangible assets acquired through capital lease arrangements are recorded at the lower of the present value of the minimum lease payments or fair value. These assets are depreciated over the shorter of the useful life of the assets or the lease term. Payments under operating lease arrangements are recognized on a straight-line basis over the lease term.

Revenue recognition

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts are not adjusted and continue to be

reported in accordance with the Company's historic accounting under ASC 605. As the expected performance period for the global agreement with Stiefel related to Toctino® ended in August 2018, the Company deemed the agreement as substantially completed and therefore, excluded this agreement from the ASC 606 adoption. The Company recorded a net increase to opening retained earnings and a decrease to deferred revenue of CHF 2.9 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact related to the regulatory milestones under the license agreement with Astellas related to isavuconazole. The impact to contract revenues and net loss as a result of applying ASC 606 for the financial year ending December 31, 2018 was a decrease, respectively increase of CHF 1.0 million. The corresponding impact to the basic and diluted loss per share was an increase of CHF 0.10.

Revenue recognition
Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The following table presents the Company's revenue disaggregated by revenue source. Sales and usage-based taxes are excluded from revenues:

In CHF million	2018	2017
Product revenue	26.2	16.3
Contract revenue	79.7	74.0
Revenue from research & development services	0.2	0.3
Other revenue:		
BARDA revenue	25.9	10.5
Others	0.6	0.4
Total	**132.6**	**101.5**

Note: Prior period amounts have not been adjusted under the modified retrospective method.

Revenue is measured at the amount of consideration the Company received or expects to receive in exchange for transferring goods or providing services. The Company derives its revenues primarily from products and contractual arrangements. The Company determines revenue recognition through the following steps:
– Identification of the contract, or contracts, with a customer
– Identification of the performance obligations in the contract
– Determination of the transaction price
– Allocation of the transaction price to the performance obligations in the contract
– Recognition of revenue when, or as, the Company satisfies a performance obligation

Product revenue
Product revenue is recognized net of any sales and value added taxes and sales deductions based on contractually agreed payment terms. The control passes according contractual shipment terms. The amount of consideration the Company receives and revenue the Company recognizes varies based on estimated rebates, discounts, returns and charge backs. The Company adjusts its estimate of revenue at the earlier of when the most likely amount of consideration the Company expects to receive changes or when the consideration becomes fixed. Sales returns are generally estimated and recorded based on historical sales and returns information. Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field or potential other reasons, and the returns reserve is based on historical return trends by product and by market as a percent of gross revenues.

Contract revenue

To determine the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. For certain contracts, the Company provides a service of combining a license and related tasks into a single performance obligation. Hence, the entire contract is accounted for as one performance obligation. The Company may, however, promise to provide a distinct license with distinct services within a contract, in which case the Company separates the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. Non-refundable upfront payments and substantive development and sales milestones will be recognized over the remaining performance period based on the Company's progress towards satisfying its identified performance obligation. The Company infrequently sells licenses with observable standalone sales. In these cases the observable standalone sales are used to determine the standalone selling price. More frequently, the Company sells a unique license for a specific drug, and in these cases the Company typically uses the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Following the guidance in ASC 808 “Collaborative Arrangements”, the Company presents the results of activities for which it acts as the principal on a gross basis and reports any payments received from (or made to) other collaborators based on other applicable GAAP. The Company’s accounting policy for its qualifying collaborative agreements is to evaluate amounts due from (or owed to) its collaborators based on the nature of each separate activity.

Revenue from research & development services

Revenue from research and development services provided by the Company is recorded as earned based on the performance requirements of the underlying contracts. The costs related to these services are primarily included in research and development expenses.

Other revenue

Other revenue includes realizable amounts under the contract with the Biomedical Advanced Research and Development Authority (BARDA) related to the Company’s ceftobiprole U.S. phase 3 development program. The Company considers the arrangement to be part of its ongoing major operations. Revenue from this contract is recognized when recoverable costs are incurred.

Arrangements with multiple performance obligations

Contracts with customers may include multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines the standalone selling prices based on its overall pricing objectives,

taking into consideration market conditions and other factors, including the value of the contracts and customer geographic locations or using expected cost plus margin.

Practical expedients and exemptions
The Company excludes from the transaction price all sales taxes that are assessed by a governmental authority and that are imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer (for example, sales, use, value added, and some excise taxes).

The Company applies the general variable consideration guidance to estimate the transaction price if the license to the intellectual property is not the predominant item. With regard to royalties where the license is the sole or predominant item to which the royalty relates, for example when the customer would ascribe significantly more value to the license than to other goods or services provided under an arrangement the sale- and usage-based royalty exemption applies and royalties are recognized once earned.

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less and contracts for which the Company recognizes revenue at the amount to which the Company has the right to invoice for services performed.

Cost of products sold
Expenses relating to the Company's products sold consisting of the manufacturing cost including manufacturing licenses, capacity reservation costs, shipping and handling costs are presented in cost of products sold.

Research & development expenses
Research and development costs are expensed as incurred. No amount was capitalized in any period presented. Costs of research and development equipment with alternative future uses are capitalized and depreciated over the equipment's useful life.

Research and development expenses primarily include costs for third-party services in connection with clinical studies and research projects, costs for producing substance to be used in such studies and projects, personnel expenses for the Company's research and development groups, and depreciation of equipment used for research and development activities. In addition, research and development expenses contain expenses for producing pharmaceutical material which may be used for commercialization subject to regulatory approval, and which was produced prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected.

Payments that the Company makes or receives related to its co-development arrangement for isavuconazole are recorded in research and development expenses, net and in contract revenue respectively, for its mark-up earned since the Company is acting as an agent in the arrangement.

Stock-based compensation
The Company applies ASC 718 "Compensation – Stock Compensation" related to its stock-based compensation awards. According to ASC 718, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award taking into consideration an estimation for expected forfeitures.

The stock-based compensation expenses are allocated over the vesting period of the award. For awards which consist of portions with different vesting periods, the compensation expense is recognized pro rata for each portion of the award over the respective vesting period of such portion.

Income taxes

The Company applies the asset and liability method for the determination of provisions for income taxes. The income taxes for the reporting period consist of the current taxes (taxes paid and taxes payable) plus the change in the deferred taxes for the respective period. Deferred taxes represent the estimated future tax consequences of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Interest and penalties in connection with income taxes are recorded as income taxes.

Earnings/Loss per share

Basic earnings/loss per share is calculated by dividing net income/loss by the weighted-average number of shares outstanding during the period, without consideration for common stock equivalents.

Diluted earnings/loss per share include the effect of all potential shares, consisting of stock options using the treasury-stock method, as well as shares issuable upon conversion of the convertible senior unsecured bonds, determined on an "if-converted" basis. For purposes of the loss per share calculation, potentially dilutive securities consisting of stock options and the convertible senior unsecured bonds are considered to be potential shares and, for each loss period presented in these consolidated financial statements, are excluded in the calculation of diluted net loss per share because their effect would be antidilutive.

Pension plans

The Company applies ASC 715 “Compensation – Retirement Benefits” related to its pension plan. According to ASC 715, the projected benefit obligation for defined benefit pension plans is calculated annually by independent actuaries using the projected unit credit method. The projected benefit obligation at period end represents the actuarial present value of the estimated future payments required to settle the obligation that is attributable to employee services rendered before that date.

The Company records net gains/losses, consisting of actuarial gains/losses, curtailment gains/losses and differences between expected and actual returns on plan assets, in other comprehensive income/loss. Such net gains/losses are amortized to the consolidated statements of operations to the extent that they exceed 10% of the greater of projected benefit obligations or pension assets. The Company further records prior service costs/credits from plan amendments in other comprehensive income/loss in the period of the respective plan amendment and amortizes such amounts to the consolidated statement of operations over the future service period of the plan participants.

The Company records the service cost component of the net benefit costs with the other employee compensation costs within the result from operations. The other components will be reported separately outside of the result of operations.

Certain risks and uncertainties

The Company is subject to risks common to companies in its industry including but not limited to: uncertainty of results of clinical trials for its compounds; ability to achieve regulatory approval for its compounds; acceptance of Company’s

products by the market in case they obtained regulatory approval; ability to market its products; ability to manufacture its products at reasonable costs; protection of proprietary technology and intellectual property; development of new technological innovations by its competitors; dependence on key personnel; dependence on key suppliers; changes in foreign currency rates and compliance with governmental and other regulations.

New accounting pronouncements

As new accounting pronouncements are released, the Company reviews such pronouncements for the potential impact on the Company's financial statements. The new accounting pronouncements below may have an impact on the financial statements of the Company.

In November 2018, the FASB issued ASU No. 2018-18, "Collaborative Arrangements" (Topic 808) - Clarifying the interaction between Topic 808 and Topic 606: the amendment provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606. In addition, the amendment provides more comparability in the presentation of revenue for certain transactions between collaborative arrangement participants.

The amendments in this update will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2019, whereby early adoption is permitted in any interim or annual period. The Company is currently assessing the impact on the financial statements of this amendment.

In August 2018, the FASB issued ASU No. 2018-14, "Compensation-Retirement Benefits-Defined Benefit Plans-General" (Subtopic 715-20). The amendment modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendment is effective for fiscal years ending after December 15, 2020 and must be applied retrospectively to all periods presented. The Company does currently not expect that the adoption of this guidance will have a material impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). The key features of the new standard are: lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases), while finance leases will result in a front-loaded expense pattern (similar to current capital leases).
The standard will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company anticipates adopting the new standard using the modified retrospective method. The Company has substantially completed the analysis of all lease contracts. Based on this review, the Company currently does not expect that the implementation of the new standard will have a material impact on the financial statements.

There are no other pronouncements or interpretations which are not yet effective which would be expected to have a material impact on the Company.

The following accounting pronouncements were effective for reporting periods beginning after December 15, 2017: ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606) – the impact of implementation of this accounting pronouncement is included within this footnote.
ASU No. 2016-18, "Statement of Cash Flows" (Topic 230) – restricted cash balances are included into the reconciliation of the beginning to the end of period cash balance of the consolidated statements of cash flows.
ASU No. 2017-07, "Compensation - Retirement Benefits" (Topic 715) - other components of net periodic pension cost are disclosed as a separate line item in the consolidated statements of operations. The research & development expenses, net and selling, general & administrative expenses of prior period were accordingly adjusted. For the year ended December 31, 2017 the research & development expenses, net and selling, general & administrative expenses were increased by CHF 1.6 million and CHF 1.3 million, respectively. The corresponding income for the year ended December 31, 2017 of CHF 2.9 million is disclosed as separate line items as other components of net periodic pension costs.
ASU No. 2017-09, "Compensation – Stock Compensation" (Topic 718) - the implementation of this accounting pronouncement did not have a significant impact on these consolidated financial statements.

2 Tangible assets

In CHF million	Land/Land-use rights	Buildings	Equipment	Total
2018				
Cost				
January 1, 2018	1.5	19.1	24.5	45.1
Additions	0.0	0.0	0.3	0.3
Disposals	0.0	0.0	(0.1)	(0.1)
Currency effect	0.0	(0.1)	(0.2)	(0.3)
December 31, 2018	1.5	19.0	24.5	45.0
Accumulated depreciation				
January 1, 2018	0.0	14.3	23.0	37.3
Additions	0.0	1.0	0.7	1.7
Disposals	0.0	0.0	(0.1)	(0.1)
Currency effect	0.0	(0.1)	(0.2)	(0.3)
December 31, 2018	0.0	15.2	23.4	38.6
Net book value as of December 31, 2018	**1.5**	**3.8**	**1.1**	**6.4**
2017				
Cost				
January 1, 2017	1.5	18.9	24.8	45.2
Additions	0.0	0.1	0.6	0.7
Disposals	0.0	0.0	(1.0)	(1.0)
Currency effect	0.0	0.1	0.1	0.2
December 31, 2017	1.5	19.1	24.5	45.1
Accumulated depreciation				
January 1, 2017	0.0	13.4	22.9	36.3
Additions	0.0	0.9	0.9	1.8
Disposals	0.0	0.0	(1.0)	(1.0)
Currency effect	0.0	0.0	0.2	0.2
December 31, 2017	0.0	14.3	23.0	37.3
Net book value as of December 31, 2017	**1.5**	**4.8**	**1.5**	**7.8**

3 Intangible assets

The intangible assets as of December 31, 2018 and 2017 consist of software for internal use:

In CHF million	2018	2017
Cost		
January 1	**5.0**	**4.8**
Additions	0.2	0.2
Disposals	-	-
Currency effect	0.0	0.0
December 31	**5.2**	**5.0**
Accumulated amortization		
January 1	**4.7**	**4.6**
Additions	0.1	0.1
Disposals	-	-
Currency effect	0.0	0.0
December 31	**4.8**	**4.7**
Net book value as of December 31	**0.4**	**0.3**

The expected future annual amortization of intangible assets is as follows:

Amount in CHF million	
2019	0.1
2020	0.1
2021	0.0
2022	-
2023	-
Thereafter	-
Total	**0.2**

4 Segment and geographic information

The Company operates in one segment, which is the discovery, development and commercialization of innovative pharmaceutical products. The Company's CEO, who is the chief operating decision maker (CODM) of the Company, reviews the statement of operations of the Company on a consolidated basis and makes decisions and manages the operations of the Company as a single operating segment.

The geographical allocation of the long-lived assets of the Company is presented in the following table:

In CHF million	2018	2017
Switzerland	5.4	6.4
China	1.0	1.4
Total	**6.4**	**7.8**

The revenues with external customers were realized in the following geographies:

In CHF million	2018
Japan	43.0
Republic of Ireland	30.6
USA	25.9
UK	23.9
Other	9.2
Total	**132.6**

In CHF million	2017
UK	39.7
Japan	31.7
USA	10.5
Republic of Ireland	6.0
Other	13.6
Total	**101.5**

The attribution of revenues to geography was done according to the location of the customer.

In 2018, the Company recognized total revenue in the amount of CHF 23.9 million (2017: CHF 37.7 million) with Stiefel, a GSK company (Stiefel), CHF 41.7 million (2017: CHF 30.2 million) with Astellas, CHF 25.9 million (2017: CHF 10.5 million) with BARDA and CHF 30.6 million (2017: CHF 6.0 million) with Pfizer Inc.

5 Accounts receivable

The accounts receivable primarily consist of receivables from product revenue as well as receivables related to activities for isavuconazole for Astellas. As of December 31, 2018, the Company recorded an allowance for estimated uncollectible receivables of CHF 0.0 million (December 31, 2017: none).

6 Short- and long-term investments

The short-term investments as of December 31, 2018 contain short-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 50.0 million (December 31, 2017: CHF 60.0 million). As of December 31, 2018 the Company had no long-term investments (December 31, 2017: CHF 50.0 million).

7 Cash and cash equivalents

Cash and cash equivalents consisted of the following components:

In CHF million	2018	2017
Cash	37.4	50.1
Short-term time deposits	135.6	150.6
Total	**173.0**	**200.7**

As of December 31, 2018, the Company had outstanding bank guarantees in the amount of CHF 1.1 million (December 31, 2017: CHF 2.1 million).

8 Other receivables

The following table shows the components of other receivables as of December 31, 2018 and 2017:

In CHF million	2018	2017
VAT receivables	3.2	1.4
Royalty receivables (see Note 10 Agreements)	9.1	5.9
Contractual milestone receivables (see Note 10 Agreements)	10.3	-
Receivables from BARDA (see Note 10 Agreements)	7.8	2.4
Other	0.6	0.4
Total	**31.0**	**10.1**

9 Inventories

The following table shows the components of inventories as of December 31, 2018 and 2017:

In CHF million	2018	2017
Raw materials	2.1	1.9
Semi-finished products	24.5	21.5
Finished products	2.8	2.5
Inventory provisions	(15.0)	(10.6)
Total	**14.4**	**15.3**

The Company owns manufacturing material valued at cost which was partly produced prior to obtaining regulatory approval for ceftobiprole and isavuconazole. As ceftobiprole and isavuconazole obtained regulatory approval in 2013 and 2015 respectively, the ceftobiprole and isavuconazole inventory is presented gross in the inventory table above. Inventory provisions in the total amount of CHF 9.2 million reflect that material was produced prior to approval. The Company intends to use such material to manufacture products for commercialization. In addition, as of December 31, 2018, the Company recorded provisions for other inventory in the total amount of CHF 5.8 million.

10 Agreements

License agreement with Pfizer related to isavuconazole

In June 2017, the Company entered into a license agreement with Pfizer Inc. for isavuconazole. The transaction was completed on July 19, 2017. Under the agreement Pfizer Inc. has the right to exclusively commercialize the drug in Europe (excluding the Nordics), Russia, Turkey and Israel (the Territory) and to manufacture isavuconazole for the Territory. In November 2017, the original license agreement was amended (the Amendment) to extend the Territory to China (including Hong Kong and Macao) and 16 countries in the Asia Pacific region (the extended Territory). The Amendment was completed on January 10, 2018.

Under the terms of the original agreement, the Company was eligible to receive a non-refundable upfront payment of CHF 70 million and will be eligible to receive up to USD 427 million in additional non-refundable milestone payments upon achievement of pre-specified regulatory and sales milestones. Under the terms of the Amendment, the Company was eligible for an additional non-refundable upfront payment of USD 3 million and will be eligible to receive up to USD 223 million in additional non-refundable milestone payments upon achievement of pre-specified regulatory and commercial milestones related to the extended Territory. In addition, the Company will also receive royalties in the mid-teen range on Pfizer Inc.'s sales in the Territories.

The original agreement consists of three deliverables: grant of an exclusive commercial license, obligation to supply isavuconazole to Pfizer Inc. during the supply service period (the Supply Service Term) and execution of the pediatric investigation plan (PIP) studies. The Company determined that the grant of the exclusive commercial license and obligation to supply isavuconazole to Pfizer Inc. represents one combined performance obligation, whereas the PIP studies represent a separate one.

The Amendment consists of two deliverables: grant of an exclusive commercial license and services to support the Clinical Trial Application (CTA) for China. The Company determined that the grant of the exclusive commercial license and obligation to support the CTA for China represent one combined performance obligation.

In 2017, the Company received a non-refundable upfront payment of CHF 70.0 million from Pfizer Inc. The execution of the PIP studies is covered by a separate contractual milestone reflecting its standalone selling price. The

non-refundable upfront payment was deferred and is recognized as product revenue as each unit of isavuconazole is sold to Pfizer Inc. based on the standalone selling price of each unit during the Supply Service Term. The Company concluded that the Amendment results in a separate performance obligation based on the contract modification which is treated as a separate contract.

In 2018, under the Amendment, the Company received a non-refundable upfront payment of USD 3.0 million (CHF 2.9 million) from Pfizer Inc. The entire non-refundable upfront payment was allocated to the combined performance obligation for the grant of the exclusive commercial license and obligation to support the CTA for China. The non-refundable upfront payment was fully recognized as contract revenue in 2018 upon fulfilling the performance obligation.

As the Company acts as principal for the sale of the product during the Supply Service Term, the sales of product to Pfizer Inc. will be recorded gross and recognized in product revenue upon delivery. Any future milestone payments will be recognized as contract revenue over the remaining performance period based on the progress towards satisfying its identified performance obligation. Royalty revenue will be recognized when earned as the license is the predominant item of the contract.

As of December 31, 2018, the Company presented deferred revenue of CHF 52.4 million (December 31, 2017: CHF 67.0 million) on its balance sheet, of which CHF 11.1 million (December 31, 2017: CHF 11.1 million) is presented as current liabilities. The Company expects to recognize the revenue over the next two years.

In 2018, the Company recognized CHF 21.8 million (2017: CHF 4.3 million) as product revenue related to the upfront payment for the Territory and product sales to Pfizer Inc., royalty revenue of CHF 5.6 million (2017: CHF 1.7 million), as well as contract revenue related to the upfront payment for the extended Territory of CHF 2.9 million (2017: none).

License agreement with Astellas related to isavuconazole

In February 2010, the Company entered into a license, co-development and co-promotion agreement with Astellas Pharma Inc. (Astellas) for isavuconazole.

Under this agreement, the Company was eligible for a non-refundable upfront payment of CHF 75 million and non-refundable milestone payments of up to CHF 478 million based on the achievement of milestones related to regulatory filing, regulatory approval and commercialization of isavuconazole. In addition, the Company was also eligible for double-digit tiered royalty payments.

The agreement was amended in February 2014, providing the Company full rights to isavuconazole in all markets outside of the U.S. and Canada in return for foregoing the Company's right to co-promote the product in the U.S. and Canada, its right to receive payments related to co-promotion, and EU milestone payments. In addition, the amended agreement contains the Company's obligation to execute the European PIP studies. Hence, the Company determined that the amendment was a modification with an adjustment of an existing contract to be accounted for prospectively. The agreement was further amended in August 2015, providing the Company full rights to isavuconazole in all markets outside the U.S. The Company determined that the amendment in August 2015 was not a significant modification. The Company and Astellas continue to coordinate their development and manufacturing activities and each company is responsible for commercial activities in its respective territory.

Under the terms of the agreement as amended, the Company continued to be entitled to receive regulatory milestone payments of total CHF 42 million, sales milestone payments of up to CHF 290 million and royalty payments from Astellas relating to its territory. The Company received, respectively was eligible to receive, total CHF 42.0 million regulatory milestone payments in 2014 and 2015 and sales milestone payments of CHF 10.0 million and CHF 5.0 million in 2018 and 2017 from Astellas. The achievement and timing of further sales milestones depend on the sales progress of the product in the future.

The agreement is a multiple-element arrangement with several deliverables, mainly the grant of an exclusive license, compensation for co-payment of development services, participation in the joint steering committee or coordination committee (the Committee), development-related manufacturing services and the European PIP studies. The arrangement provides a separate pricing for commercial-related manufacturing services and sale of clinical supplies.

Astellas' responsibilities are primarily related to managing the clinical and non-clinical development, particularly the pivotal phase 3 studies. The Company is primarily responsible to manage the manufacturing process development, the European PIP studies, as well as the manufacturing and procurement of clinical supplies related to the co-development services. With respect to the Committee, the Company is required to participate in those committee meetings, whereby it oversees the development, regulatory activities directed towards marketing approval, manufacturing and commercialization phases.

The agreement consists of several deliverables: the co-development services, the commercial-related manufacturing services, the grant of the license to Astellas, the European PIP studies and participation in the Committee. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting, with the European PIP studies and the commercial-related manufacturing services consisting of two others. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting since they do not have value to Astellas on an individual stand-alone basis. The commercial-related manufacturing services and the European PIP studies are other units of accounting since they have value to Astellas and there is evidence of the stand-alone selling price for these obligations in the arrangement. The entire upfront payment was allocated to the units of accounting composed of the co-development services, the grant of the license, the participation in the Committee and the European PIP studies. The related revenue is recognized over the period where the performance obligation is satisfied, being the period over which the services are rendered. The period during which the Company has to satisfy its contractual performance obligations is expected to be until October 2020.

In 2010, the Company received a non-refundable net upfront payment of CHF 67.5 million (gross payment of CHF 75.0 million less withholding tax of CHF 7.5 million) from Astellas. This net upfront payment was recognized as deferred revenue. The upfront payment covered the grant of an exclusive license, compensation for co-development services and the participation in the Committee. As of December 31, 2018, the Company presented deferred revenue of CHF 8.3 million (December 31, 2017: CHF 12.9 million) on its balance sheet, of which CHF 4.5 million (December 31, 2017: CHF 4.5 million) is presented as current liabilities. In 2018 and 2017, the Company recognized CHF 4.5 million as contract revenue related to this upfront payment for the grant of license.

In September 2014, the U.S. Food and Drug Administration (FDA) accepted the filing of Astellas' New Drug Application (NDA) for isavuconazole, seeking

approval of isavuconazole for the treatment of invasive aspergillosis and invasive mucormycosis in adults. Based on this acceptance, the Company received a non-refundable milestone payment of CHF 12.0 million from Astellas. This milestone payment was recognized as deferred revenue. The milestone payment covered the grant of an exclusive license, compensation for co-development services, the participation in the Committee and the European PIP studies. As of December 31, 2018, the Company presented deferred revenue of CHF 3.3 million (December 31, 2017: CHF 5.5 million) on its balance sheet, of which CHF 1.8 million (December 31, 2017: CHF 2.0 million) is presented as current liabilities. In 2018, the Company recognized CHF 1.8 million as contract revenue related to this additional milestone payment received upon acceptance of filing (2017: CHF 2.0 million).

In March 2015, the FDA approved Astellas' NDA for the use of isavuconazole for patients 18 years of age and older in the treatment of invasive aspergillosis and invasive mucormycosis. Based on the approval, the Company received a non-refundable milestone payment of CHF 30.0 million from Astellas. This milestone payment was recognized as deferred revenue. The milestone payment covered the grant of an exclusive license, compensation for co-development services, the participation in the Committee and the European PIP studies. As of December 31, 2018, the Company presented deferred revenue of CHF 8.1 million (December 31, 2017: CHF 15.0 million) on its balance sheet, of which CHF 4.4 million (December 31, 2017: CHF 5.3 million) is presented as current liabilities. In 2018, the Company recognized CHF 4.4 million as contract revenue related to this additional milestone payment received upon approval (2017: CHF 5.3 million).

In December 2018 and October 2017, the Company was eligible, respectivelly received sales milestone payments of CHF 10.0 million and CHF 5.0 million from Astellas as certain thresholds of net sales of isavuconazole in the U.S. were exceeded. The Company fully recognized these sales milestones of CHF 10.0 million and CHF 5.0 million as contract revenue in 2018 and 2017.

In 2018, the Company recognized CHF 20.7 million (2017: CHF 16.8 million) as contract revenue related to the upfront and milestone payments and recognized additional contract revenue in the total amount of CHF 20.8 million (2017: CHF 13.4 million) comprising CHF 20.8 million (2017: CHF 13.3 million) related to royalties and CHF 0.0 million (2017: CHF 0.1 million) related to services provided by the Company to Astellas related to isavuconazole.

In 2018, the Company reported CHF 2.2 million (2017: CHF 1.0 million) research and development expenses for isavuconazole net of cost reimbursements from Astellas of CHF 0.2 million (2017: CHF 0.3 million) in research and development expenses, net since the Company does not have the risks and rewards as principal based on the terms of the arrangement and the nature of the activities carried out, and therefore acts as an agent for these transactions.

License agreement with Asahi Kasei Pharma related to isavuconazole

In March 2016, the Company entered into a development and commercialization agreement with Asahi Kasei Pharma Corporation (Asahi Kasei Pharma) to develop, register and commercialize Basilea's antifungal drug isavuconazole in Japan. Asahi Kasei Pharma is responsible for conducting clinical studies necessary to apply for a marketing authorization for isavuconazole in Japan for the treatment of invasive aspergillosis and mucormycosis and for applying for such authorization. Once isavuconazole is authorized, the Company will perform the commercial manufacturing services and Asahi Kasei Pharma will commercialize the product in Japan. Asahi Kasei Pharma will purchase the product for commercialization from the Company.

Under the terms of the agreement, the Company granted Asahi Kasei Pharma an exclusive license to develop, register and commercialize isavuconazole in Japan. The Company was eligible for a non-refundable upfront payment of CHF 7 million and will be eligible to receive up to approximately CHF 60 million of additional payments upon achievement of regulatory and commercial milestones. In addition, the Company will also be eligible for double-digit tiered royalty payments on sales in Japan.

In addition to the license, the agreement states that the Company has an obligation to manufacture and supply the product for clinical studies and to provide materials, documentation and support (together the Ongoing Documentation and Information Transfer Obligation). Because the separation criterion is not met, the license and the Ongoing Documentation and Information Transfer Obligation are accounted for as one unit of accounting and the entire upfront payment was allocated to the unit of accounting. The related revenue is recognized over the period over which the Ongoing Documentation and Information Transfer Obligation is provided up to submission of the NDA.

The Company concluded that the commercial manufacturing service is not a deliverable because the service is dependent on the clinical results, the approval of the NDA, and the agreement of specific commercial manufacturing terms. The further milestone payments will be recognized as contract revenue upon satisfaction of the criteria associated with the milestone. Royalty revenue will be recognized when earned.

In 2016, the Company received a non-refundable upfront payment of CHF 7.0 million from Asahi Kasei Pharma. This upfront payment was deferred and is recognized as contract revenue over the remaining service period, expected to be until the fourth quarter of 2021 in line with the period over which the Ongoing Documentation and Information Transfer Obligation is provided up to submission of the NDA. As of December 31, 2018, the Company presented deferred revenue of CHF 4.0 million (December 31, 2017: CHF 5.3 million) on its balance sheet, of which CHF 1.3 million (December 31, 2017: CHF 1.3 million) is presented as current liabilities.

In 2018 and 2017, the Company recognized CHF 1.3 million as contract revenue related to this upfront payment.

License agreement with Shenzhen China Resources Gosun Pharmaceuticals Co. Ltd. related to ceftobiprole

In September 2017, the Company entered into a development, manufacturing and commercialization agreement with Shenzhen China Resources Gosun Pharmaceuticals Co. Ltd. (Gosun) to develop, manufacture and commercialize Basilea's antibiotic ceftobiprole in China, Hong Kong and Macao (the Territory). Gosun is responsible for conducting clinical studies necessary to apply for a marketing authorization for ceftobiprole in the Territory and for applying for such authorization. Once ceftobiprole is authorized, Basilea will initially supply the product to Gosun at a transfer price and will be eligible for tiered double-digit royalties on product sales once Gosun manufactures ceftobiprole itself.

Under the terms of the agreement, the Company granted Gosun an exclusive license to develop, register, commercialize and manufacture ceftobiprole in the Territory. The Company was eligible for a non-refundable upfront payment of CHF 3 million and will be eligible to receive up to approximately CHF 145 million of additional payments upon achievement of regulatory and commercial milestones.

In addition to the license, the agreement states that the Company has an obligation to manufacture and supply the product for clinical studies and to provide materials, documentation and support (Ongoing Clinical Supply and Information Transfer Obligation). Because the separation criterion is not met, the license and the Ongoing Clinical Supply and Information Transfer Obligation are accounted for as one unit of accounting and the entire upfront payment was allocated to one unit of accounting. The related revenue is recognized over the performance period, being the period over which the Ongoing Clinical Supply and Information Transfer Obligation is provided up to the grant of the imported drug license (IDL) or the approval of a domestic drug application (DDA).

The Company concluded that the commercial manufacturing service is not a deliverable because the service is dependent on the clinical results and the grant of the IDL or approval of the DDA. Thus, any future milestone payments will be recognized as contract revenue upon satisfaction of the criteria associated with the specific milestone. Royalty revenue will be recognized when earned.

In 2017, the Company received a non-refundable net upfront payment of CHF 2.7 million (gross payment of CHF 3.0 million less withholding tax and stamp duty of CHF 0.3 million) from Gosun. The upfront payment was deferred and is recognized as contract revenue over the remaining service period, expected to be until the first quarter of 2022 in line with the period over which the Ongoing Clinical Supply and Information Transfer Obligation is provided up to grant of the IDL or approval of DDA. As of December 31, 2018, the Company presented deferred revenue of CHF 2.0 million (December 31, 2017: CHF 2.6 million) on its balance sheet, of which CHF 0.6 million (December 31, 2017: CHF 0.6 million) is presented as current liabilities.

In 2018, the Company recognized CHF 0.6 million (2017: CHF 0.1 million) as contract revenue related to this upfront payment.

Distribution agreements

In 2017 and 2016, the Company entered into exclusive distribution agreements for Basilea's antifungal isavuconazole and antibiotic ceftobiprole with Avir Pharma Inc. for Canada, Grupo Biotoscana S.L. (GBT) for Latin and South America and Unimedic Pharma AB (Unimedic) for the Nordic countries, respectively. In 2017, the Company also entered into an exclusive distribution agreement for Basilea's antibiotic ceftobiprole with Correvio Pharma Corp. (Correvio) for Europe (excluding the Nordic countries) and Israel. In addition, the Company expanded its existing distribution agreement for ceftobiprole in 2016 with Hikma Pharmaceuticals LLC (Hikma) for the Middle East and North Africa for isavuconazole.

Under these distribution agreements, the Company was eligible for non-refundable upfront payments of CHF 19.4 million and is eligible for sales milestone payments of up to CHF 132.7 million related to the commercialization of isavuconazole and ceftobiprole in these territories. In addition, the Company will sell the products to these distributors for the commercialization in the territories, and will recognize the related revenue in product revenue.

In 2017 and 2016, the Company received non-refundable upfront payments of CHF 6.3 million and CHF 12.1 million, respectively, in connection with these distribution agreements. In 2015, the Company received a non-refundable upfront payment of CHF 1.0 million. Thereof, CHF 6.3 million and CHF 12.0 million were recorded as deferred revenue in 2017 and 2016, respectively. In 2015, CHF 1.0 million was recorded as deferred revenue. The deferred revenue is recognized as contract revenue over the remaining performance period, approximately

until 2032. As of December 31, 2018, the Company presented deferred revenue of CHF 16.8 million (December 31, 2017: CHF 18.1 million) on its balance sheet, of which CHF 1.3 million (December 31, 2017: CHF 1.2 million) is presented as current liabilities.

In July 2018 and October 2017, the Company received regulatory milestone payments of CHF 2.0 million, each, from GBT. The Company fully recognized these regulatory milestone payments of CHF 2.0 million, each, as contract revenue in 2018 and 2017.

In 2018, the Company recognized CHF 3.9 million (2017: CHF 3.0 million) as contract revenue related to these payments and product revenue in the total amount of CHF 4.4 million (2017: CHF 0.7 million) related to these distribution agreements.

Global agreement with Stiefel related to Toctino®

In July 2012, the Company granted a license to know-how and transferred the assets and the business related to Toctino (alitretinoin) to Glaxo Group Limited, a division of Glaxo Smith Kline plc, referred to herein as Stiefel, a GSK Company. The Company received an initial payment of GBP 145.6 million (CHF 224.1 million) from Stiefel. Existing Toctino distribution agreements were assigned to Stiefel.

In January 2016, the Company was informed by Stiefel that it had elected to discontinue its U.S. alitretinoin program. Therefore, the Company is no longer eligible to receive further payments upon FDA approval of the product in the U.S. and corresponding participation in U.S. net sales under the agreement with Stiefel. Stiefel continues to commercialize alitretinoin outside the U.S. In March 2017, the Company received the U.S. alitretinoin rights back from Stiefel.

The agreement consists of two deliverables: grant of the license to the know-how and the transfer of the Toctino assets and business. In July 2012, the Company received an initial payment of CHF 224.1 million (GBP 145.6 million). The Company determined that the value of the business was insignificant and, as a result, allocated no value to the business. The entire consideration was allocated to the license of the know-how, and was deferred and is recognized as contract revenue over the expected period during which the Company has to satisfy its performance obligations until August 2018. The Company's substantial ongoing obligations towards Stiefel are to provide operational, technical and scientific support including the furnishing of information and discussion of topics related to preparation of market authorization applications, other regulatory activities, post-launch monitoring and safety requirements, commercialization, commercial supply chain, and manufacturing process and requirements related to the API and drug product. As of December 31, 2018, the Company presented no deferred revenue (December 31, 2017: CHF 23.9 million as current liabilities) on its balance sheet.

In 2018, the Company recognized CHF 23.9 million (2017: CHF 37.7 million) as contract revenue related to this upfront payment.

Contract with BARDA for ceftobiprole U.S. phase 3 development program

In April 2016, the Company entered into a contract with BARDA for the clinical phase 3 development of ceftobiprole aiming to gain regulatory approval for the drug in the U.S. As of December 31, 2018, the Company was awarded a total amount of USD 94.8 million (December 31, 2017: USD 74.8 million) under this contract to support the phase 3 development of ceftobiprole. As of December 31, 2018, the Company received a total of USD 20.8 million or CHF 20.4 million, respectively (December 31, 2017: USD 9.0 million or CHF 8.9 million, respectively)

in payments from BARDA under the contract. The Company considers the arrangement to be part of its ongoing major operations. Hence, other revenue is recorded when recoverable costs are incurred.

In 2018, the Company recognized CHF 25.9 million (2017: CHF 10.5 million) as other revenue related to the BARDA contract.

License agreement with ArQule Inc. related to derazantinib

In April 2018, the Company entered into a license agreement with ArQule Inc. for the oncology drug candidate ARQ 087 (derazantinib). The exclusive license is worldwide, excluding China, Hong Kong, Macau and Taiwan.

Under the terms of the agreement, ArQule Inc. grants the Company rights to research, develop, manufacture and exclusively commercialize derazantinib worldwide, excluding China, Taiwan, Hong Kong and Macau. The Company made an upfront payment to ArQule Inc. of USD 10.0 million (CHF 9.6 million) upon execution of the agreement. ArQule Inc. is eligible to regulatory and sales milestone payments of up to USD 326 million upon reaching certain clinical, regulatory and commercial milestones as well as to staggered single to double-digit royalties on sales upon commercialization.

In 2018, the Company recognized CHF 18.3 million (2017: none) in research and development expenses, net related to this agreement.

License agreement for targeted cancer therapy

In March 2015, the Company entered into a license agreement for panRAF kinase inhibitors with a consortium of organizations including The Institute of Cancer Research, Cancer Research Technology, the Wellcome Trust and The University of Manchester. The agreement provides the Company exclusive worldwide rights to develop, manufacture and commercialize certain panRAF kinase inhibitors which originate from The Institute of Cancer Research where it was developed by scientists funded by Cancer Research UK and the Wellcome Trust.

Under the terms of the agreement, the consortium will conduct clinical phase 1 development for the lead compound. The Company will assume full operational responsibility thereafter. The consortium received from the Company an upfront payment and milestone payments and is eligible to receive further milestone payments upon achievement of pre-specified clinical, regulatory and commercial milestones, as well as tiered royalties on future net sales.

In 2018, the Company recognized CHF 0.8 million (2017: CHF 0.5 million) in research and development expenses, net related to this agreement.

11 Convertible senior unsecured bonds

On December 23, 2015, the Company issued CHF 200 million aggregate principal amount of convertible senior unsecured bonds which were sold to existing shareholders and certain institutional investors (Holders). The Company received total net proceeds from the sale of the convertible senior unsecured bonds of approximately CHF 194.7 million, after deducting issuance costs of CHF 5.3 million. The convertible senior unsecured bonds are accounted for at amortized cost. The following table shows the carrying amount of the convertible senior unsecured bonds as of December 31, 2018 and 2017:

In CHF million	2018	2017
Convertible senior unsecured bonds	197.0	196.2

The convertible senior unsecured bonds were issued bearing interest at a fixed rate of 2.75% per year (payable semi-annually in arrears on December 23 and June 23 of each year) and will mature on December 23, 2022 (Maturity Date), unless earlier redeemed or converted. Holders may convert their convertible senior unsecured bonds at their option into shares up to and including the earlier of seven trading days before the Maturity Date, or ten trading days prior to an early redemption. In the event of conversion of the convertible senior unsecured bonds, the Company will deliver shares of the Company's common stock. The conversion ratio is initially approximately 39.6504 shares per bond representing CHF 5,000, the principal amount of one bond (equivalent to an initial conversion price of CHF 126.1020 per share of the Company's common stock). For all convertible senior unsecured bonds together the current number of underlying shares is 1,586,017 shares. The conversion ratio and the corresponding conversion price will be subject to adjustment upon the occurrence of certain events, but will not be adjusted for any accrued and unpaid interest. If the Company undergoes a fundamental change, Holders may require the Company to purchase for cash all or part of their convertible senior unsecured bonds at a purchase price equal to 100% of the principal amount of the convertible senior unsecured bonds to be purchased, plus accrued and unpaid interest. In addition, if certain make-whole fundamental changes occur, the Company will, in certain circumstances, adjust the conversion price for any convertible senior unsecured bonds converted in connection with such make-whole fundamental change. The convertible senior unsecured bonds will be redeemable at the Company's option on or after January 7, 2021, if the volume weighted average price of a share on each of at least 20 out of 30 consecutive trading days ending not earlier than five trading days prior to the giving of the notice of redemption is at least 130% of the prevailing conversion price; or at any time if less than 15% of the aggregate principal amount is outstanding.

Total issuance costs of CHF 5.3 million related to the convertible senior unsecured bonds include legal fees and other issuance-related costs and were deducted from the proceeds of the convertible senior unsecured bonds. The Company will accrete the issuance costs as interest expense over the contractual term of the convertible senior unsecured bonds.

For the years ended December 31, 2018 and 2017, the Company recognized interest expense of CHF 5.5 million for contractual coupon interest and CHF 0.8 million for accretion of the issuance costs. The remaining unamortized debt issuances costs of CHF 3.0 million will be accreted over the remaining term of the convertible senior unsecured bonds, which is approximately 4 years.

The amortization table related to the convertible senior unsecured bonds as of December 31, 2018 is as follows:

Amount in CHF million	
2019	6.3
2020	6.3
2021	6.3
2022	206.0
Total minimum payments, including unamortized issuance costs	**224.9**
Less amount representing interest	(24.9)
Convertible senior unsecured bonds, gross	**200.0**
Unamortized issuance costs on convertible senior unsecured bonds	(3.0)
Convertible senior unsecured bonds, including unamortized issuance costs	**197.0**

In accordance with ASC 260, Earnings per Share, the issuance of the convertible senior unsecured bonds requires the use of the "if-converted" basis when calculating the Company's dilutive net income (loss) per share. Net income is adjusted to exclude, or add-back, all convertible senior unsecured bonds related earnings effects including interest charges and amortization of debt issuance costs. Weighted average shares are adjusted using the conversion ratio as if the convertible senior unsecured bonds had been converted at the date of issuance which corresponds to 1,586,017 shares of common stock. See Note 16 to these consolidated financial statements for a computation of diluted loss per share.

12 Accruals and other current liabilities

Accruals and other current liabilities as of December 31, 2018 and 2017 consisted of the following:

In CHF million	2018	2017
Accrued research & development expenses	15.2	6.5
Accrued personnel and compensation costs	8.3	8.3
Accrued sales and marketing expenses	3.2	4.8
Other	8.6	5.6
Total accruals and other current liabilities	**35.3**	**25.2**

The other current liabilities include income tax payables solely related to foreign taxable income.

13 Income taxes

As of December 31, 2018, the Company has tax loss carry forwards of CHF 585.6 million as (December 31, 2017: CHF 382.8 million) of which CHF 309.9 million will expire within the next five years and CHF 275.7 million will expire between six and eight years. In 2018, tax loss carry forwards of CHF 1.4 million expired.

The significant components of net deferred taxes as of December 31, 2018 and 2017 are shown in the following table:

In CHF million	2018	2017
Deferred tax assets:		
Net benefit from tax loss carry forwards[1]	87.8	73.9
Deferred revenue	19.6	30.1
Stock-based compensation cost	16.1	14.8
Other, net	1.4	1.0
Valuation allowance	(124.9)	(119.8)
Net deferred taxes	**0.0**	**0.0**

1 As of December 31, 2018 and 2017 the position includes CHF 2.2 million related to windfall tax benefits from stock-based compensation that would be credited to shareholders' equity, if realizable.

The Company has established a valuation allowance in 2018 and 2017 to reduce the net deferred taxes, as the Company deemed it to be not more likely than not that the future deferred tax assets would be realized in the future based on the lack of sufficient positive evidence in the jurisdictions related to the realization of the deferred tax assets.

The effective tax rate for 2018 was 0.6% (2017: 1.8%). The following table shows the income taxes in 2018 and 2017:

In CHF million	2018	2017
Current tax expenses	(0.2)	(0.3)
Total income tax expenses	**(0.2)**	**(0.3)**

The current tax expenses in 2018 and 2017 are solely related to foreign taxable income.

The expected tax rate for 2018 was 15.9% (2017: 14.2%). The following table shows the reconciliation between expected and effective tax rate:

In percent	2018	2017
Expected tax rate [1]	15.9	14.2
Effect of not-taxable differences [2]	0.1	1.0
Valuation allowance on deferred tax assets	(15.4)	(13.4)
Effective tax rate	**0.6**	**1.8**

1 Weighted average tax rate of Basilea and its subsidiaries.
2 Items not deductible for tax purposes and items that are tax deductible, but do not represent expenses for financial reporting purposes.

Basilea and its subsidiaries file income tax returns in Switzerland and in foreign jurisdictions. Basilea's income tax position in Switzerland is finally assessed up to the fiscal year 2017.

As of December 31, 2018 and 2017, there were no unrecognized tax benefits. The Company did not incur any significant interest or penalties in connection with income taxes in the years 2018 and 2017.

14 Stock-based compensation

The Company established a stock option plan effective on December 13, 2000 to incentivize executives and certain employees with an opportunity to obtain stock options on registered shares of Basilea. In 2018, the stock option plan was amended to allow for gross and/or net settlement of stock options, which will be applied by the Company to ensure that the maximum potential dilution related to all granted options will stay below 10% of the share capital on a fully diluted basis. The shareholders approved conditional capital necessary for the issuance of shares upon the exercise of stock options, of which CHF 1.9 million remain available as of December 31, 2018. CHF 1.5 million of this remaining available conditional capital is reserved for stock options, which were issued and outstanding as of December 31, 2018.

Each stock option entitles the participant to the purchase of one registered share at the strike price pursuant to the terms of the stock option plan. At the end of the option term, all unexercised stock options expire without value.

The vesting periods of the stock options outstanding as of December 31, 2018, which represent the requisite service periods, range from one to four years with contractual terms of the stock options being ten years. The stock option plan foresees accelerated vesting if there is a change of control as defined by the stock option plan.

The following table summarizes the activity under the Company stock option plan:

	Weighted average exercise price (in CHF)	Number of options
Balance at December 31, 2016	**78.48**	**1 407 915**
Options granted	85.70	202 098
Options forfeited	88.89	(41 586)
Options exercised	44.99	(59 683)
Options expired	223.00	(4 299)
Balance at December 31, 2017	**80.08**	**1 504 445**
Options granted	67.50	199 501
Options forfeited	79.88	(32 061)
Options exercised	36.59	(6 900)
Options expired	73.03	(193 290)
Balance at December 31, 2018	**79.51**	**1 471 695**

The following table provides information on the stock options outstanding and the stock options exercisable as of December 31, 2018:

	Options exercisable plus options expected to vest[1]	Options exercisable
Number of options	1 370 995	901 543
Weighted average exercise price, in CHF	79.73	78.58
Weighted average remaining contractual life, in years	5.6	4.2

1 Number of options considers expected forfeitures.

Based on (a) the stock options exercisable as of December 31, 2018, including stock options expected to vest in the future and (b) the stock options exercisable as of December 31, 2018, the aggregate intrinsic values of such number of options were CHF 1.4 million and CHF 1.4 million, respectively. The exercise prices of the options granted in 2018 and 2017 equalled the market price of the shares at the respective grant date.

The weighted average grant-date fair value of options granted in 2018 was CHF 27.27 per option (2017: CHF 35.84). The total aggregate intrinsic value of stock options exercised during 2018 was CHF 0.2 million (2017: CHF 2.4 million).

The fair value of the stock options granted in 2018 and 2017 was determined at the grant date using a binomial model. The weighted average assumptions used for these determinations are outlined in the table below:

	2018	2017
Risk-free interest rate	0.46%	0.13%
Expected term of stock options	7 to 8 years	7 to 8 years
Expected volatility	38%	40%
Expected dividend	-	-

The expected volatility was determined based on the indicative historic volatility of Basilea's share price. The expected term of stock options granted was determined based on management's best estimate of assumed future exercise patterns,

considering both the historic exercise patterns and the expected future development of the Company.

The unrecognized compensation cost as of December 31, 2018 related to stock options amounts to CHF 5.0 million and is expected to be recognized over a weighted average period of 2.2 years.

The Company recorded total stock-based compensation expenses of CHF 6.3 million in 2018 related to its stock-based compensation award programs (2017: CHF 4.6 million), of which CHF 2.7 million was recorded in research & development expenses (2017: CHF 2.0 million) and CHF 3.6 million as part of selling, general & administrative expenses (2017: CHF 2.6 million) in the statement of operations.

15 Shareholders' equity

As of December 31, 2018, Basilea had 11,878,556 registered shares (Namenaktien) issued with a par value of CHF 1.00 per share. As of December 31, 2017, Basilea had 11,871,656 registered shares with a par value of CHF 1.00 per share issued.

In 2018, a total of 6,900 stock options were exercised, using conditional capital, which resulted in the issuance of 6,900 registered shares with a par value of CHF 1.00 per share. In 2017, a total of 59,683 stock options were exercised resulting in the issuance of 59,683 registered shares with a par value of CHF 1.00 per share.

The Company had a total approved conditional capital of CHF 2,521,585 as of December 31, 2018 for the issuance of a maximum of 2,521,585 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,881,585 (1,881,585 registered shares with a par value of CHF 1.00 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1.00 each, available for the potential conversion of the outstanding convertible senior unsecured bonds.

As of December 31, 2018, the Company held treasury shares in the total amount of CHF 7.2 million (December 31, 2017: CHF 1.0 million), comprising of 1,000,000 registered shares with a par value of CHF 1.00 per share held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and further 133,852 registered shares with a par value of CHF 1.00 per share.

By shareholder approval at the 2016 ordinary general meeting of shareholders, Basilea was authorized to increase its share capital by a maximum of CHF 1,000,000 by issuing a maximum of 1,000,000 registered shares with a par value of CHF 1.00 per share. By shareholder approval at the 2017 ordinary general meeting of shareholders, the authorization was increased to CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares with a par value of CHF 1.00 per share. By shareholder approval at the 2018 ordinary general meeting of shareholders, this authorization was extended until April 2020.

Changes in accumulated other comprehensive income/loss as of December 31, 2018 and 2017:

In CHF million	Currency translation adjustment	Unrecognized pension cost	Total
December 31, 2016	**(1.6)**	**(23.3)**	**(24.9)**
Change during the period	0.7	5.0	5.7
Total change during the period	**0.7**	**5.0**	**5.7**
December 31, 2017	**(0.9)**	**(18.3)**	**(19.2)**
Change during the period	(0.6)	3.5	2.9
Total change during the period	**(0.6)**	**3.5**	**2.9**
December 31, 2018	**(1.5)**	**(14.8)**	**(16.3)**

16 Earnings/Loss per share

The calculation of the basic and diluted loss per share in 2018 and 2017 is shown in the table below:

	2018		2017	
	Basic	Diluted	Basic	Diluted
Numerator				
Net loss, in CHF million	(31.4)	(31.4)	(19.4)	(19.4)
Net loss for loss per share calculation, in CHF million	(31.4)	(31.4)	(19.4)	(19.4)
Denominator				
Weighted average shares outstanding, including actual conversion of stock options	10 837 918	10 837 918	10 845 892	10 845 892
Incremental shares according to treasury stock method for assumed conversion of stock options	-	-	-	-
Shares issuable upon conversion of convertible senior unsecured bonds	-	-	-	-
Weighted average shares outstanding, including actual and assumed conversion of stock options	10 837 918	10 837 918	10 845 892	10 845 892
Loss per share in CHF	**(2.89)**	**(2.89)**	**(1.79)**	**(1.79)**

As of December 31, 2018, there were 1,167,770 stock options outstanding with a weighted-average exercise price of CHF 89.42 and 1,586,017 shares issuable upon conversion of convertible senior unsecured bonds, which were not included in the calculation of loss per share for 2018, as the effect of such stock options and shares would have been anti-dilutive.

As of December 31, 2017, there were 907,440 stock options outstanding with a weighted-average exercise price of CHF 95.85 and 1,586,017 shares issuable upon conversion of convertible senior unsecured bonds, which were not included in the calculation of loss per share for 2017, as the effect of such stock options and shares would have been anti-dilutive.

17 Pension plan

The Company joined a collective pension plan operated by an insurance company as of January 1, 2012, which covers the employees of Basilea Pharmaceutica International Ltd., Basel, Switzerland. The regulations under the former pension foundation were fully integrated in the collective pension plan. The pension plan is fully reinsured and provides a guaranteed minimum return.

Both, the Company and the participants provide monthly contributions to the pension plan which are based on the covered salary. The respective saving parts of premium are credited to employees' accounts. In addition, interest is credited to employees' accounts at the rate provided in the plan. The pension plan provides retirement benefits as well as benefits on long-term disability and death.

The pension plan qualifies as a defined benefit plan in accordance with U.S. GAAP.

The following table provides information on the pension plan for the years 2018 and 2017:

In CHF million	2018	2017
Service cost	4.0	4.0
Interest cost	0.5	0.4
Expected return on plan assets	(1.1)	(1.0)
Amortization of pension related net loss	1.5	2.2
Amortization of prior service cost	(0.3)	(0.3)
Settlements	1.1	-
Gross benefit expense	5.7	5.3
Participant contributions	(1.1)	(1.1)
Net periodic pension cost	4.6	4.2

The reconciliation of the projected benefit obligation and the changes to the fair value of the plan assets of the pension plan are shown in the following table:

In CHF million	2018	2017
Projected benefit obligation, beginning of period	**73.5**	**75.0**
Service cost	4.0	4.0
Interest cost	0.5	0.4
Transfers-in and (-out), net	(1.4)	(2.8)
Settlements	(4.8)	-
Actuarial (gain)/loss	0.1	(3.1)
Projected benefit obligation, end of period	**71.9**	**73.5**
Plan assets, beginning of period	**57.2**	**55.3**
Actual return on plan asset	2.5	1.0
Employer contributions	2.6	2.6
Participant contributions	1.1	1.1
Transfers-in and (-out), net	(1.4)	(2.8)
Settlements	(4.8)	-
Plan assets, end of period	**57.2**	**57.2**
Accrued pension liability	**(14.7)**	**(16.3)**

As of December 31, 2018, the Company recorded an accrued pension liability of CHF 14.7 million in other non-current liabilities (December 31, 2017: CHF 16.3 million).

The collective pension plan operated by an insurance company invests its plan assets mainly in cash and cash equivalents, equity funds, equity securities, corporate bonds, government bonds, real estate funds classified as Level 1 and Level 2 under the fair value hierarchy. The pension assets are measured at fair value.

The Company records net gains/losses, consisting of actuarial gains/losses, curtailment gains/losses and differences between expected and actual returns on plan assets, in other comprehensive income/loss.

As of December 31, 2018, the accumulated other comprehensive income/loss includes unrecognized pension cost of CHF 14.8 million, consisting of a net loss of CHF 16.1 million, determined using actuarial assumptions, and a prior service cost of CHF (1.3) million, that have not yet been recognized as a component of net periodic pension cost. As of December 31, 2017, the accumulated other comprehensive income/loss included unrecognized pension cost of CHF 18.3 million, consisting of a net loss of CHF 19.9 million and a prior service cost of CHF (1.6) million, that have not yet been recognized as a component of net periodic pension cost. The Company expects that a net amount of CHF 0.8 million will be reclassified from accumulated other comprehensive income/loss and recognized as a component of net periodic pension cost in 2019 as a result of the amortization of the pension-related net loss and the amortization of the prior service cost.

The following table shows the components of unrecognized pension cost in accumulated other comprehensive income/loss that have not yet been recognized as components of net periodic pension cost:

In CHF million	2018	2017
Net loss, beginning of period	**(19.9)**	**(25.2)**
Other gain/loss during the period	1.2	3.1
Amortization of pension related net loss	1.5	2.2
Settlements	1.1	-
Net loss, end of period	(16.1)	(19.9)
Prior service cost, beginning of period	**1.6**	**1.9**
Amortization of prior service cost	(0.3)	(0.3)
Prior service cost end of period	1.3	1.6
Total unrecognized pension cost, end of period	**(14.8)**	**(18.3)**

The weighted average of the key assumptions used to compute the benefit obligations were as follows:

	2018	2017
Discount rate	1.00%	0.75%
Rate of increase in compensation level	1.50%	1.00%
Expected long-term rate of return on plan assets	2.25%	2.00%

The assumption of the expected long-term rate of return on plan assets was based on the long-term historical rates of returns for the different investment categories which were adjusted, where appropriate, to reflect financial market developments.

The accumulated benefit obligation (ABO) as of December 31, 2018 and 2017 amounts to CHF 66.7 million and CHF 69.0 million respectively.

The investment risk is borne by the insurer and the reinsurer respectively, and the investment decision is taken by the board of trustees of the collective insurance.

The expected amount of employer contributions to the Company's defined benefit pension plan in 2019 is CHF 2.7 million.

The following table provides information on all estimated future undiscounted benefit payments under the Company's pension plan for each of the next five years and the aggregate for the five years thereafter. Besides the retirement benefit payments, these amounts also include payments resulting from death, disability and transfers-out of transportable amounts during the relevant period.

Potential payments transferred into the pension plan resulting from hiring of employees are excluded from the amounts below:

Amount in CHF million	
2019	4.1
2020	3.9
2021	4.7
2022	3.6
2023	3.4
2024 – 2028	19.3

In addition to the defined benefit plan described above, the Company recognized no expenses related to defined contribution plans of Basilea's subsidiaries in 2018 (2017: CHF 0.0 million).

18 Lease commitments

The Company entered into operating lease contracts for office space. The aggregate minimum operating lease payments are expensed on a straight-line basis over the term of the related lease. The total expenses under operating leases were CHF 0.4 million and CHF 0.6 million for the years ending December 31, 2018 and 2017, respectively.

The future minimum payments as of December 31, 2018 for operating leases with initial or remaining non-cancellable terms in excess of one year are as follows:

Amount in CHF million	
2019	0.4
2020	0.3
2021	0.1
2022	-
2023	-
Total	**0.8**

19 Concentration of risk

The Company is generally subject to credit risk related to financial investments. The Company mitigates such credit risk by investing the funds only with counterparties, which are rated as high quality investment grade by a major rating agency or are fully guaranteed by Swiss cantons at the time of the Company's investment. As of December 31, 2018, all investments were invested short-term with one bank and amounted to CHF 50.0 million. As of December 31, 2017, the short-term investments amounted to CHF 60.0 million and the long-term investments amounted to CHF 50.0 million and were invested with two different banks.

The cash and cash equivalents as of December 31, 2018, amounted to CHF 173.0 million, of which CHF 163.3 million were held with three different banks. The cash and cash equivalents as of December 31, 2017 amounted to CHF 200.7 million, of which CHF 183.5 million were held with three different banks. As of December 31, 2018, the highest total amount of cash and cash equivalents and investments held at one bank amounted to CHF 72.3 million. As of

December 31, 2017, the highest total amount of cash and cash equivalents and long-term investments held at one bank amounted to CHF 119.1 million.

The Company is also subject to credit risk related to accounts receivable. The highest total amount of accounts receivable with an individual counterparty as of December 31, 2018, is from Pfizer Inc. in the amount of CHF 2.7 million (December 31, 2017: CHF 2.5 million) in connection with the license agreement related to isavuconazole.

20 Related party transactions

The accounts receivable, accounts payable and accruals and other current liabilities do not include positions due to or from related parties as of December 31, 2018 and 2017.

In 2018 and 2017, the Company paid no fees to its board members for consulting services.

21 Commitments and contingencies

The Company entered into various purchase commitments for services and materials as well as for equipment as part of the ordinary business. In the opinion of management, these commitments are not in excess of current market prices in all material respects, reflect normal business operations and will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

As of December 31, 2018, there are no significant contingencies.

22 Subsequent events

The Company has evaluated subsequent events through February 14, 2019, the date on which the financial statements were available to be issued.

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Report of the statutory auditor on the financial statements

Report of the statutory auditor to the General Meeting of Basilea Pharmaceutica Ltd., Basel

As statutory auditor, we have audited the financial statements of Basilea Pharmaceutica Ltd., which comprise the balance sheet, statement of operations and notes (pages 134 to 142) for the year ended December 31, 2018.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

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

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of investments in subsidiaries and accounts receivables affiliates At December 31, 2018 Basilea Pharmaceutica Ltd. reports net investments in subsidiaries of CHF 79 million and accounts receivables affiliates of CHF 349 million. The balance includes subordinated accounts receivables of CHF 200 million. In 2018 the Company recorded an impairment to the investment of CHF 128 million. We consider the value of these balances to be a key audit matter given their magnitude and the fact that the consolidated financial statements of Basilea Pharmaceutica Ltd. reported a net loss for the year ended December 31, 2018. *Refer to note 1 Summary of significant accounting policies and note 2 Investments (page 137) of the financial statements.*	We assessed whether the carrying value of the investments in subsidiaries and the accounts receivables affiliates is supported as per December 31, 2018. The market capitalization of the Group as at December 31, 2018 is equal to the carrying value of the investments in subsidiaries and accounts receivable affiliates. We consider the market capitalization of the Group to be a relevant measure of the fair value of the investments in subsidiaries and accounts receivables affiliates. We read the minutes of the meetings of the Board of Directors and discussed its contents and the strategic initiatives with Management and the Audit Committee focusing on the relevant judgments relating to the future value of the development projects and the contractual agreements. We determined the fundamental principle used by Management for the purpose of supporting the carrying value of the investments in subsidiaries and accounts receivables affiliates to be reasonable.

Report on other legal requirements

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

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

We further confirm that the proposed appropriation of loss carried forward complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Bruno Rossi
Audit expert
Auditor in charge

Stephen Johnson

Basel, February 14, 2019

Financial statements of Basilea Pharmaceutica Ltd.

Basilea Pharmaceutica Ltd.

Balance sheets as of December 31, 2018 and 2017 (in CHF thousands)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	47 807	56 517
Restricted cash	874	-
Accounts receivable:		
Affiliates	349 044	351 428
Other receivables	55	107
Total current assets	**397 780**	**408 052**
Non-current assets		
Investment in subsidiaries, net	79 314	207 563
Total non-current assets	**79 314**	**207 563**
TOTAL ASSETS	**477 094**	**615 615**
LIABILITIES		
Current liabilities		
Payables, affiliates [1]	263	331
Other current liabilities	1 113	152
Accruals	36	30
Total current liabilities	**1 412**	**513**
Non-current liabilities		
Convertible senior unsecured bonds [1]	196 982	196 224
Total non-current liabilities	**196 982**	**196 224**
Total liabilities	**198 394**	**196 737**
SHAREHOLDERS' EQUITY		
Share capital [2]	11 879	11 872
General reserve:		
Reserve from capital contributions	420 382	419 896
Treasury shares [3]	(7 235)	(1 000)
Accumulated deficit	(11 890)	(7 132)
Net loss	(134 436)	(4 758)
Total shareholders' equity	**278 700**	**418 878**
TOTAL LIABILITIES AND EQUITY	**477 094**	**615 615**

1 Interest-bearing.
2 As of December 31, 2018, 11,878,556 shares (December 31, 2017: 11,871,656) were issued and 10,744,704 shares (December 31, 2017: 10,871,656) outstanding with a par value of CHF 1.00 per share.
3 As of December 31, 2018, 1,133,852 (December 31, 2017: 1,000,000) shares with a par value of CHF 1.00.

These financial statements should be read in conjunction with the accompanying notes.

Basilea Pharmaceutica Ltd.

Statements of operations for the years ended December 31, 2018 and 2017 (in CHF thousands)

	2018	2017
Administrative expenses	(592)	(715)
Impairment	(128 136)	-
Total operating expenses	**(128 728)**	**(715)**
Operating loss	**(128 728)**	**(715)**
Financial income	1 544	2 526
Financial expenses	(7 252)	(6 569)
Loss before taxes	**(134 436)**	**(4 758)**
Income taxes	-	-
Net loss	**(134 436)**	**(4 758)**

These financial statements should be read in conjunction with the accompanying notes.

Basilea Pharmaceutica Ltd.

Notes to the financial statements as of December 31, 2018

1 Summary of significant accounting policies

General information

The financial statements have been prepared in accordance with the Swiss Code of Obligations.

Basilea Pharmaceutica Ltd. (the Company) was founded on October 17, 2000 and has its registered seat in Basel, Switzerland. In 2018 and 2017, the Company had no employees.

Cash and cash equivalents

The Company considers cash equivalents to be highly liquid investments which are readily convertible to cash with original maturities of not more than three months.

Accounts receivable

Accounts receivable and other receivables are recorded at net realizable value after consideration of an allowance for doubtful accounts. The Company generally maintains allowances for estimated uncollectible receivables based on historical experience and specifically identified at-risk accounts. The adequacy of the allowance is evaluated on an ongoing and periodic basis and adjustments are made in the period in which a change in condition occurs. The Company did not record a valuation allowance as of December 31, 2018 and 2017.

Investment in subsidiaries

Investments in subsidiaries include those companies in which the Company has an interest of more than 20%. The investments are valued at acquisition cost less valuation allowances. Valuation allowances are recorded as impairment in the statement of operations to reflect the market value of the group at the balance sheet date.

Convertible senior unsecured bonds

In December 2015, the Company issued convertible senior unsecured bonds in the amount of CHF 200.0 million due on December 23, 2022. The bond carries a coupon of 2.75% per annum and the conversion price is CHF 126.1020. The convertible senior unsecured bonds were issued at 100% of the principal amount and will also mature at 100% of that amount on December 23, 2022, unless previously redeemed, converted or repurchased and cancelled.

Treasury shares

Treasury shares are recognized at the acquisition costs of the shares. Shares issued from treasury are recognized using the first-in first-out method.

Financial Income

This position includes interest income on receivables from group companies and on bank balances.

Financial expenses

Financial expenses mainly include transaction cost and interest related to the convertible senior unsecured bonds issued in 2015.

2 Investments

As of December 31, 2018, the Company holds the following investments[1]:

Company	Location	Ownership interest/ Voting rights	Share capital	Purpose
Basilea Pharmaceutica International Ltd.	Switzerland, Basel	100%	CHF 10 000 000	Research, development, manufacturing, marketing, distribution
Basilea Medical Ltd.	UK, Rickmansworth	100%	GBP 200 000	Marketing authorization holder (EU), regulatory services
Basilea Pharmaceuticals Ltd.	UK, Rickmansworth	100%	GBP 700 000	Distribution
Basilea Pharmaceutica Deutschland GmbH	Germany, Lörrach	100%	EUR 25 000	Distribution
BPh Investitionen Ltd.	Switzerland, Baar	100%	CHF 131 950	Holding company

1 In 2018 and 2017, the Company subordinated accounts receivable from an affiliate in the amount of CHF 200.0 million.

In addition to the direct investments, the Company indirectly holds 100% of Basilea Pharmaceutica China Ltd., Haimen, China, which supports the Company's key research and development projects with medicinal chemistry, analytical development and process research and development.

3 Share capital

As of December 31, 2018, the Company had 11,878,556 registered shares (Namenaktien) issued with a par value of CHF 1.00 per share. As of December 31, 2017, the Company had 11,871,656 registered shares with a par value of CHF 1.00 per share issued.

In 2018, a total of 6,900 stock options were exercised, using conditional capital, which resulted in the issuance of 6,900 registered shares with a par value of CHF 1.00 per share. In 2017, a total of 59,683 stock options were exercised resulting in the issuance of 59,683 registered shares with a par value of CHF 1.00 per share.

The Company had a total approved conditional capital of CHF 2,521,585 as of December 31, 2018 for the issuance of a maximum of 2,521,585 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,881,585 (1,881,585 registered shares with a par value of CHF 1.00 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1.00 each, available for the potential conversion of the outstanding convertible senior unsecured bonds.

As of December 31, 2018, the Company held treasury shares in the total amount of CHF 7.2 million (December 31, 2017: CHF 1.0 million), comprising of 1,000,000 registered shares with a par value of CHF 1.00 per share held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and further 133,852 registered shares with a par value of CHF 1.00 per share.

The following table provides information on the Company's treasury shares transactions:

	Average price (in CHF)	Number of shares
December 31, 2016	**1.00**	**1 000 000**
Purchases	-	-
Sales	-	-
December 31, 2017	**1.00**	**1 000 000**
Purchases	55.16	301 997
Sales	56.69	(168 145)
December 31, 2018	**5.40**	**1 133 852**

By shareholder approval at the 2016 ordinary general meeting of shareholders, the Company was authorized to increase its share capital by a maximum of CHF 1,000,000 by issuing a maximum of 1,000,000 registered shares with a par value of CHF 1.00 per share. By shareholder approval at the 2017 ordinary general meeting of shareholders, the authorization was increased to CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares with a par value of CHF 1.00 per share. By shareholder approval at the 2018 ordinary general meeting of shareholders, this authorization was extended until April 2020.

4 Shareholdings and stock options

As of December 31, 2018, the shareholdings in the Company of members of the Board of Directors and the Management Committee are outlined below:

	Number of shares
Domenico Scala, Chairman	390
Thomas Werner, Vice-Chairman	-
Günter Ditzinger, Chief Technology Officer until April 30, 2018*	580
Marc Engelhardt, Chief Medical Officer	-
Gerrit Hauck, Chief Technology Officer since May 1, 2018	-
Adesh Kaul, Chief Corporate Development Officer	500
Laurenz Kellenberger, Chief Scientific Officer	500
Martin Nicklasson, Director	-
Nicole Onetto, Director	-
Ronald Scott, Director	7 750
Steven D. Skolsky, Director	-
Donato Spota, Chief Financial Officer	1 000
David Veitch, Chief Executive Officer	1 300

* Number of shares as of April, 30, 2018.

As of December 31, 2017, the shareholdings in the Company of members of the Board of Directors and the Management Committee are outlined below:

	Number of shares
Domenico Scala, Chairman	-
Thomas M. Rinderknecht, Vice-Chairman	-
Günter Ditzinger, Chief Technology Officer	580
Achim Kaufhold, Chief Medical Officer	-
Laurenz Kellenberger, Chief Scientific Officer	500
Daniel Lew, Director	4 122
Martin Nicklasson, Director	-
Nicole Onetto, Director	-
Ronald Scott, Chief Executive Officer	7 750
Steven D. Skolsky, Director	-
Donato Spota, Chief Financial Officer	-
David Veitch, Chief Commercial Officer	-
Thomas Werner, Director	-

The following table shows the holdings of stock options in the Company of members of the Board of Directors and the Management Committee as of December 31, 2018:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Domenico Scala, Chairman	4 150	-	4 150
Thomas Werner, Vice-Chairman	4 150	-	4 150
Günter Ditzinger, Chief Technology Officer until April 30, 2018*	20 498	26 322	46 820
Marc Engelhardt, Chief Medical Officer	15 800	23 775	39 575
Gerrit Hauck, Chief Technology Officer since May 1, 2018	-	-	-
Adesh Kaul, Chief Corporate Development Officer	4 200	21 800	26 000
Laurenz Kellenberger, Chief Scientific Officer	59 028	32 425	91 453
Martin Nicklasson, Director	2 401	-	2 401
Nicole Onetto, Director	-	-	-
Ronald Scott, Director	75 506	69 700	145 206
Steven D. Skolsky, Director	9 880	-	9 880
Donato Spota, Chief Financial Officer	43 296	36 806	80 102
David Veitch, Chief Executive Officer	19 208	42 006	61 214

* Number of options as of April 30, 2018.

The following table shows the holdings of stock options in the Company of members of the Board of Directors and the Management Committee as of December 31, 2017:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Domenico Scala, Chairman	4 150	-	4 150
Thomas M. Rinderknecht, Vice-Chairman	4 150	-	4 150
Günter Ditzinger, Chief Technology Officer	19 911	22 909	42 820
Achim Kaufhold, Chief Medical Officer	27 825	31 218	59 043
Laurenz Kellenberger, Chief Scientific Officer	53 792	28 397	82 189
Daniel Lew, Director	10 059	-	10 059
Martin Nicklasson, Director	2 401	-	2 401
Nicole Onetto, Director	-	-	-
Ronald Scott, Chief Executive Officer	65 485	56 845	122 330
Steven D. Skolsky, Director	12 120	-	12 120
Donato Spota, Chief Financial Officer	50 188	31 569	81 757
David Veitch, Chief Commercial Officer	13 720	29 681	43 401
Thomas Werner, Director	4 150	-	4 150

5 Significant shareholders

The following table shows the ownership percentage of shareholders which held a significant percentage of shares of the Company as of December 31, 2018 and 2017 according to the share register of the Company:

	Ownership of outstanding shares	
	December 31, 2018	December 31, 2017
RBC Investor + Treasury Services	5.8%	5.9%

The ownership percentages in the table above are based on 11,878,556 shares outstanding as of December 31, 2018 and 11,871,656 shares outstanding as of December 31, 2017.

In addition, the Company received the following notifications in accordance with the Swiss Federal Act on Stock Exchanges and Securities related to shareholdings of more than 5% (the significant shareholdings were disclosed on the basis of the number of total out- standing shares according to the entry in the Commercial Register at that time):

On January 7, 2019, Credit Suisse Group AG, Zurich, notified Basilea that Credit Suisse AG, Zurich, Credit Suisse (Schweiz) AG, Zurich, Credit Suisse AG, Dublin Branch, Dublin, Ireland, Credit Suisse Securities (USA) LLC, New York, USA, Credit Suisse Prime Securities Services (USA) LLC, New York, USA, Credit Suisse Securities (Europe) Limited, London, England, Credit Suisse International, London, England, Credit Suisse Hedging-Griffo Wealth Management S.A., Sao Paulo, Brazil, and Credit Suisse Quantitative and Systematic Asset Management Limited, London, England, held 1,149,444 (9.68%) of the voting rights in Basilea from purchase positions as of December 28, 2018. These purchase positions included 795,658 Basilea shares, thereof 671,982 from securities lending and comparable transaction, in addition to 353,786 voting rights from diverse derivative holdings such as conversion and share purchase rights. Furthermore, sale positions from a number of derivative holdings amounting to 255,989 voting rights were reported, which corresponded to 2.16%.

On December 7, 2015, CI Investments Inc. notified the Company that Black Creek International Equity Fund, Black Creek Global Balanced Fund, Black Creek Global Balanced Corporate Class, Black Creek Global Leaders Fund, United International Equity Alpha Corporate Class, Select International Equity Managed Fund and Select International Equity Managed Corporate Class held 536,298 shares, corresponding to 5.07% of the issued share capital, as of December 1, 2015.

Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2018:

In CHF thousands	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(11 890)
Net loss of the year	(134 436)
Balance to be carried forward	**(146 326)**

Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2017:

In CHF thousands	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(7 132)
Net loss of the year	(4 758)
Balance to be carried forward	**(11 890)**

At the ordinary general meeting of shareholders on April 18, 2018, the shareholders of the Company approved to carry forward the loss of CHF 11.9 million.

Annual general meeting

The annual general meeting of shareholders for the financial year 2018 will take place on April 10, 2019 in Basel, Switzerland.

The Annual Report 2018 of Basilea Pharmaceutica Ltd. consists of a business review, the corporate governance section, the compensation report, and the financial report. The Annual Report is published in English and German. In case of discrepancies the English version prevails.

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