ANNUAL REPORT **2017** | **BUILDING ON SUCCESS**

basilea
PHARMACEUTICA

OUR VISION

We strive for excellence in integrated research, development, and commercialization of pharmaceutical products that fight bacterial and fungal infections and cancer. We aspire to develop innovative medications that solve unmet medical needs in the area of resistance and make them available to patients through a sustainable business which maximizes shareholder value.

OUR COMPANY

Basilea Pharmaceutica Ltd. is a commercial stage bio-pharmaceutical company developing products that address the medical challenge of increasing resistance and non-response to current treatment options in the therapeutic areas of bacterial infections, fungal infections and cancer. 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).

The company currently has approximately 230 employees.

TABLE OF CONTENTS

www.basilea.com

2017 OVERVIEW

SUMMARY AND KEY EVENTS

FINANCIALS – SUBSTANTIALLY INCREASED REVENUES AND IMPROVED RESULTS

- Total revenue increased by 54% year-on-year to CHF 101.5 million
- Strong U.S. Cresemba sales triggered first milestone payment of CHF 5.0 million
- Operating loss reduced by 68% year-on-year to CHF 14.1 million
- Partnerships drive strengthened financial position: Year-end cash and financial investments of CHF 310.7 million
- Guidance 2018:
  - Anticipated total revenue of approximately CHF 105–115 million
  - Anticipated operating loss of approximately CHF 10–20 million

NEW PARTNERSHIPS – BASIS FOR ACCELERATED COMMERCIAL SUCCESS

- License agreement with Pfizer for Cresemba for Europe (excluding the Nordic countries), Russia, Turkey, Israel, China and Asia Pacific
- Distribution agreement with Cardiome to commercialize Zevtera in Europe (excluding the Nordic countries) and Israel
- License agreement for Zevtera in China with Shenzhen China Resources Gosun Pharmaceutical Co. Ltd.
- Distribution agreement with Avir Pharma Inc. for Cresemba and Zevtera in Canada
- Received around CHF 80 million in upfront payments from partnering
- Approximately USD 1.1 billion total future potential regulatory and sales milestones from license agreements for Cresemba and Zevtera

ANTIFUNGAL CRESEMBA (ISAVUCONAZOLE) – COVERING ALL MAJOR MARKETS WITH LEADING ANTIFUNGAL COMPANIES PFIZER AND ASTELLAS

- License and distribution partnerships in place for 115 countries, including Pfizer as new license partner in Europe, Asia Pacific and China
- Launched in Spain by Pfizer and in Nordic countries by distribution partner Unimedic. Pfizer is now marketing Cresemba in the 5 key European markets and Austria; Astellas in the U.S.
- Received marketing authorization for Switzerland
- License partner Asahi Kasei Pharma completed phase 1 study and started preparing for the initiation of the phase 3 program as part of an abbreviated clinical development program for a potential registration in Japan

ANTIBIOTIC ZEVTERA (CEFTOBIPROLE) – WORKING TOWARDS ACCESSING THE U.S. AFTER ESTABLISHING NEW COMMERCIAL PARTNERSHIPS IN EUROPE, CHINA AND CANADA

- License and distribution partnerships in place for more than 80 countries including Cardiome as new distribution partner for Europe
- Launches in Nordic countries by Unimedic in 2017. Cardiome marketing Zevtera in Italy, France, Germany, the U.K., Austria and Switzerland. Marketing authorizations granted in Ireland and Saudi-Arabia
- Implementing strategy to access the U.S. as the biggest market worldwide for new branded hospital antibiotics: Preparing start of phase 3 clinical studies in acute bacterial skin and skin structure (ABSSSI) infections and in *Staphylococcus aureus* bacteremia (SAB) to support a potential future application for U.S. marketing authorization
- Commitment of additional funding of USD 54.8 million by BARDA, triggered by agreement with FDA (Special Protocol Assessment) on the two planned phase 3 studies; total potential funding by BARDA increased to up to USD 108 million
- Received Qualified Infectious Disease Product (QIDP) designation from FDA for the treatment of SAB (QIDP status for ABSSSI already granted in 2015), extending market exclusivity to ten years from the date of a potential U.S. approval

ANTI-CANCER DRUG BAL101553 (TUMOR CHECKPOINT CONTROLLER) – EXPANDING INTO BRAIN CANCER, AN INDICATION WITH HIGH MEDICAL NEED AND ONLY FEW AVAILABLE THERAPEUTIC OPTIONS

- Expanded clinical program into brain cancer by starting clinical phase 1 study in collaboration with the U.S. Adult Brain Tumor Consortium (ABTC) to explore BAL101553 in combination with radiotherapy in patients with newly diagnosed glioblastoma. ABTC is funded by the U.S. National Cancer Institute.
- Established clinical dose ranges in phase 1/2a clinical studies for daily oral administration and weekly 48-hour intravenous (i.v.) infusion for patients with solid tumors
- Phase 1 dose escalation for daily oral dosing for glioblastoma patients ongoing
- Interim data from phase 1/2a clinical study in solid tumors show that daily oral administration and weekly 48-hour i.v. infusion provide higher drug exposure than previously achieved with weekly 2-hour i.v. infusion (presented at American Society of Clinical Oncology (ASCO) meeting)

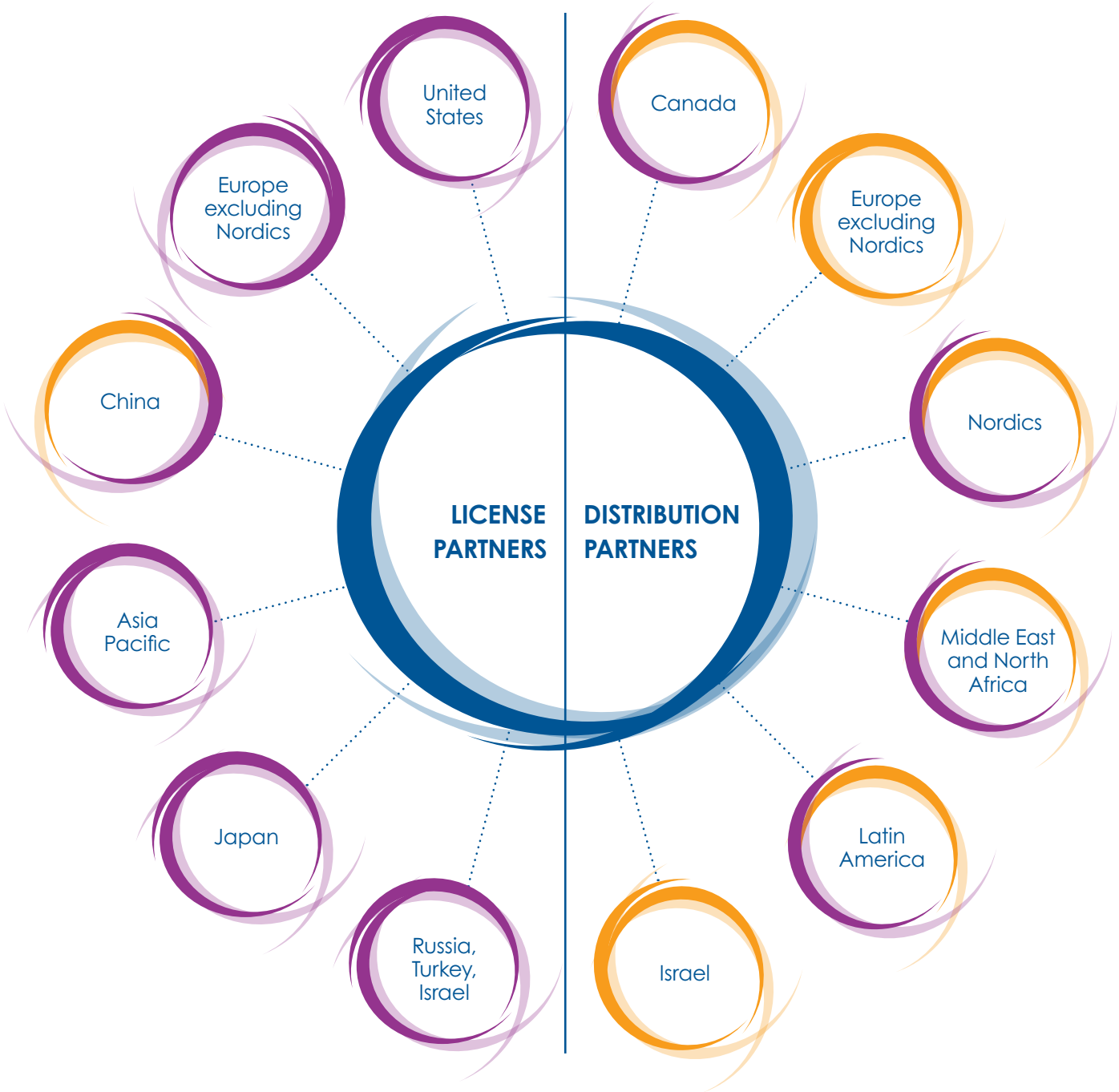
ANTI-CANCER DRUG BAL3833 (PANRAF/SRC KINASE INHIBITOR) – EXPLORING SAFETY AND TOLERABILITY OF A POTENTIAL FIRST-IN-CLASS CANCER THERAPY IN PATIENTS WITH REFRACTORY TUMORS

- Partner ICR (The Institute of Clinical Research, U.K.) continued first-in-human phase 1 clinical study, exploring oral dosage form in patients with advanced solid tumors, including metastatic melanoma

GLOBAL COMMERCIALIZATION STATUS
Isavuconazole
Ceftobiprole

MARKETED

United States ●	U.K. ●●	Austria ●●
Germany ●●	France ●●	Switzerland ●
Italy ●●	Spain ●	Nordics ●●



DEAR SHAREHOLDERS

left: **Domenico Scala**, Chairman of the Board
right: **Ronald Scott**, Chief Executive Officer

2017 marked a successful year in the implementation of our strategy to maximize the value of our commercial-stage drugs Cresemba (isavuconazole) and Zevtera (ceftobiprole). We established partnerships for these drugs with several leading pharmaceutical companies under which we received almost CHF 80 million in upfront payments in 2017. Our partnerships now cover more than 100 countries worldwide. Basilea continues to play an important role in optimizing the value of our commercial-stage products. We support our partners in the registration processes around the world and closely collaborate with them to create synergies in the manufacturing, development and commercialization of our products on a global level.

We are pleased to have entered into a licensing agreement for Cresemba with Pfizer, a leading pharmaceutical company with a strong presence in the anti-infective space and a long and successful track record of commercializing hospital antifungals. This partnership underscores the significant medical benefit that Cresemba offers in the treatment of patients with life-threatening invasive mold infections.

OUR **PARTNERSHIPS** FOR **CRESEMBA** AND **ZEVTERA** NOW COVER MORE THAN **100 COUNTRIES** WORLDWIDE

The agreement with Pfizer initially covered Europe, excluding the Nordics where Cresemba and also Zevtera were already partnered with Unimedic, and was subsequently extended to include China and sixteen countries in the Asia Pacific region.

Pfizer assumed responsibility for the commercialization of Cresemba in Europe and has launched the drug in Spain. This means that Cresemba was on the market in all top-5 European countries by year-end, 2017. Of note, the Swiss regulatory authority, Swiss-medic, granted marketing approval for Cresemba, so the drug may soon also be available to patients in our home country of Switzerland. Cresemba performed well in the U.S. where it is commercialized by our license partner Astellas. Basilea received a CHF 5 million sales milestone from Astellas based on the U.S. sales performance, on top of CHF 13 million in royalties.

In Japan, our partner Asahi Kasei Pharma completed a phase 1 clinical study with isavuconazole, an important first step toward bringing the antifungal to patients in Japan. As a next step, Asahi Kasei Pharma is preparing to initiate a phase 3 program in 2018.

We also entered into new partnerships for our antibiotic Zevtera. Cardiome became our distribution partner for Zevtera in Europe and we also reached a license agreement for the antibiotic in China with Shenzhen China

Resources Gosun Pharmaceutical. For Canada, we granted Avir Pharma an exclusive license for the commercialization of Cresemba and Zevtera.

We secured additional funding for our ongoing ceftobiprole phase 3 clinical program, which is designed to bring our antibiotic to patients in the U.S., the biggest market for branded hospital antibiotics worldwide.

BARDA, the U.S. Biomedical Advanced Research and Development Authority, committed USD 54.8 million for conducting the two ceftobiprole phase 3 clinical studies, adding to the approximately USD 20 million that it had awarded for the preparation of the clinical program. The total value of our BARDA contract could reach approximately USD 108 million in non-dilutive funding if predefined milestones are met.

We agreed Special Protocol Assessments (SPAs) with the U.S. FDA for two cross-supportive phase 3 studies, one in acute bacterial skin and skin structure infections (ABSSSI) and the second one in *Staphylococcus aureus* bacteremia (SAB) with few approved drugs for the treatment of SAB. There is a significant medical need in both these indications. We started the skin study early 2018 and anticipate starting the *Staphylococcus aureus* bacteremia study by mid-2018.

We also made significant progress in our clinical programs in oncology, where our focus is on developing novel drugs which are active in tumors that are resistant or non-responsive to current therapies. The most advanced compound in our oncology portfolio is the novel small-molecule tumor checkpoint controller BAL101553. Dose-escalation in two phase 1/2a studies with patients with solid tumors, one with once-daily oral dosing and one with weekly 48-hour intravenous infusion of BAL101553, has been completed and the maximum tolerated doses (MTDs) have been established for these patient groups. Patient recruitment into a separate arm of the oral study with patients suffering from recurrent or progressive glioblastoma is expected to be completed in the first half of 2018.

Glioblastoma is the most common type of primary brain tumor and one of the most lethal types of cancer, and patients urgently need new treatment opportunities. We therefore

WE INTENSIFIED OUR ACTIVITIES IN THE FIELD OF **GLIOBLASTOMA** AND ENTERED INTO A **COLLABORATION** WITH THE **NATIONAL CANCER INSTITUTE-FUNDED** ADULT BRAIN TUMOR CONSORTIUM IN THE U.S.

intensified our activities in the field of glioblastoma, starting a clinical phase 1 study with BAL101553 in combination with standard radiation in patients with newly diagnosed glioblastoma in collaboration with the U.S. Adult Brain Tumor Consortium (ABTC). The ABTC has 11 brain tumor centers at leading universities across the U.S. and is funded by the U.S. National Cancer Institute (NCI).

We have built a solid foundation for sustained value creation based on the implementation of our partnering strategy for our commercial-stage products and our continued research in our two pillars: anti-infectives and oncology, combined with our business development activities resulting in innovative clinical development pipeline projects. In 2018, our focus will be on further growing revenues from our marketed drugs Cresemba and Zevtera. We expect several additional launches in Europe and regions outside Europe, leading to the first potential revenue contributions from these new markets. We will also push forward with our ongoing clinical programs and explore opportunities to further strengthen our R&D portfolio in our focus areas.

We appreciate your continued support which allows us to work toward fulfilling our mission to discover and develop innovative medications that solve unmet medical needs in the area of resistance and making them available to patients.

Basel, February 2018

Domenico Scala
Chairman of the Board

Ronald Scott
Chief Executive Officer

FEATURE: CURRENT CHALLENGES IN ONCOLOGY

INTERVIEW WITH BASILEA'S BOARD MEMBER **DR. NICOLE ONETTO**

Dr. Nicole Onetto was elected as a member of the Board of Directors in April 2017. Dr. Onetto, a French and Canadian citizen, holds an MD as well as a Master's Degree of Pharmacology. She is an oncology specialist with a long, successful career in the pharmaceutical industry in the U.S., Canada and Belgium. Most recently, she was Deputy Director and Chief Scientific Officer at the Ontario Institute for Cancer Research; she currently serves as an independent consultant.

Great strides are being made in the long-term treatment of oncology patients. As an oncology expert, what do you find to be the most important advancements in the industry?
Since I started my career, there have been significant improvements made in cancer treatment and patient outcomes. We see spectacular results in terms of long-term survival in quite a few diseases where, less than ten years ago, there were no new treatments available, such as renal cell cancer or melanoma. And for many forms of cancer, where previously we had only access to traditional therapies such as surgery, radiation therapy and chemotherapy, we have been able to take advantage of the new molecular understanding of cancer to personalize the treatment for each patient. This has facilitated the development and the utilization of targeted therapies associated with superior efficacy and reduced toxicity compared to traditional treatments. Finally, in the last few years, we have been able to harness the potential of the immune system to develop new therapeutic approaches which stimulate our own immune defenses to control cancer growth.

What do you see as the next major treatment improvements that may be achieved in the short and mid-term?
Definitely the further development of immune therapies for cancer patients seems more and more important. This is comprised of several approaches: from biologic drugs, to next generation of cell therapies, to oncolytic viruses.

MANY **CHALLENGES REMAIN** IN TREATING CANCER PATIENTS **DESPITE IMPORTANT PROGRESSES**

All these new modalities will need to find the right place in the management of patients and will have to be used in combination with more traditional therapies. The cost-effectiveness of these innovative technologies will also need to be evaluated. In addition, combination therapies are very complex to study because of the multitude of possibilities. This is where scientific rationale and preclinical testing will need to guide which combinations are worth testing in clinical studies.

Another very important topic will be minimizing toxicity of treatments and avoiding over-treatment. Traditionally, oncologists have always "pushed the dose" and used every treatment modality available to maximize efficacy. With the advances in screening and early diagnostics, the recent therapeutic progress and better stratification of risk factors for several diseases such as pediatric leukemia, prostate and breast cancers, avoiding over-treatment while preserving efficacy is essential to the optimal management of patients.

What are the hurdles for companies in this field, and how can they succeed in clinical development?
Oncology drug development has been of great interest to the pharmaceutical and biotechnology industry in the last 20 years. The unmet medical need of cancer patients and the increased incidences of many cancer types in a lot of countries justify this interest. However, there are many hurdles and many of the drugs in development have failed. Many reasons contribute to this high failure rate: 1) the complexity of the disease and the recent understanding that cancer is not one disease but consists of multiple heterogeneous diseases, 2) the lack of reliable preclinical and notably animal models to predict clinical efficacy,

3) the complexity of clinical studies and of the regulatory requirements before drug approval and finally, 4) the economic constraints associated with drug pricing. Nevertheless, with a more personalized approach to cancer treatment based on a better characterization of the disease for each individual patient, new opportunities do exist to develop drugs associated with high efficacy in well-defined patient populations. This has already begun to change the paradigm of oncology drug development and major advances can be expected in the years to come. Drug development will always, however, require patience, perseverance and scientific rigor.

Many challenges still remain in treating cancer patients, despite the important progress that has been made. Among others issues, drug resistance is a significant hurdle and continues to be in the focus of Basilea. For patients with resistant diseases, not so long ago, the only possible approach was to change to a new drug – often a new chemotherapy, hoping that it will help the patient.

Now we have gained more insight into the mechanisms of resistance, for example by comparing the genomic characteristics of the tumor at time of recurrence in comparison to the initial diagnosis. This allows physicians to make rational decisions based on scientific evidence and to choose the best treatment for each individual patient. In addition, many researchers all over the world are investigating the best ways to circumvent treatment resistance. For instance, very large databases have been created that can be exploited to elucidate the molecular mechanisms of treatment resistance. Other important factors are collaborations between academia and the private sector such as companies like Basilea, to develop new innovative drugs to benefit patients.

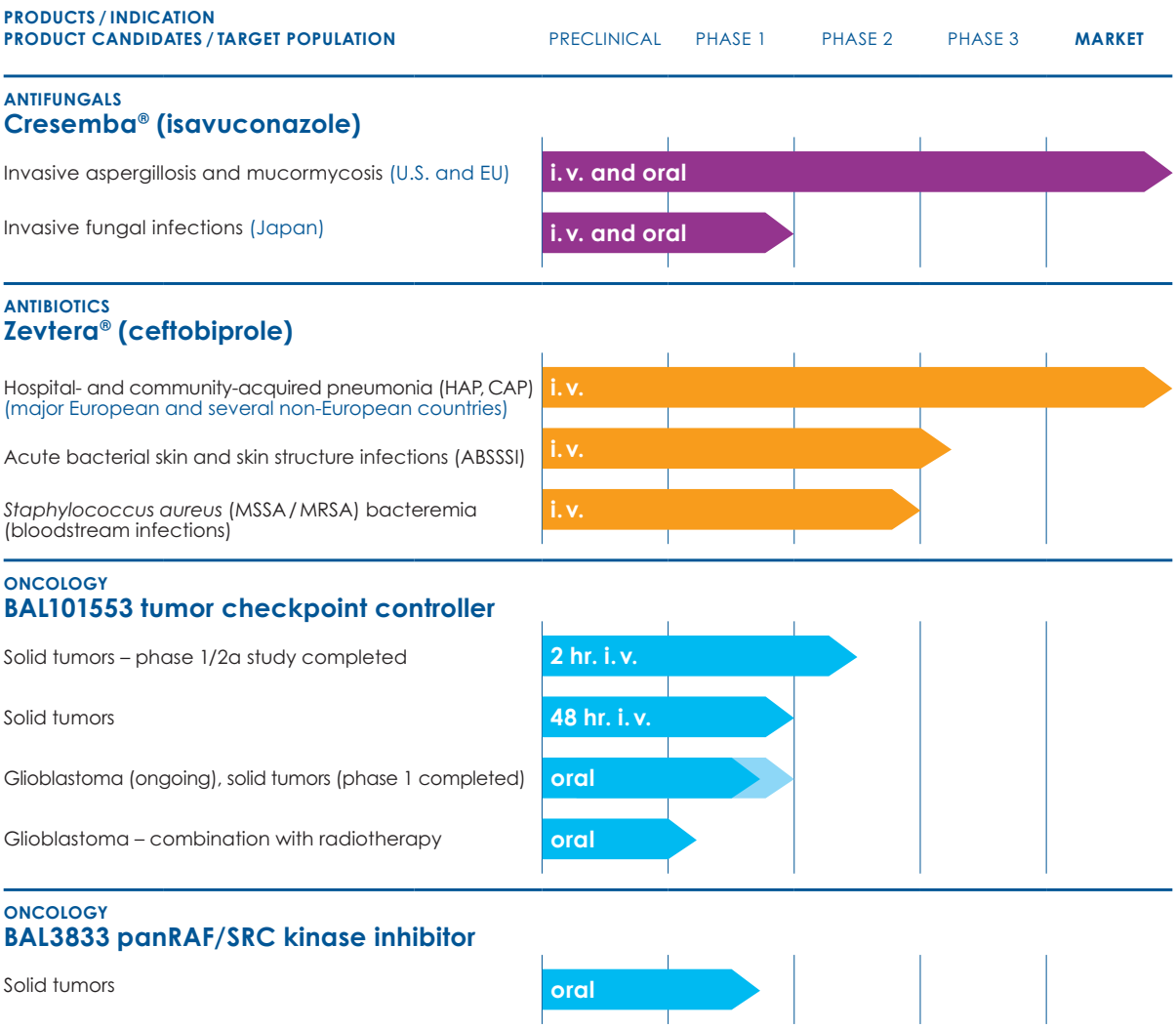
How could these hurdles be overcome?
The use of biomarkers to help choose the most appropriate treatment regimen and to select the patients with the highest probability of response to treatment has and will continue to have a major impact on the development of new cancer agents. Biomarker data are key to the design of development plans of new drugs and to go/no go decisions. These data are now often incorporated in the approval process and subsequent commercialization of new drugs. This approach, based on scientific evidence to select new drugs, is one of the major advances that are currently transforming the research and development process as well as clinical study methodology.

BASILEA'S **TRACK RECORD** IN **ANTI-INFECTIVES** IS A CLEAR TESTIMONY OF THE COMPANY'S CAPACITY **TO DEVELOP** AND **COMMERCIALIZE NEW DRUGS**

With your impressive background and your experience in bringing significant new oncology therapies to patients, you add an important perspective to Basilea's Board of Directors. What did you see in Basilea that helped you decide to join its Board?
The track record of Basilea in the field of anti-infectives, both antibiotics and antifungals, is a clear testimony of the company's capacity to develop and commercialize new drugs. The strategic choice of the board and the management team to make oncology a focus area was of course very attractive to me and gave me the feeling that I could really contribute to the next phase of Basilea, capitalizing on the already well established experience in research and development. And finally, during the interview process for the board position, I was very impressed by the breadth of experience of the other board members as well as the entire management team.

Do you see advantages for Basilea being located in Basel, a well-known international life-science hub?
Basel is definitely a leading life-science hub with the presence of an excellent university, the headquarters of established large pharmaceutical companies and many start-ups and innovative ventures. This is a very favorable environment that has already helped Basilea build a very strong company and should continue to support its further success. Basel has all the ingredients required to host a successful company: a vibrant research community, an international reputation of excellence in the pharma industry, a pool of talented people and a strong and stable economy. There are many similarities between Basel and the few well established biotechnology hubs in Europe and North America. So I am delighted to have been elected by Basilea's shareholders as a member of the board and look forward to playing an active role in the Basel biotech community.

PORTFOLIO



MSSA / MRSA: methicillin-susceptible / resistant *Staphylococcus aureus*

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

PHASE 1/2A
Study type in oncology which starts with a phase 1 dose escalation part to determine the maximum tolerated dose (MTD) or the recommended phase 2 dose (RP2D) in patients suffering from different types of cancer. In the 2a part, this RP2D is often applied to patients with selected tumor indications.

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
Large studies designed to provide confirmatory evidence of the efficacy and provide safety information. Phase 3 studies usually form the basis to obtain regulatory approval.

PRODUCTS AND CLINICAL PIPELINE

We strive for excellence in integrated research, development and commercialization of pharmaceutical products that fight cancer, fungal and bacterial infections.

ANTI-INFECTIVES

Bacteria with resistance to marketed antibiotics are emerging globally, threatening to put an end to the efficacy of drugs which have been the mainstay of antibacterial therapy for decades and saved millions of lives.

Staphylococcus aureus is a common Gram-positive pathogen which causes severe infections. Patients with MRSA (methicillin-resistant *Staphylococcus aureus*) infections are more than twice as likely to die from this infection as patients with a non-resistant form of the infection.[1, 2] Resistance to colistin, considered the "last-resort drug" for many infections caused by multidrug-resistant Gram-negative bacteria, was reported recently in several countries and regions. Such resistance could make infections caused by certain bacteria untreatable, demonstrating the urgent need for new antibiotics.[3]

INFECTIONS HAVE BECOME **A GLOBAL HEALTHCARE THREAT** ONCE **AGAIN**

Against the background of the limited number of novel treatment options in the pharmaceutical industry's clinical development pipeline, antimicrobial resistance has been recognized as a new global threat by many public organizations. The U.S. Centers for Disease Control (CDC), for instance, warned against the start of the "post-antibiotic era" in which common bacterial infections and minor injuries may again become life-threatening. Similar warnings have been issued by the World Health Organization, the World Economic Forum and most recently in 2017 by the G20 countries. As a member of the BEAM Alliance of European small and medium sized biotech companies combating antimicrobial resistance and of the Antimicrobial Innovation Alliance(AIA), Basilea is committed to the development of new drugs to overcome resistant pathogens.[4, 5]

In addition to resistant bacteria, fungi have emerged as a serious pathogen in the context of cancer treatments or transplantation. Aggressive treatment modalities in these areas often weaken the immune system of the patients who then become vulnerable to invasive fungal infections that can be life-threatening.

Basilea has developed and successfully brought to market two drugs to meet the challenges of rising antibiotic resistance and increase in fungal infections: the antifungal isavuconazole and the antibiotic ceftobiprole.

ISAVUCONAZOLE (CRESEMBA)

Isavuconazole was developed in response to the urgent medical need for antifungal medicines for the treatment of invasive fungal infections.

Worldwide, more than 1.5 million deaths each year have been attributed to invasive fungal infections.[6] Mold infections, which are mainly caused by airborne *Aspergillus* species, are associated with a high morbidity and mortality. Mucormycetes, found for example in rotting wood or in moldy bread, have emerged as the second most frequent group of molds causing invasive infections. Mucormycosis is associated with particularly high mortality rates exceeding 50%.[7] Today there are only limited treatment options for invasive mold infections.

BASILEA HAS **ESTABLISHED** A **STRONG NETWORK** OF PARTNERS TO BRING **CRESEMBA** TO PATIENTS IN **MANY COUNTRIES WORLDWIDE**

Isavuconazole belongs to the azole class of antifungal compounds which block fungal growth and replication through inhibition of an enzyme which is 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 orally and by infusion.

To date it has been granted market authorizations in the U.S., 28 European Union member states, Iceland, Liechtenstein, Norway and Switzerland and is commercialized under the trade name of Cresemba.[8, 9, 10]

Following EU approval, Basilea launched Cresemba in major European markets and Austria. Basilea's partner for the U.S., Astellas, launched Cresemba in the U.S. In other parts of the world, Basilea also established license and distribution agreements for Cresemba with strong regional partners. To date, Basilea's license and distribution partnerships cover 115 countries. This includes the U.S. and the EU, China, Japan, Canada, Russia, Turkey, Israel as well as further countries in Europe, Latin America, Asia Pacific and the Middle East and North Africa region (MENA).

Following successful initial launches in a number of key European markets, Basilea entered into a licensing agreement with Pfizer for Cresemba. The agreement initially covered Europe (excluding the Nordic countries where Unimedic is Basilea's distribution partner), Russia, Turkey and Israel, and was later extended to cover China and Asia Pacific. Pfizer is a global leader in antifungal therapy and a strong partner to make Cresemba a commercial success in the partnered territories.

PFIZER AND **ASTELLAS** ARE BASILEA'S **PARTNERS** IN THE **MAJOR TERRITORIES**

Basilea received around CHF 73 million from Pfizer as upfront payments and is eligible for up to approximately USD 650 million in regulatory and sales milestone payments.

Astellas guided for USD 80 million Cresemba sales for its full financial year 2017 ending March 2018, which is a 50% increase compared to the preceding twelve-month period. Based on the strong sales in the U.S., Basilea received the first sales milestone payment of CHF 5 million from Astellas in 2017. Regulatory and sales milestones from all license agreements for Cresemba could amount to approximately USD 1 billion over the lifetimes of these partnerships. Basilea also receives royalties on sales made by its license partners. In 2017, Basilea received CHF 15 million in royalties for Cresemba from Pfizer and Astellas.

In 2017, Pfizer launched the product in Spain and Asahi Kasei Pharma completed its phase 1 study within the abbreviated development program which is necessary for a potential filing for regulatory approval of Cresemba in Japan. The abbreviated program foresees one additional phase 3 study, which Asahi Kasei Pharma is planning to initiate in 2018. Starting in 2018 and accelerating over the coming years, Basilea expects increasing payments from its partners as marketing authorizations are granted for additional countries and Cresemba becomes available to patients in more markets.

CEFTOBIPROLE (ZEVTERA)

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 hospital-acquired bloodstream infections.[11]

Ceftobiprole is an intravenous antibiotic from the well-established cephalosporin drug class. As a beta-lactam drug, it irreversibly blocks penicillin-binding proteins (PBPs) which are important for the formation of the cell wall in Gram-positive and Gram-negative bacteria. The inhibition of PBPs weakens the cell wall and subsequently leads to cell lysis and death of the bacteria.[12] Ceftobiprole has demonstrated activity against a wide spectrum of clinically relevant Gram-positive and Gram-negative bacteria.[13] It is specifically active against the PBPs of methicillin-resistant *Staphylococcus aureus* (MRSA), a Gram-positive bacterium that is assumed to be responsible for almost half of the 23,000 deaths in the U.S. caused by antibiotic resistant infections per year.[14]

Zevtera[15] is approved for sale in 14 European countries and several non-European countries as a single-agent therapy for adult patients with community-acquired pneumonia and hospital-acquired pneumonia (excluding ventilator-associated pneumonia).[13]

Basilea has entered into license and distribution agreements for Zevtera with several partners covering 80 countries in Europe, Latin America, and the Middle East and North Africa (MENA) region as well as China and Canada. Shortly after outlicensing European rights for Cresemba to Pfizer, Basilea entered into a distribution agreement for Zevtera in Europe with acute care specialist Cardiome. Cardiome is marketing the drug in Italy, France, Germany, the U.K., Austria and Switzerland. In addition, Basilea entered into a license agreement with Shenzhen China Resources Gosun Pharmaceutical Co. Ltd. for China.

POTENTIAL **LEAD INDICATION** FOR THE **U.S.** IS ***STAPHYLOCOCCUS AUREUS*** **BACTEREMIA,** AN AREA OF **HIGH MEDICAL NEED**

It is estimated that, in terms of value, the U.S. represents about 70% of the global market for new branded hospital antibiotics.[16] Furthermore, MRSA rates in the U.S. have been reported in the range of 50%, compared to a population-weighted mean of about 14% in the countries of the European Union and European Economic Area (EU/EEA).[17 18, 19] The U.S. market therefore plays an important role in Basilea's commercialization strategy for ceftobiprole. The potential lead indication in the U.S. may be *Staphylococcus aureus* bacteremia (SAB), a bacterial bloodstream infection associated with significant morbidity and reported mortality rates of about 20%.[20] SAB can result in or be associated with infective endocarditis, which has a negative impact on patient outcomes. Only few drugs are approved for the treatment of SAB, and the requirement of antibiotic treatment over an extended period of time in complicated SAB have raised concerns about resistance development for currently approved drugs.[21]

Ceftobiprole has potent activity against *Staphylococcus aureus*. A post-hoc analysis of four clinical phase 3 studies indicated a trend towards lower mortality with ceftobiprole versus the comparator antibiotic regimen in the subgroup of patients who presented with SAB.[22, 23] Based on evidence from previously conducted clinical studies in bacterial skin infections[24] and the profile of ceftobiprole, acute bacterial skin and skin structure infections (ABSSSI) was selected as a second indication for the development program supporting a potential registration of the drug in the U.S.

In 2017 Basilea agreed with the FDA on Special Protocol Assessments for an SAB study and a cross-supportive ABSSSI study. Both studies must be positive to support a future registration in the U.S.. Preparations for the SAB study are well-advanced, while the ABSSSI study was started in early 2018.

BARDA SUPPORTS THE U.S. DEVELOPMENT PROGRAM WITH **UP TO USD 108 MILLION**

Basilea receives non-dilutive financial support for the conduct of the phase 3 clinical development. In 2016, Basilea entered into a contract with the Biomedical Advanced Research and Development Authority (BARDA) which included BARDA's participatory funding of the development program for the U.S. by reimbursement of agreed development costs.[25] 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.[26]

BARDA initially provided around USD 20 million for the preparation of the phase 3 program; in 2017, BARDA allocated another tranche of USD 58 million. The total amount of BARDA funding could reach up to USD 108 million.

UPON APPROVAL CEFTOBIPROLE WOULD HAVE **10 YEARS OF MARKET EXCLUSIVITY** IN THE U.S.

Should ceftobiprole be approved in the U.S., it will have ten years of market exclusivity as it has been designated as a Qualified Infectious Disease Product (QIDP) for the potential treatment of community-acquired pneumonia, ABSSSI and SAB. QIDP status provides an additional five years of market exclusivity from approval on top of the regular five year exclusivity for new drugs and is granted by the FDA on the basis of the Generating Antibiotics Incentives Now (GAIN) Act.

ONCOLOGY

Oncology is the second pillar of Basilea's strategy. According to the World Health Organization (WHO), cancer is the second leading cause of death worldwide. Because of an ageing population, the WHO expects that the number of new cancer cases per year will surpass 20 million by the year 2025, which is a more than 40% increase compared to 2014.[1] Therefore the development of novel anti-cancer compounds is urgently needed.

THE ***WHO*** ANTICIPATES A **40% INCREASE** IN **NEW CANCER CASES** BY **2025** COMPARED TO 2014

Over the course of the last decade, Basilea has built an oncology research and development portfolio of novel drug candidates with activity in tumors that are resistant to or do not respond to current therapies. Basilea's strong in-house competencies in the field of oncology research and development are augmented by the excellence of Basilea's researchers in the development of small-molecule drugs and expertise in medicinal chemistry; Basilea also has in-house high-throughput screening and tumor biology capabilities. A key differentiating element of Basilea's approach is the early and broad implementation of biomarkers for both mode-of-action elucidation and identification of patients most likely to respond to treatment.

BAL101553

BAL101553 is a small-molecule drug candidate that has been shown to be active in cancer cells resistant to taxanes. It destabilizes the microtubule network by binding at a different site than taxanes or any other currently approved anti-cancer agent. This induces tumor cell death by activation of the so-called "spindle assembly checkpoint," which is why BAL101553 is called a tumor checkpoint controller.

It has distinct effects on the organization of the microtubule network, a well-validated target in oncology. 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. Common microtubule-targeting agents such as taxanes have been successfully used in the treatment of cancer since the 1990s. However, resistance to taxanes and other microtubule-targeting compounds is frequently observed, either because the tumor is inherently resistant to the drug or due to the development of resistance during treatment.

BAL101553 INDUCES **TUMOR CELL DEATH** BY **ACTIVATION** OF A CELL DIVISION **CHECKPOINT**

Unlike taxanes, BAL101553 is not derived from a natural product but is a small-molecule drug, accessible by chemical synthesis. Furthermore, unlike many large-molecule cancer drugs, BAL101553 is able to cross the blood-brain barrier which prevents the entry of large molecules and pathogens – a major challenge in the development of drugs that target pathological changes in the brain. Preclinical studies further support the potential utility of BAL101553 for the treatment of brain cancer.[2, 3, 4]

Basilea is exploring BAL101553 in glioblastoma, the most common type of primary brain tumors and one of the most lethal types of cancer. The current standard of care for first-line treatment of glioblastoma is surgery, followed by radiotherapy and chemotherapy with the drug temozolomide. However, the response to temozolomide depends on whether a certain enzyme, called MGMT, is active in the tumor cells or not. MGMT repairs the damage to cancer cells caused by temozolomide. It has been shown that adult glioblastoma patients where this repair enzyme is active have a worse prognosis and a shorter median survival with standard-of-care therapy including temozolomide (13 months from diagnosis if MGMT is active/promoter unmethylated versus 22 months if MGMT is inactive/promoter methylated).[5] It is estimated that approximately 55% of newly diagnosed glioblastoma patients have an unmethylated MGMT promoter and thus only limited pharmacological treatment options available.[5]

BAL101553 demonstrated activity in diverse preclinical models of glioblastoma associated with both methylated and unmethylated MGMT promoter status; the latter models are often associated with reduced response to temozolomide. Moreover, combination of BAL101553 with radiation or with temozolomide and radiation in an MGMT unmethylated glioblastoma model extended survival in comparison to the standard-of-care temozolomide-radiotherapy combination.[4]

BASILEA IS EXPLORING BAL101553 IN **GLIOBLASTOMA**, THE **MOST COMMON** AND **AGGRESSIVE FORM** OF PRIMARY MALIGNANT **BRAIN TUMORS**

Based on the preclinical results, Basilea entered into a clinical study collaboration with the Adult Brain Tumor Consortium (ABTC) in 2017. The ABTC is a multi-institutional consortium consisting of investigators at renowned cancer research institutions across the United States. It is funded by the U.S. National Cancer Institute (NCI). Basilea and the ABTC agreed to conduct a phase 1 study with BAL101553 in combination with radiotherapy in patients with newly diagnosed glioblastoma who have a reduced sensitivity to temozolomide due to an unmethylated MGMT promoter. The study started at the end of 2017.

Basilea is running a broad early-stage clinical program with BAL101553, based on preclinical data which demonstrated that this drug candidate has activity against diverse treatment resistant cancers both as single agent and also in combination with other anti-cancer drugs or radiotherapy.[5, 6, 7] Results from a first clinical phase 1/2a study with BAL101553 given once-weekly as a 2-hour infusion were published in 2016. The study included patients with advanced solid tumors and showed signals of the antitumor activity of BAL101553.[8]

BAL101553 **CLINICAL DOSE RANGES** FOR DAILY ORAL ADMINISTRATION AND WEEKLY 48-HOUR I.V. INFUSION FOR PATIENTS WITH **SOLID TUMORS** HAVE BEEN **ESTABLISHED IN 2017**

Two additional phase 1/2a studies, one with daily oral administration and one with weekly 48-hour intravenous (i.v.) infusion, are ongoing. The phase 1 dose-escalation part of these studies for patients with solid cancers was completed in 2017. The oral study was expanded in late 2016 by inclusion of a separate arm with patients suffering from refractory glioblastoma. Basilea also plans to initiate a phase 2a study with weekly 48-hour i.v. infusion in patients with recurrent glioblastoma and ovarian cancer.

BAL3833
Basilea's second clinical oncology drug candidate is BAL3833, also known as CCT3833. It was partnered in 2015 with the Institute of Cancer Research (ICR), where it was developed by scientists funded by Cancer Research UK and the Wellcome Trust.

THE PANRAF/SRC ACTIVITY OF BAL3833 PROVIDES A **POTENTIAL** FOR **BROAD ANTI-CANCER ACTIVITY** ACROSS **DIVERSE TUMOR TYPES**, INCLUDING MELANOMA

Like BAL101553, BAL3833 is also a small-molecule drug directed to stop tumor cell growth. However, it has a distinctively different mechanism of action. BAL3833 interferes with cell signaling cascades by blocking certain proteins, so-called kinases, that transmit external growth and proliferation signals to the cell nucleus. If these pathways are deregulated, this may lead to uncontrolled growth due to permanent activation of the key signal transmitters. In particular, melanoma, the most aggressive type of skin cancer,[9] is often linked to a mutated BRAF kinase.

For 2016, treatment of melanoma in the U.S., the top 5 EU countries and Australia was estimated as a more than USD 3 billion market. The market value is predicted to rise to more than USD 5 billion by 2026.[10]

Drugs targeting mutated BRAF achieve striking short-term therapeutic successes. Unfortunately, melanoma will eventually return in most patients because the tumor develops ways to circumvent the block in the signaling pathway.[11]

The activity of BAL3833 is not limited to mutated BRAF but it also blocks CRAF, hence it is called a panRAF inhibitor. In addition, it inhibits the SRC kinase family, which is involved in many aspects of tumor biology. Based on its profile, BAL3833 therefore has potential for the treatment of both melanoma as well as diverse, non-melanoma tumor types. 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.[11]

BAL3833 demonstrated activity in preclinical studies in a range of tumor models derived from melanoma with intrinsic or acquired resistance to selective BRAF inhibitors, as well as tumor models derived from colorectal, pancreatic and lung cancers associated with genetic changes resulting in activation of the RAF pathway.[12] Hence, the panRAF/SRC activity of BAL3833 provides a potential for broad anti-cancer activity across a range of tumor types.

The ICR is currently conducting a phase 1 clinical study with daily oral administration of BAL3833 in patients with advanced solid tumors, including metastatic melanoma.

BASILEA'S **PARTNER ICR** IS CONDUCTING A **PHASE 1 CLINICAL STUDY** WITH DAILY ORAL ADMINISTRATION OF BAL3833 IN PATIENTS WITH ADVANCED **SOLID TUMORS**

The completion of the dose-escalation is anticipated in 2018. Once the phase 1 study is completed, Basilea will assume responsibility for the further development of the compound.

RESEARCH AT BASILEA

Research is in Basilea's DNA. The company's headquarters once housed the prestigious Basel Institute for Immunology, where three Nobel Laureates for Medicine conducted research. Since its spin-out from Roche in 2000, Basilea is committed to continue this heritage of innovation as it focuses on the discovery, development and commercialization of new anti-infectives and new anti-cancer drugs to overcome resistance or non-response to currently available therapies.

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

OVERCOMING RESISTANCE IS AT THE **CORE** OF BASILEA'S **RESEARCH** ACTIVITIES

Resistance is a frequently encountered issue in the treatment of infections as well as in cancer therapy. It is associated with increased mortality and higher healthcare costs due to complications and prolonged hospital stays. The increasing incidence of multidrug-resistant pathogenic bacteria is a priority concern in the medical community in many parts of the world.

Basilea scientists are working on solutions for this global issue. An important part of this work are Basilea's collaborative efforts with leading institutions in the oncology field worldwide, ranging from Stanford University to Mayo Clinic.[1, 2] Basilea also actively engages in and contributes to the development of new antibiotics as a member of the BEAM Alliance (Biotech companies in Europe combating AntiMicrobial resistance), the Antimicrobial Innovation Alliance (AIA), and through participation 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).

Basilea's research team is comprised of experienced scientists with the expertise required for successful drug discovery, including chemical synthesis, analytics, microbiology, tumor biology, medicinal chemistry, pharmacology and more. They work in an innovative R&D environment in the heart of the Life Sciences hub of Basel.

In oncology research, Basilea focuses on novel targets and approaches to discover drug candidates which address resistance to current treatment options. A major emphasis is put on biomarker discovery, which is integrated into all projects at a very early stage. This approach has led to the discovery of, among other biomarkers, EB1 which may potentially aid in the identification of glioblastoma patients who are more likely to respond to treatment with the cancer drug candidate BAL101553.[3]

In anti-infectives research, Basilea focuses on the discovery of novel treatment options addressing the challenges posed by so-called ESKAPE pathogens[4] and in particular the Gram-negative pathogens carbapenem-resistant Enterobacteriaceae, multidrug-resistant *Pseudomonas aeruginosa* and *Acinetobacter baumannii*.

In 2018 Basilea's research team will continue to focus on further strengthening Basilea's pipeline by advancing novel drug candidates into clinical development through internal discovery activities and external collaborations.

EXPERTISE IN ANTI-INFECTIVES AND ONCOLOGY IN **BASEL,** COMPLEMENTED BY BASILEA **CHINA**

Our Basel headquarters' experts are complemented by scientists at Basilea's wholly-owned subsidiary Basilea Pharmaceutica China Ltd., which supports all of the headquarters' key R&D projects, focusing on the chemical synthesis of complex molecules, analytical development 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.

REFERENCES

ANTI-INFECTIVES

1 WHO factsheet on antimicrobial resistance http://www.who.int/mediacentre/factsheets/fs194/en/ [Accessed: February 15, 2018]

2 H. Boucher et al. Serious infections caused by methicillin-resistant staphylococcus aureus. Clinical Infectious Diseases 2010 (51) S2, S183-197

3 Centers for Disease Control and Prevention. Antibiotic/antimicrobial resistance: Newly reported gene, mcr-1, threatens last-resort antibiotics. www.cdc.gov/drugresistance/mcr1.html [Accessed: February 15, 2018]

4 Website BEAM Alliance: www.beam-alliance.eu [Accessed: February 15, 2018]

5 Website Antimicrobial Innovation Alliance: https://www.antimicrobialalliance.com/ [Accessed: February 15, 2018]

ISAVUCONAZOLE (CRESEMBA)

6 Microbiological Society policy briefings 2016. Human Fungal Diseases. https://microbiologysociety.org/publication/briefing/human-fungal-diseases.html [Accessed: February 15, 2018]

7 T. T. Riley at el. Breaking the mold: a review of mucormycosis and current pharmacological treatment options. Annals of Pharmacotherapy 2016 (50), 747-757

8 Isavuconazole is approved in the United States for patients 18 years of age and older in the treatment of invasive aspergillosis and invasive mucormycosis.

9 In the 28 European Union member states, as well as in Iceland, Liechtenstein and Norway, isavuconazole is approved for the treatment of adult patients with invasive aspergillosis and for the treatment of adult patients with mucormycosis for whom amphotericin B is inappropriate.

10 In Switzerland, isavuconazole is approved for the treatment of adult patients with invasive aspergillosis and for the treatment of mucormycosis in adult patients who are resistant to or intolerant of amphotericin B and in adult patients with moderate to severe renal impairment (full indication in: Swissmedic-approved information for healthcare professionals as of August 2017).

CEFTOBIPROLE (ZEVTERA)

11 A. Cassini et al. Estimating incidence-based disability-adjusted life years through a population prevalence-based modelling study. PLoS Medicine 2016.13(10): e1002150. doi:10.1371/journal.pmed.1002150

12 A. Lovering et al. Mechanism of action of ceftobiprole: Structural bases for anti-MRSA activity. European Congress of Clinical Microbiology and Infectious Diseases (ECCMID) 2006, poster 1586

13 Summary of Product Characteristics (SPC): http://www.mhra.gov.uk/spc-pil/?prodName=ZEVTERA%20500MG%20POWDER%20FOR%20CONCENTRATE%20FOR%20SOLUTION%20FOR%20INFUSION&subsName=&pageID=ThirdLevel&searchTerm=zevtera#retainDisplay [Accessed: February 15, 2018]

14 M. Gross. Antibiotics in crisis. Current Biology 2013, 23 (24), R1063–R1065

15 The trade name for ceftobiprole in Europe is generally Zevtera, except for France and Italy where the trade name is Mabelio, and Ireland, where the trade name is Adaluzis.

16 QuintilesIMSHealth SMART MIDAS, May 2017

17 E. Y. Klein et al. The changing epidemiology of methicillin-resistant Staphylococcus aureus in the United States: A national observational study. American Journal of Epidemiology 2013 (177), 666-674

18 R. K. Flamm et al. Linezolid surveillance results for the United States : LEADER surveillance program 2011. Antimicrobial Agents and Chemotherapy 2013 (57) 2, 1077-1081

19 European Centre for Disease Prevention and Control. Surveillance of antimicrobial resistance in Europe 2016. Annual Report of the European Antimicrobial Resistance Surveillance Network (EARS-Net). Stockholm: ECDC; 2017

20 G. R. Coroy. Staphylococcus aureus bloodstream infections: definitions and treatment. Clinical Infectious Diseases 2009 (48), S254-S259

21 M. K. Hayden et al. Development of daptomycin resistance in vivo in methicillin-resistant Staphylococcus aureus. Journal of Clinical Microbiology 2005 (43), 5285-5287

22 P. Tattevin et al. Ceftobiprole is superior to vancomycin, daptomycin, and linezolid for treatment of experimental endocarditis in rabbits caused by methicillin-resistant Staphylococcus aureus. Antimicrobial Agents and Chemotherapy 2010 (54), 610-613

23 J. Rello et al. A pooled analysis of clinical cure and mortality with ceftobiprole medocaril versus comparators in staphylococcal bacteraemia in complicated skin infections and community- and hospital-acquired pneumonia. European Congress of Clinical Microbiology and Infectious Diseases (ECCMID) 2016, presentation 318

24 A. Deitchman et al. Ceftobiprole medocaril (BAL5788) for the treatment of complicated skin infections. Expert Review of Anti-infective Therapy 2016 (14), 997-1006

25 Contract No. HHSO100201600002C

26 M. J. Eichberg. Public funding of clinical-stage antibiotic development in the United States and European Union. Health Security 2015, 12, 156-165, DOI: 10.1089/hs.2014.0081

ONCOLOGY

1 World Cancer Report 2014 published by the International Agency for Research on Cancer of the WHO. http://publications.iarc.fr/Non-Series-Publications/World-Cancer-Reports/World-Cancer-Report-2014 [Accessed: February 15, 2018]

BAL101553

2 R. Bergès et al. The novel tubulin-binding checkpoint activator BAL101553 inhibits EB1-dependent migration and invasion and promotes differentiation of glioblastoma stem-like cells. Molecular Cancer Therapeutics 2016 (15), 2740-2749

3 A Schmitt-Hoffmann et al. BAL27862: a unique microtubule-targeted agent with a potential for the treatment of human brain tumors. EORTC-NCI-AACR symposium 2009, abstract C233; Molecular Cancer Therapeutics 2009, 8 (12 Supplement)

4 A. C. Mladek et al. The novel tubulin-binding 'tumor checkpoint controller' BAL101553 has anti-cancer activity alone and in combination treatments across a panel of GBM patient-derived xenografts. American Association for Cancer Research (AACR) annual meeting 2016, abstract 4781

5 M. E. Hegi et al. MGMT gene silencing and benefit from temozolomide in glioblastoma. New England Journal of Medicine 2005 (352) 997-1003

6 G. E. Duran et al. In vitro activity of the novel tubulin active agent BAL27862 in MDR1(+) and MDR1(-) human breast and ovarian cancer variants selected for resistance to taxanes. American Association for Cancer Research (AACR) annual meeting 2010, abstract 4412

7 F. Bachmann et al. BAL101553 (prodrug of BAL27862): A unique microtubule destabilizer active against drug refractory breast cancers alone and in combination with trastuzumab. American Association for Cancer Research (AACR) annual meeting 2014, abstract 831

8 J. Lopez et al. Phase 1/2a trial of intravenous BAL101553, a novel tumor checkpoint controller (TCC), in advanced solid tumors. American Society of Clinical Oncology (ASCO) annual meeting 2016, abstract 2525, poster board 225

BAL3833

9 Press Release of the Centers for Disease Control and Prevention (CDC). Rates of new melanomas – deadly skin cancers – have doubled over last three decades. June 2, 2015. https://www.cdc.gov/media/releases/2015/p0602-melanoma-cancer.html [Accessed February 15, 2018]

10 PharmaPoint Report: Melanoma – Global Drug Forecast and Market Analysis. Public summary. https://www.researchandmarkets.com/publication/mi6dx7o/4447191 [Accessed: February 15, 2018]

11 M. R. Girotti et al. Paradox-breaking RAF inhibitors that also target SRC are effective in drug-resistant BRAF mutant melanoma. Cancer Cell 2015 (27), 85-96

12 G. Saturno et al. Therapeutic efficacy of the paradox-breaking panRAF and SRC drug CCT3833/BAL3833 in KRAS-driven cancer models. American Association for Cancer Research (AACR) annual meeting 2016, abstract LB-212

RESEARCH

1 A. C. Mladek et al. The novel tubilin-binding 'tumor checkpoint controller' BAL101553 has anti-cancer activity alone and in combination treatments across a panel of GBM patient-derived xenografts. American Association for Cancer Research (AACR) annual meeting 2016, abstract 4781

2 G. E. Duran et al. In vitro activity of the novel tubulin active agent BAL27862 in MDR1(+) and MDR1(-) human breast and ovarian cancer variants selected for resistance to taxanes. Cancer Research 2010, 70:8 (supplement 1, abstract 4412)

3 R. Bergès et al. The novel tubulin-binding checkpoint activator BAL101553 inhibits EB1-dependent migration and invasion and promotes differentiation of glioblastoma stem-like cells. Molecular Cancer Therapeutics 2016 (15), 2740-2749

4 H. W. Boucher et al. Bad Bugs, No Drugs: No ESKAPE! An Update from the Infectious Diseases Society of America, Clinical Infectious Diseases 2009 (48), 1-12, https://doi.org/10.1086/595011

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, Italy, Spain and the United Kingdom (collectively the "Company").

As of December 31, 2017, the Company had 228 full-time equivalents (FTEs).

BASILEA SUBSIDIARIES AND SUBHOLDINGS (AS OF DECEMBER 31, 2017)

- Basilea Pharmaceutica China Ltd., Haimen, China
- Basilea Pharmaceutica Deutschland GmbH, Munich, Germany
- Basilea Pharmaceutica Italia S.r.l., Milan, Italy
- Basilea Pharmaceutica España S.L., in liquidation, Madrid, Spain
- 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. The Company's operating activities are directed by and primarily undertaken by Basilea International.

In 2017, Basilea International was operationally organized to focus on its core activities. The Chief Executive Officer is the head of the Management Committee, with the other members being the Chief Financial Officer, the Chief Medical Officer, the Chief Scientific Officer, the Chief Technology Officer, and the Chief Commercial Officer. As well as overseeing the Management Committee who report to him, the Chief Executive Officer is responsible for legal, human resources, quality management, business development and licensing. For further information on the Management Committee, please refer to the section "Management Committee/Members, functions and other activities" on page 29.

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, 2017, the market capitalization of Basilea amounted to CHF 901,058,690 (11,871,656 registered shares 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, 2017. Basilea China is located near Shanghai in the Haimen 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 103) to the financial statements.

SIGNIFICANT SHAREHOLDERS

As of December 31, 2017, Basilea had 11,871,656 registered shares issued and outstanding.

According to the Company's share register, RBC Investor + Treasury Services, Swane Lane, Riverbank House 2, London EC4R 3AF, U.K., held 700,678 Basilea shares as of December 31, 2017, nominally corresponding to 5.90% of the voting rights, but registered without voting rights.

In addition, according to the Company's share register, Chase Nominees Ltd., London Wall 125, London EC2Y 5AJ, U.K. held 488,820 Basilea shares as of December 31, 2017, nominally corresponding to 4.12% of the voting rights 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, 2017 (the significant shareholdings were disclosed on the basis of the number of total outstanding shares according to the entry in the Commercial Register at that time):

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 voting rights, 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 voting rights, 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 corresponds to 13.44% of the voting rights. Basilea also reported that as of the same date, the outstanding options amounted to 1,428,028 which corresponds to 12.10% (fully diluted: 10.79%) of the voting rights.

All disclosures of shareholdings, including those of shareholders that fell below three percent during 2017, 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, 2017.

CAPITAL STRUCTURE AND SHARES

SHARE CAPITAL

As of December 31, 2017, Basilea's issued fully paid-in share capital consists of CHF 11,871,656 divided into 11,871,656 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, 2017, Basilea International held 1,000,000 (8.42%) 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 27, 2019, 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/Investor-Relations/Corporate-Governance/). As of December 31, 2017, the authorized capital amounts to a maximum of CHF 2,000,000 which equates to 16.85% 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, 2017, the conditional capital amounts to a maximum of CHF 2,528,485 which equates to 21.30% of the existing share capital as of December 31, 2017.

Under Article 3a of the articles of association, the share capital may be increased by a maximum aggregate amount of CHF 1,888,485 through the issuance of not more than 1,888,485 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, 2017, 1,504,445 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 22, 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 21.

CHANGES IN CAPITAL

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.

In 2015, Basilea increased its share capital by CHF 225,335 (225,335 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 2017, 2016, and 2015, 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 91) to the consolidated financial statements, and note 3 (share capital, page 103) to the financial statements of Basilea. Please also refer to the consolidated statement of changes in shareholders' equity included in the annual reports 2016 and 2015 for information on changes in equity in the respective years (available online at www.basilea.com/Investor-Relations/Financial-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/Investor-Relations/Corporate-Governance/), 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, citizen- ship 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 2017.

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 outstanding 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 outstanding 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 34.

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, 2017, 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 50), and note 14 (stock-based compensation, page 89) to the consolidated financial statements included in this annual report.

BOARD OF DIRECTORS

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, 2017:

Name	Year of first election	End of current term
Mr. Domenico Scala, Chairman	2011	2018
Dr. Thomas M. Rinderknecht, Vice-Chairman	2011	2018
Prof. Daniel Lew, Director	2003	2018
Dr. Martin Nicklasson, Director	2013	2018
Dr. Nicole Onetto, Director	2017	2018
Mr. Steven D. Skolsky, Director	2008	2018
Dr. Thomas Werner, Director	2011	2018

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

Domenico Scala, Chairman, a Swiss and Italian citizen, has served as a member of Basilea's Board of Directors since 2011. From 2007 to 2011, Mr. Scala was President and Chief Executive Officer of Nobel Biocare Holding AG, and from 2003 to 2007, he was Chief Financial Officer of Syngenta International AG. From 1995 to 2003, he served in various senior leadership positions at Roche Holding AG. Prior to that, he served as Finance Director with Panalpina Italy Spa and Senior Auditor with Nestlé SA. Mr. Scala is member of the Bank Council of the Basler Kantonalbank, President of BaselArea, Chairman of the Board of Directors of BAK Basel Economics AG, and a Member of the Board of Overseers of Tufts University in Boston, Massachusetts (USA). From May 2012 until May 2016, Mr. Scala was Chairman of the Audit and Compliance Committee of FIFA (Fédération Internationale de Football Association). Mr. Scala graduated from the University of Basel with a degree in economics and holds Executive Development degrees from INSEAD and London Business School.

Dr. Thomas M. Rinderknecht, Vice-Chairman, Swiss citizen, has served as a member of the Board of Directors since 2011. Dr. Rinderknecht is a senior partner at the law firm Badertscher Rechtsanwälte AG, in Zurich and Zug. He currently serves as member of the board and audit committee of Chocoladefabriken Lindt & Sprüngli AG, as chairman of the Canyon Pharmaceuticals Group of Companies, Spanset Inter AG, Wollerau, and Caveat Holding AG, Hergiswil; and as vice chairman of APR Applied Pharma Research SA, Balerna, and the Marquard Media Group, Zug. He also serves as a member of the board of InSphero AG, Schlieren; Twin Dolphins AG, Zug; ADC Therapeutics SA, Epalinges; Hotel de la Paix SA, Geneva; the jointly controlled Badertscher Rechtsanwälte AG and Veritas Trust AG /Fundmaster AG Family Office Companies; and the NorseSatCom/iJet Group of Companies. Dr. Rinderknecht holds a Ph.D. in law from the University of Zurich and is admitted to the Bar in Zurich.

Prof. Daniel Lew, Swiss citizen, has served as a member of the Board of Directors since 2003. Since 1981, Prof. Lew has been a clinical infectious diseases physician. Prof. Lew is also an Honorary Professor of Medicine at the University of Geneva Medical School, member of the Swiss Academic Foundation for Education in Infectious Diseases (SAFE-ID) and member of the Swiss Academy of Medical Sciences. Since 1981, he has held various positions at the Geneva University Hospital, including chief of the Service of Infectious Diseases and the Academic Department of Internal Medicine. From 2010 to 2012, Prof. Lew was president of the International Society for Infectious Diseases (ISID). He received his M.D. from Geneva University and specialized in infectious diseases both in Geneva and then subsequently at Harvard Medical School and Massachusetts General Hospital (USA).

Dr. Martin Nicklasson, Swedish citizen, has served as a member of the Board of Directors since 2013. He served as Chairman of the Board from April 2013-April 2016. Dr. Nicklasson is an honorary Associate Professor at the Pharmaceutical Faculty, University of Uppsala (Sweden) since 1985. From 2007 to 2010, Dr. Nicklasson served as president and chief executive officer of Biovitrum AB and Swedish Orphan Biovitrum AB. From 1999 to 2007 he held various executive vice president positions at AstraZeneca Plc., and acted as a member of the Executive Committee. Dr. Nicklasson is member of the board of Biocrine AB (Sweden) and chairman of the board of directors of Kymab Group Ltd. (UK), Orexo AB (Sweden) and Zealand Pharma A/S (Denmark). He also serves as a consultant at Excore Consulting KB in Sweden. Dr. Nicklasson is a certified pharmacist and holds a Ph.D. in Pharmaceutical Technology from the University of Uppsala.







Board of Directors as of December 31, 2017 (from left to right and top to bottom):
Mr. Domenico Scala
Dr. Thomas M. Rinderknecht
Prof. Daniel Lew
Dr. Martin Nicklasson
Dr. Nicole Onetto
Mr. Steven D. Skolsky
Dr. Thomas Werner

Dr. Nicole Onetto, French and Canadian citizen, was elected as a member of the Board of Directors in April 2017. She is currently an independent consultant in oncology, drug development and translational research. From 2009 to 2016, she was Deputy Director & Chief Scientific Officer at the Ontario Institute for Cancer Research (OICR) in Toronto, Canada. From 2005-2009 she was Senior Vice President and Chief Medical Officer at ZymoGenetics Inc. Between 2002 and 2005, she served at OSI Pharmaceuticals, Inc., first as Executive Vice President-Oncology, and then as Chief Medical Officer and Executive Vice President. Previously she served in senior management positions at Bristol-Myers Squibb and Nexstar Pharmaceuticals, which was acquired by Gilead Sciences, Inc. She is currently on the board of Sierra Oncology, Inc., a Vancouver-based oncology hematology company, on the board of NBE-Therapeutics AG, a Basel based biotechnology company, and previously served from 2005 to 2016 as a member of the board of ImmunoGen Inc. Dr. Onetto obtained her MD from the University of Paris and holds a Master of Pharmacology from the University of Montréal.

Steven D. Skolsky, U.S. citizen, has served as a member of the Board of Directors since 2008 and from 2009-2010 served as Vice Chairman of the Board. Mr. Skolsky is currently Principal at Expis Partners, a biopharmaceutical and life science consultancy company. From 2011 to 2016, Mr. Skolsky served as a senior executive at Quintiles Transnational Holdings, as Senior Vice President, Managing Director, and as Head of Global Clinical Operations. From 2006 to 2011, Mr. Skolsky served as Chief Executive Officer and President of Sequoia Pharmaceuticals Inc. and from 2004 to 2006 as Chief Executive Officer of Trimeris Inc. Mr. Skolsky joined Trimeris from GlaxoSmithKline (GSK), where he had served for more than 20 years in a range of senior leadership roles, including Senior Vice President, Head of Global Product Strategy and Clinical Development, and Managing Director of GSK's operations in Australia and New Zealand. Mr. Skolsky also serves on the Boards of Directors of Clinipace Worldwide, the Foundation Board of the Kenan-Flagler School of Business at the University of North Carolina at Chapel Hill (USA) and on the Board of Visitors of UNC- Chapel Hill. Mr. Skolsky holds a B.A. in Biology from the University of North Carolina at Chapel Hill.

Dr. Thomas Werner, German citizen, has served as a member of the Board of Directors since 2011. Dr. Werner served as Senior Vice President and Managing Director of GlaxoSmithKline Germany from 2001 to 2008. From 1997 to 2000, he served as Managing Director for Glaxo Wellcome Germany and Director of the Central European Region. Dr. Werner has also worked at Bristol-Myers Squibb Germany and Convatec Germany/Central Europe. Dr. Werner is a member of the board of Vectura Group plc and is Chairman of the Advisory Committee of Fertin Pharma, Denmark. He also serves as the Chairman of the investment advisory committee of the Health for Life Capital fund of Seventure Partners (France). He holds a Ph.D. in chemistry from the University of Göttingen, Germany.

The Board of Directors is fully composed of non-executive members. 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 97) 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/Investor-Relations/Corporate-Governance/):

- 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 a general meeting of shareholders held on April 27, 2017. 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 23.

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/Investor-Relations/Corporate-Governance/), 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 share- holder 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/Investor-Relations/Corporate-Governance/), 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 27, 2017, 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 27, 2017, Dr. Thomas M. Rinderknecht 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 27, 2017, the following board members were appointed to the **Audit Committee:** Mr. Domenico Scala (Chairman), Dr. Martin Nicklasson and Dr. Thomas M. Rinderknecht.

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 applica-

ble 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 2017, lasting between two and three hours. The main topics at these meetings were review of the year-end financial statements and Annual Report 2016; review of the half-year financial statements 2017; review of the annual budget 2017 and 2018 as well as midterm financial forecasts; financial and non-financial risk management and the scope of the external audit 2017 as well as the scope and results of the internal audit 2017. The external auditors were present at all three Audit Committee meetings in 2017 to report on the results of the full-year 2016 audit, the half-year 2017 review and in preparation of the full-year 2017 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 27, 2017, the following board members were re-elected as members of the **Compensation Committee:** Dr. Martin Nicklasson (Chairman), Mr. Steven D. Skolsky and Dr. 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 2017, lasting approximately two to three hours. The main topics at these meetings were review of the 2016 Company's achievements of planned Company objectives and determination of the performance-related bonus pool; 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 27, 2017, the following board members were appointed to the **Corporate Governance Committee:** Dr. Thomas M. Rinderknecht (Chairman), Prof. Daniel Lew and Dr. Nicole Onetto.

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 2017 with an approximate duration of one hour. The main topics at these meetings were the Company's current corporate governance principles, policies, and ongoing compliance activities.

Members of the Board of Directors' committees

Audit Committee	Compensation Committee	Corporate Governance Committee
Mr. Domenico Scala (Chairman)	Dr. Martin Nicklasson (Chairman)	Dr. Thomas M. Rinderknecht (Chairman)
Dr. Martin Nicklasson	Mr. Steven D. Skolsky	Prof. Daniel Lew
Dr. Thomas M. Rinderknecht	Dr. Thomas Werner	Dr. Nicole Onetto

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/Investor-Relations/Corporate-Governance/), 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 2017, the Board of Directors held six 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. One meeting was 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/Investor-Relations/Corporate-Governance/), 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 25), 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 interim 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/Investor-Relations/Corporate-Governance/). The Chief Executive Officer is the head of the Management Committee and the other members of the 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, 2017:

Name	Appointed	Position
Mr. Ronald Scott	2013	Chief Executive Officer
Dr. Günter Ditzinger	2016	Chief Technology Officer
Prof. Achim Kaufhold	2010	Chief Medical Officer
Dr. Laurenz Kellenberger	2009	Chief Scientific Officer
Mr. Donato Spota	2013	Chief Financial Officer
Mr. David Veitch	2014	Chief Commercial Officer

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

Ronald Scott, Swiss citizen, has served as Chief Executive Officer since January 2013. He was Basilea's Chief Operating Officer from January 2012 through December 2012, and served as Basilea's Chief Financial Officer from the Company's founding in 2000 through January 2012 as well as ad interim Chief Financial Officer from February 2013 until November 2013. From 2004 to October 2011, Mr. Scott served on the Board of Directors. Prior to joining Basilea, Mr. Scott worked at Roche Holding AG (Roche) from 1993 to 2001 in management positions in Pharmaceutical Finance, Licensing, and the Roche Corporate Finance Mergers and 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. In May 2017, Mr. Scott was elected as a member of the Supervisory Board of Medigene AG (Germany). Mr. Scott has a bachelor's degree from Utah State University (USA) and a master's degree from Harvard University (USA).

Dr. Günter Ditzinger, German citizen, has served as Chief Technology Officer since February 2016. He joined Basilea in 2002 as CMC Project Leader & Pharmaceutical Development Manager. He was promoted in 2009 to Head of Pharmaceutics in which position he led the pharmaceutical development and manufacturing group and acted as deputy Chief Technology Officer. Prior to joining Basilea, he held various positions with increasing responsibility at Hoechst Marion Roussel in Frankfurt, Germany and at Novartis Pharma AG in Basel, Switzerland. Dr. Ditzinger holds a PhD in Pharmaceutical Technology from the Johann Wolfgang Goethe University in Frankfurt/Main, Germany.

Prof. Achim Kaufhold, German citizen, served as Chief Medical Officer from February 2010 until December 31, 2017. He holds a medical degree from the University of Cologne (Germany). During his 10-year academic career he worked in the fields of pediatrics, basic and applied medical microbiology, laboratory medicine and infectious diseases in Germany and the U.S. He is Professor of Medical Microbiology and Infectious Diseases and member of the Faculty of Medicine of the University of Aachen (Germany). He has spent more than 20 years in senior management positions in the biotech and pharmaceutical industry, mainly in leadership roles in research, product and business development, and general management. Prior to joining Basilea, from 2008 to 2009, he served as the President and Chief Executive Officer of Affitech A/S.






Management Committee as of December 31, 2017 (from left to right and top to bottom):
Mr. Ronald Scott
Dr. Günter Ditzinger
Prof. Achim Kaufhold
Dr. Laurenz Kellenberger
Mr. Donato Spota
Mr. David Veitch

From 2007 to 2008, Prof. Kaufhold worked at Pharmexa A/S, first as its Chief Medical Officer and Chief Scientific Officer before becoming Chief Executive Officer. From 2005 to 2006, Prof. Kaufhold served as the Chief Medical Officer and Vice President of Development at Chiron. From 2001 to 2005, he served as the Chief Medical Officer of Berna Biotech AG, and as its Head of Research, Product and Business Development. From 1994 to 2001 he served as Director of Clinical Development and Head of the Pediatric Vaccines Development Unit of GlaxoSmithKline Biologicals. Effective December 31, 2017, Prof. Kaufhold retired from his role as Chief Medical Officer and as a member of the Management Committee. His successor in the role of Chief Medical Officer and as a member of the Management Committee, effective January 1 2018, is Dr. Marc Engelhardt (see below).

Dr. Laurenz Kellenberger, Swiss citizen, has served as Chief Scientific Officer since 2009. From 2000 to 2009, Dr. Kellenberger held roles of increasing responsibility at Basilea and served as Head of Chemistry from 2004 to 2009 and member of the research management team with responsibilities for key projects from lead finding and optimization through to preclinical development. He holds a Ph.D. in Organic Chemistry from the Swiss Federal Institute of Technology Zurich (ETH Zürich). After receiving his Ph.D., he continued his scientific research at the University of Cambridge (UK) and at F. Hoffmann-La Roche, Basel, where he held different positions in preclinical research and chemical technologies before joining Basilea in 2000. He is author of numerous scientific publications.

Donato Spota, Italian and German citizen, has served as Chief Financial Officer since November 2013. Mr. Spota has held various positions at Basilea since joining the company in 2002, 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 degree in business administration from the University of Applied Sciences Nürtingen (Germany).

David Veitch, British citizen, has served as Chief Commercial Officer since September 2014. Mr. Veitch served as the President of European Operations at Savient Pharmaceuticals from 2012 to 2013. 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 and 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 received a B.Sc. in Biology from the University of Bristol (U.K.).

Dr. Marc Engelhardt, German citizen, was appointed Chief Medical Officer and a member of the Management Committee taking effect on January 1, 2018, succeeding Prof. Achim Kaufhold. Dr. Marc Engelhardt joined Basilea in 2010 as Head of Clinical Research. In 2012, he was promoted to Head of Development. In this

role Dr. Engelhardt led Basilea's clinical research and development group. Prior to joining Basilea, Dr. Engelhardt served as Global Program Medical Director at Novartis Pharma AG in Basel, before which he held various positions with increasing responsibility at Bracco-Altana, Konstanz, Germany and Bracco Diagnostics in Princeton, NJ, USA. Dr. Engelhardt holds a medical degree and a PhD from the University Frankfurt/Main, Germany and is board certified in internal medicine.

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, 2017, the EMC comprises Ursula Eberhardt, Head of Global Human Resources, Damian Heller, General Counsel & Corporate Secretary, Adesh Kaul, Head of Corporate Development, and Dr. Josef Künzle, Head of Global Quality Management.

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

Ursula Eberhardt, Swiss citizen, has served as Head of Global Human Resources since January 2017. She joined the Corporate Department of Basilea in February 2006. From 2008 through 2016, she acted as a member of Basilea's Human Resources team, holding the positions of Human Resources Project Manager and Deputy Head of Global Human Resources. Prior to joining Basilea in 2006, she worked as a Marketing and Communication Manager and as Event and Administration Manager. Ms. Eberhardt held also positions in banking and administration at Barclays Bank Ltd, Zurich and Dubach Advertising Agency. Ms. Eberhardt has a commercial education and holds a Swiss Federal Diploma in Marketing Communication and a Swiss Advanced Federal Diploma of Higher Education in Human Resources Managemen.

Damian Heller, Swiss citizen, has served as General Counsel & Corporate Secretary since August 1, 2017. He succeeded Elizabeth Rozek who left Basilea on July 31, 2017 to return to the United States. Mr. Heller joined Basilea in 2015 as Deputy General Counsel and Global Compliance Officer. Prior to joining Basilea, he served as Corporate Secretary of Syngenta AG (2000 - 2007), Global Compliance Officer at Novartis Pharma AG (2007 - 2010), and Director of the Basel Institute on Governance (2010 - 2013). 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, USA.




Extended Management Committee as of December 31, 2017 (from left to right and top to bottom):
Ms. Ursula Eberhardt
Mr. Damian Heller
Mr. Adesh Kaul
Dr. Josef Künzle

Adesh Kaul, Swiss citizen, has served as Head of Corporate Development since March 2016. From 2015 to 2016, he held the position of CFO and Head Corporate Development at Polyphor AG. Between 2009 and 2014, Mr. Kaul served as Basilea's Head Business Development, Licensing & Investor Relations and Head Public Relations & Corporate Communications. From 2006 to 2009, Mr. Kaul was Senior Financial Analyst at Neue Zürcher Bank and held several senior executive positions in General Management and Sales & Marketing from 1999 to 2006 at Genedata AG, Basel, Switzerland. Mr. Kaul holds Master's degrees both in biochemistry and economics from the University of Basel, and an Executive MBA from HSG St. Gallen.

Dr. Josef Künzle, Swiss citizen, has served as Head of Global Quality Management of the independent Quality Unit since August 2015. He joined Basilea in 2007 as Project Manager Quality Assurance and was promoted in May 2009 to Head of Quality Unit Technical Operations in which position he led the GMP/GDP QA group. In March 2013, he was additionally appointed as

Head of Global QM. Since 1989, he held various positions in the pharmaceutical industry with increasing responsibility, from 1989 to 1998 in Analytical R&D/QC at Sandoz Pharma AG/Novartis Pharma AG in Basel, from 1998 to 2003 in QC/QM at Carbogen AG in Aarau, and from 2003 to 2007 in QC/QM at Permamed AG in Therwil. Dr. Künzle holds a PhD in Organic Chemistry from the University of Zurich (Switzerland) and was a Post-Doc in the Civil Engineering Department at Stanford University California.

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.

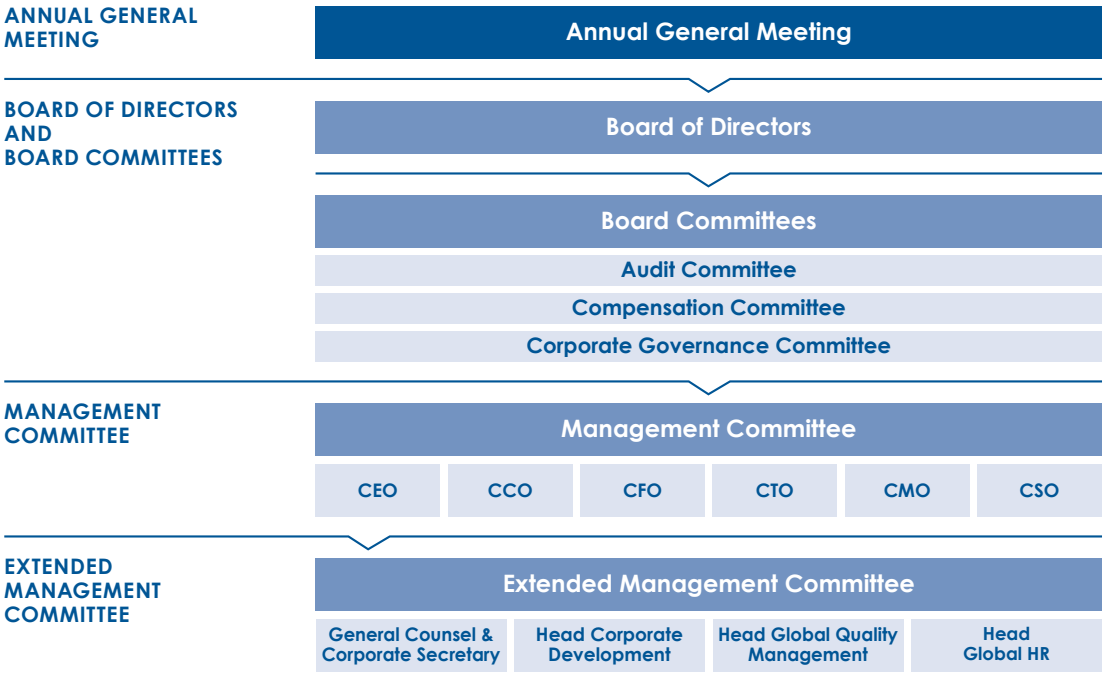
Article 26 of Basilea's articles of association (available online at www.basilea.com /Investor-Relations/Corporate-Governance/) provides the following with respect to permissible mandates of members of the Management Committee:

- 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 38 to 53.

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 2017.

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), another registered shareholder or a third person with written authorization to act as proxy or the shareholder's legal 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 21 and "registration in the share register" on page 34.

A shareholder resolution with a qualified majority of at least two-thirds of the votes represented as well as the majority of the par values 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' preemptive 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/Investor-Relations/Corporate-Governance/), 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 2017, the deadline for registration in the share register in order to participate and to vote at the ordinary general meeting of shareholders of April 27, 2017 was April 13, 2017.

The registration deadline for the ordinary general meeting of shareholders to be held on April 18, 2018 has been set as April 10, 2018.

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 21.

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 2017, PricewaterhouseCoopers charged the Company auditing fees in the amount of CHF 212,305 (2016: CHF 235,548). No further auditing services were provided in 2017 and 2016.

ADDITIONAL FEES

In 2017, PricewaterhouseCoopers rendered consulting services related to a reporting and publishing application to the Company in the amount of CHF 109,000 (no additional fees were charged in 2016).

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 once a year to discuss the scope and the results of the audit and to assess the quality of their services. In 2017, the Audit Committee met with the auditors three times to discuss the scope and results of their year-end audit for 2016, the scope of the 2017 audit as well as the scope and results of their review of the half-year financial statements per June 30, 2017.

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/Investor-Relations/Investors-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/Investor-Relations/News-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/Investor-Relations/Corporate-Governance/) which was reviewed and updated in 2011. 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.

This page left intentionally blank.

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 52 to 53 of the Compensation Report of Basilea Pharmaceutica Ltd. for the year ended December 31, 2017.

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, 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Bruno Rossi
Audit expert
Auditor in charge

Stephen Johnson

Basel, February 15, 2018

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 2017.

Basilea achieved its key corporate goals which were set for 2017 in the areas of commercialization, R&D, and partnering. Establishing additional partnerships to optimize the global value of our commercial-stage assets was a key corporate goal for 2017. The Company achieved this goal by entering into a series of partnerships for the development and commercialization of our products Cresemba® and Zevtera® around the world. Through our partners, the Company can now bring these important treatment options to fight potentially life-threatening fungal and bacterial infections to patients in more than 100 countries. On the commercialization front, product sales made by Basilea and its partners have continued to show strong growth. Finally, the Company made significant progress on its phase 3 clinical development program for ceftobiprole by agreeing Special Protocol Assessments with the U.S. FDA. Basilea was awarded further funding of USD 54.8 million for two additional options on its existing contract with the Biomedical Advanced Research and Development Authority (BARDA) in 2017 adding to the approximately USD 20 million initial funding that was allocated under the BARDA contract for the clinical phase 3 development of ceftobiprole to support a market registration in the U.S.

Basilea's compensation structure closely links overall compensation to sustainable value creation through a balanced mix of fixed and variable elements. Our compensation structure is designed to promote sustainable performance for the Company and its shareholders including 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.

In 2017, the Ordinary General Meeting of shareholders supported the Board's compensation proposals for 2017/2018 by approving the proposed compensation budget for the Board of Directors and the Management Committee. Shareholders also approved the Management Committee's variable compensation for fiscal year 2016 in a non-binding advisory vote.

The Board undertakes regular performance-related activities throughout the year including performance goal setting at the beginning of the year and performance assessment at year-end. The Compensation Committee reviews and monitors Basilea's compensation policy and its compensation on an ongoing basis in light of the Company's business strategy, corporate goals and corporate values. External factors such as regulatory and legal developments and benchmarking data as compared to similar companies are also taken into account.

The most recent Board review of Board members' compensation took place on December 13, 2017, at which time the Board of Directors found that Basilea is generally aligned with the market for board member compensation.

The Compensation Committee also regularly reviews the compensation structure and level for Basilea's Management Committee and makes recommendations for potential adjustments to the Board of Directors. The most recent review took place on December 13, 2017. The Compensation Committee found that the compensation of the members of the Management Committee is in line with market practice based on market benchmark analysis.

In 2017, 67% of the total direct compensation of Basilea's CEO and 60% of the average direct compensation of all other active Management Committee members is variable and fully linked to achieving key company goals. Long-term compensation in the form of stock options, which vest after 3 and 4 years, continues to be included as part of the Management Committee's compensation in the current development stage of the Company. A substantial part of Basilea's CEO direct compensation (44%) and 42% on average of the direct compensation of all other Management Committee's members is paid as "at risk" long-term incentive award in the form of stock options.

Even though a significant portion of vested options held by current or former employees have historically been "in the money", the weighted average holding period of a Basilea stock option is currently at 7.2 years showing employees' commitment to the long-term success of the Company.

We strive to maintain a high level of transparency by disclosing to shareholders detailed and comprehensive information on company goals, performance criteria and compensation both through this report and in our invitation to our annual shareholder meeting.

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. We remain committed to providing compensation policies and packages that are performance based and align the interests of our employees and our shareholders.

Dr. Martin Nicklasson

Chairman of the Compensation Committee

This Compensation Report provides the information required by the Federal Ordinance against excessive compensation in listed companies (VegüV) (effective as of January 1, 2014), which prevails over articles 663bbis and 663c paragraph 3 of the Swiss Code of Obligations. It also includes the information required by section 5 of the Annex to the Directive on Information relating to Corporate Governance of the SIX Swiss Exchange and the Swiss Code of Best Practice for Corporate Governance.

COMPENSATION POLICY AND GUIDING PRINCIPLES

Basilea focuses on the research, development and commercialization of products targeting the medical challenge of resistance and nonresponse to current treatment options for fungal infections, bacterial infections and cancer. Basilea achieved significant milestones in 2017 including:

- The establishment of a series of additional licensing and distribution partnerships with leading pharmaceutical companies (Pfizer, Cardiome, Avir and Shenzhen China Resources Gosun Pharmaceutical) for bringing our key products, the antifungal Cresemba (isavuconazole) and the antibiotic Zevtera (ceftobiprole), to even more patients around the world. The existing agreements now cover more than 100 individual countries and Basilea received CHF 79 million in upfront payments in 2017
- The effective management of these partnerships to increase product revenues. In 2017, Basilea received a first sales milestone payment of CHF 5 million from licensing partner Astellas based on the sales performance of Cresemba in the United States
- The granting of further marketing approvals, including Switzerland for Cresemba and Argentina for Zevtera
- The preparations for marketing Cresemba in Spain, where it was launched by Pfizer in late 2017. Cresemba is now marketed in all five major European markets
- The completion of the phase 1 clinical study with isavuconazole by Asahi Kasei Pharma as an important first step for ultimately making Cresemba available to patients in Japan
- An agreement with the U.S. Food and Drug Administration on the design and planned analysis of two cross-supportive clinical phase 3 studies with ceftobiprole (Special Protocol Assessments), which are intended to be used for gaining regulatory approval in the United States
- The award of additional funding of USD 54.8 million by the Biomedical Advanced Research and Development Authority in the United States for conducting ceftobiprole phase 3 studies, which increased the total potential value of the contract to approximately USD 108 million
- The establishment of the clinical dose ranges for daily oral administration and weekly 48-hour intravenous infusion for patients with solid tumors in the phase 1/2a studies with BAL101553
- The initiation of a clinical phase 1 study to explore our tumor checkpoint controller BAL101553 in newly diagnosed glioblastoma (brain cancer) in collaboration with the Adult Brain Tumor Consortium with funding supported by the National Cancer Institute in the United States

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 therefore designs and implements its compensation policy with the purpose of motivating its employees to deliver on Basilea's company goals. Basilea is committed to performance-based compensation principles that are balanced and that align long-term employee and shareholder interests. The Company's compensation policy is aligned with its business strategy and financial objectives and takes into account Company achievements and individual contribution. The variable compensation element is designed so that it does not encourage inappropriate risk-taking. Employees' compensation packages are competitive with market practice to promote the long-term success of the Company and support the creation of sustainable shareholder value.

COMPENSATION GOVERNANCE AND PROCEDURE FOR DETERMINING COMPENSATION

RULES IN THE ARTICLES OF ASSOCIATION

In article 18 and article 25 of Basilea's articles of association, the principles regarding the performance-related compensation for and regarding allocation of equity instruments to members of the Board of Directors and to members of the Management Committee are described as follows:

- Compensation may be paid or granted to the Board of Directors in the form of cash, shares, and similar financial instruments and/or units, in kind or in the form of other benefits, and to the Management Committee in the form of cash, shares, options and similar financial instruments and/or units, in kind or in the form of other benefits. The Board of Directors or, where delegated to it, the Compensation Committee shall determine grant, forfeiture, vesting and exercise conditions, and may provide for acceleration or removal of vesting and exercise conditions, for payment or grant of compensation based upon assumed target achievement, or for forfeiture, in each case in the event of predetermined events such as a change-of-control or termination of an employment or mandate agreement. In this determination, the Board of Directors and the Compensation Committee take into account the interests of the Company, including, with respect to the members of the Management Committee, the Company's ability to recruit talent and retain employees. The Company may procure the required shares through purchases on the market or a conditional increase of its share capital. Compensation may be paid by the Company or companies under its control.
- In addition to fixed compensation, members of the Management Committee may be paid variable compensation, depending on the achievement of certain performance criteria. The performance criteria 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 relative weight of the performance criteria and the respective target values and to which extent such criteria have or have not been met.

With respect to the additional amount of payments to members of the Management Committee appointed after the vote on pay at the general meeting of shareholders, article 25 para. 3 provides that, if the maximum aggregate amount of compensation already approved by the general meeting is not sufficient to cover compensation of a member of the Management Committee who either becomes a member of or is promoted to the Management Committee after the general meeting has approved the compensation, the Company or companies under its control shall be authorized to grant and pay to each such member a supplementary amount during the compensation period(s) already approved. The supplementary amount per compensation period per each such member shall not exceed 40% of the aggregate amount of fixed and variable compensation last approved by the general meeting.

The articles of association contain no rules on loans, credit facilities and post-employment benefits for members of the Board of Directors and Management Committee.

In article 6 para. 2 of the articles of association the general meeting of shareholders is granted the following non-transferable powers:

- The approval of the maximum aggregate amount of compensation for the Board of Directors for the prospective period from one ordinary general meeting to the following ordinary general meeting;
- 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.

The articles of association provide for the following further determinations by the board and votes by the general meeting of shareholders in article 15 para. 3:

- 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 EVALUATION

The compensation of the members of the Board of Directors and of the Management Committee is reviewed annually by the Compensation Committee in accordance with Basilea's Compensation Policy. In its review of Board of Directors compensation, the Compensation Committee evaluates the professional experience and areas of responsibility of each Management Committee member and considers practices 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.

The Compensation Committee provides the Board of Directors with 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 the Company's employees, and the basic principles for the establishment, amendment, and implementation of the Company's stock option plan. Salaries may be adjusted 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 salaries of Management Committee members may be adjusted if there is a change in scope of responsibility and based on performance.

In its 2017 review of Management Committee compensation, the Compensation Committee took into account the professional experience and areas of responsibility of each Management Committee member and also considers 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. In 2017, 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 are 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 are below the market median. In addition, benchmarking comparisons that were conducted on previous year reported compensation showed that the actual total cash compensation (base salary and bonus payout) of the CEO and the Management Committee members were below the average as compared to the Swiss healthcare peer group with Basilea allocating a significant part of the compensation in the form of stock options with no cash value at the time of grant.

COMPENSATION APPROVAL PROCESS

Based on the Compensation Committee recommendations, the Board of Directors submits three proposals for approval at the general meeting of shareholders:

- the maximum aggregate amount of compensation for the Board of Directors for the prospective period from one ordinary general meeting of shareholders to the following ordinary general meeting of shareholders;
- 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; and
- the maximum aggregate amount of variable compensation for the Management Committee including short-term incentives in the form of cash bonuses and long-term incentives in the form of stock options for the period from January 1 to December 31 of the current year.

The approval of these proposals requires 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 2017).

COMPENSATION APPROVAL PROCESS

Compensation for	Proposal	Decision	Binding approval by shareholders at the AGM
Members of the Board of Director	Compensation Committee	Board of Directors	*Maximum total compensation:* for the period from one AGM to the following AGM
Members of the Management Committee	Compensation Committee	Board of Directors	*Maximum fixed compensation:* for the period from July 1 of the current year to June 30 of the next year. *Maximum variable compensation:* for the period from January 1 to December 31 of the current year.

BOARD OF DIRECTORS COMPENSATION

The compensation for members of the Board of Directors consists of:

- a fixed annual monetary compensation for service on the board for the elected term from one general meeting of shareholders to the next;
- compensation per board meeting attended;
- compensation for service on each board committee;
- the payment of social security contributions, where such contributions occur; and
- reimbursement of board-related out-of-pocket expenses.

A breakdown of this compensation for the period from ordinary general meeting of shareholders 2017 ("AGM 2017") to ordinary general meeting of shareholders 2018 ("AGM 2018") is:

In CHF	AGM 2017 to AGM 2018
Chairman of the Board of Directors	
Fixed compensation	238 363
Board meeting fee [1]	9 375
Fee committee membership [2]	7 875
Members	
Fixed compensation	150 382
Board meeting fee [3]	6 250
Fee committee membership [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 52.

MANAGEMENT COMMITTEE COMPENSATION

COMPENSATION SYSTEM

The compensation of the members of the Management Committee includes a base salary, performance-related bonus, stock options, pension plan contributions, certain disability insurance, and eligibility for special performance awards for exceptional performance. Management compensation must be within the shareholder approved budget.

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 bonus	Cash (paid out annually in the following year)	Align management and corporate goals and pay for performance	Corporate and individual performance
Special performance award	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
Stock option program	Stock options that vest in two tranches: 50% vest 3 years from grant date and 50% vest 4 years from grant date	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.

Performance-related bonus

Performance-related bonuses vary annually and are based on individual and Company performance. Potential bonuses are set in each Management Committee member's employment contract and are calculated as a percentage of the base salary, ranging from 35% to 50% depending on position. Bonus grants are based upon the contractual potential bonus, adjusted by individual and Company performance. Bonus compensation is capped at 140% of the target bonus for the CEO and 130% of the target bonus for the other Management Committee members, which can be reached only in the event of extraordinary performance.

The amount of each Management Committee member's bonus grant 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.

Management Committee members' performance assessment is based on:

Company goals (40% of the target bonus): In 2017, Basilea moved from a direct sales structure to commercialization partnerships with established pharmaceutical companies. The Company focused on market expansion and sales acceleration, and the achievement of upfront and milestone payments, for its two commercial-stage products. It also focused on the development of its other product candidates. The Company goals used for performance evaluation of all Basilea employees in 2017 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 sales revenues, achievement of upfront and milestone payments, and accessing of funding, as well as its share price relative performance compared to the Swiss Market Index (SMI).
- Non-financial KPIs are related to achievement of operational milestones in the areas of research and 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.

The Company goals portion may be rated above 100% 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 in the event that the Board of Directors determines that certain upside Company goals were achieved.

Individual goals (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. The individual portion may be rated above 100% 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 in the event of extraordinary performance. The total average Company-wide individual portion of the performance-related bonus for all employees (excluding the CEO) cannot exceed 100% of the respective target amount. The weighting of the Company goals (40%) and the individual goals (60%) is the same for all members of the Management Committee.

For 2017, the Board of Directors considered the achievement of the following Company goals when determining the performance-related bonus for the Management Committee members:

Goals used to determine the 2017 performance-related bonus

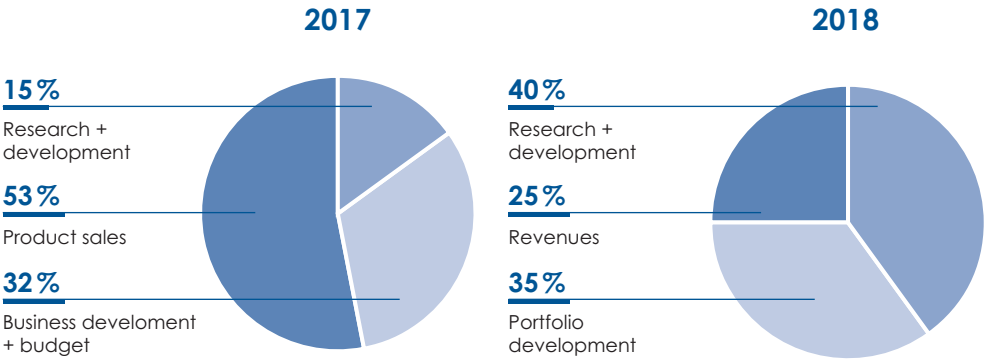
Company goals

Financial KPIs	Non-financial KPIs
▸ Achieving budgeted sales, entering into collaboration agreements for funding of development projects (e.g. entering into partnership for financing of ceftobiprole US clinical phase 3 development program)	▸ Ceftobiprole - execution of distribution agreements for additional major territories, agreement of Special Protocol Assessments (SPAs) with the FDA
▸ Managing expenses	▸ Isavuconazole - execution of license and distribution agreements for additional major territories
▸ Share price performance as compared to the Swiss Market Index (SMI)	▸ BAL101553 - initiation of clinical phase 1 study in patients with newly diagnosed glioblastoma
	▸ BAL3833 - advancing phase 1 study

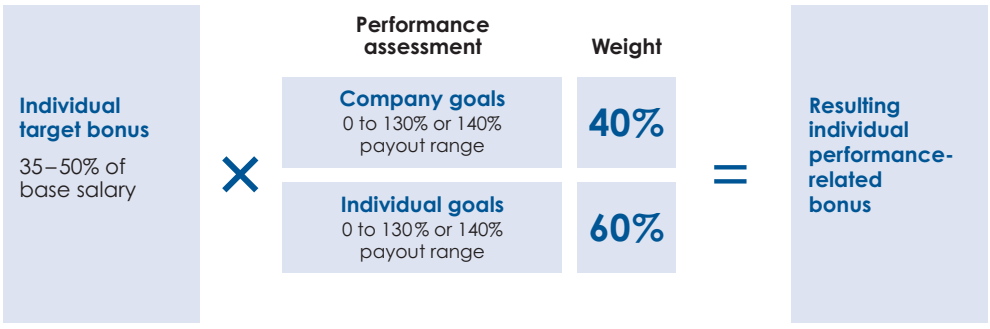
For 2018, following the successful completion of licensing and distribution agreements with commercialization partners for our products Cresemba and Zevtera, 25% of the Company's corporate goals are based on revenues (product sales, royalties and milestone payments by our partners, other product-related revenues). Considering long-term metrics, 35% of the Company's corporate goals are allocated to Portfolio development. Research and development goals are set at 40%.

- Revenues **25%**
- Portfolio development **35%**
- Research and development **40%**

Company goals 2017 and 2018

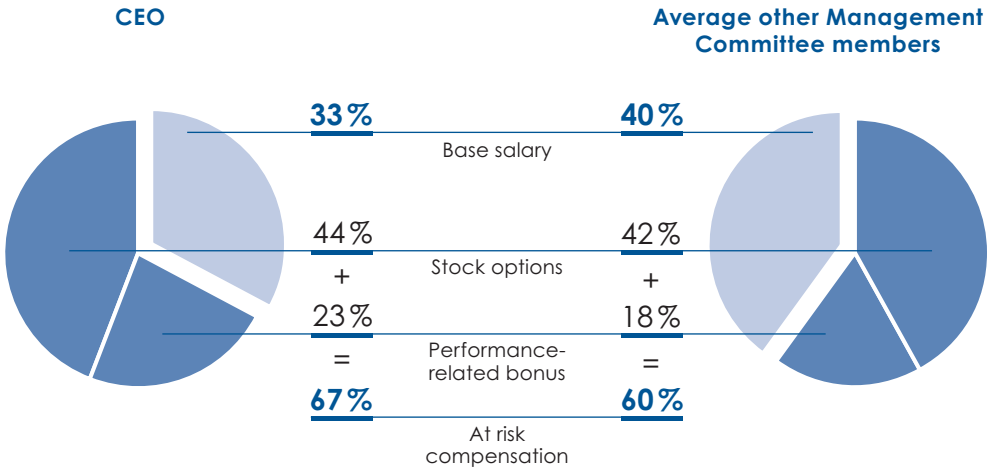


Calculation of the individual performance-related bonus for the members of the Management Committee



The majority of compensation for each Management Committee member is at risk and based on corporate and individual performance, with 67% of Basilea's CEO's direct compensation and 60% of the average direct compensation of all other active Management Committee members based on such performance and paid out in the form of stock options and a performance-related bonus.

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



Stock option program

The purpose of the Basilea stock option program is to provide Management Committee members and certain key employees with an opportunity to obtain stock options (or alternatively, stock appreciation rights) and to benefit from the appreciation thereof, thus providing an incentive for participants to contribute to the mid and long-term success of the Company. The program is therefore aligned with shareholders' interest to enhance shareholder value and also increases the ability of 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:

- benchmarking with other companies;
- individual performance of the Management Committee members;
- the amount of shareholder approved conditional capital; and
- the dilution of the value of the Basilea share by outstanding stock options.

The grant of options under the stock option program is wholly discretionary. 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. The strike price 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 2017 was CHF 85.70 (2016: CHF 83.00), 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 since 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, all options may be exercised. 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, the fair value of the stock options granted in 2017 was determined at the grant date using a binomial model as CHF 35.84 (2016: CHF 34.89) per option. The assumptions used for the fair value calculation of options can be found on page 91. Options only create cash value for Management Committee members in the event the share price after vesting exceeds the strike price, thus directly aligning Management Committee members' interest with shareholders' interest.

The average holding period by option plan participants is approximately 7.2 years. Participants have, in the past, held their options beyond the vesting period even when such options were "in the money".

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 2017 or 2016.

EMPLOYMENT CONDITIONS

The notice period of the employment agreements for the members of the Management Committee is 12 months and, during the notice period, bonus may be received depending on individual and Company performance following the same ranges as set forth 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 53.

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 2017 and 2016 are outlined below:

In CHF	Fixed compensation	Committee fees	Board meeting fees	Social security [7]	**Total**
2017					
Mr. Domenico Scala, Chairman [1]	238 363	7 875	46 875	36 825	329 938
Dr. Thomas M. Rinderknecht, Vice-Chairman [2]	150 382	15 500	37 500	26 129	229 511
Dr. Martin Nicklasson, Director [3]	150 382	11 813	31 250	40 043	233 488
Prof. Daniel Lew, Director [4]	150 382	5 250	31 250	18 375	205 257
Mr. Steven D. Skolsky, Director [5]	150 382	5 250	31 250	—	186 882
Dr. Thomas Werner, Director [5]	150 382	5 250	31 250	24 162	211 044
Dr. 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] Mr. Domenico Scala is Chairman of the Board of Directors and Chairman of the Audit Committee.
[2] Dr. 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] Dr. 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] Prof. Daniel Lew is a member of the Corporate Governance Committee.
[5] Mr. Steven D. Skolsky and Dr. Thomas Werner are members of the Compensation Committee.
[6] Dr. 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

In CHF	Fixed compensation	Committee fees	Board meeting fees	Social security [7]	**Total**
2016					
Mr. Domenico Scala, Chairman [1]	216 368	7 219	46 875	34 125	304 587
Dr. Thomas M. Rinderknecht, Vice-Chairman [2]	150 382	10 500	25 000	24 043	209 925
Dr. Martin Nicklasson, Director [3]	172 377	17 719	31 250	48 187	269 533
Prof. Daniel Lew, Director [4]	150 382	5 250	37 500	23 386	216 518
Mr. Steven D. Skolsky, Director [5]	150 382	5 250	37 500	–	193 132
Dr. Thomas Werner, Director [5]	150 382	5 250	31 250	24 162	211 044
Mr. Hans-Beat Gürtler, Director [6]	37 596	2 625	–	5 801	46 022
Total	**1 027 869**	**53 813**	**209 375**	**159 704**	**1 450 761**

[1] Mr. Domenico Scala is Chairman of the Board of Directors since April 21, 2016, before he was Vice-Chairman of the Board of Directors and Chairman of the Audit Committee.
[2] Dr. Thomas M. Rinderknecht is Vice-Chairman of the Board of Directors since April 21, 2016, Chairman of the Corporate Governance Committee and a member of the Audit Committee.
[3] Dr. Martin Nicklasson was Chairman of the Board of Directors until April 21, 2016. He is Chairman of the Compensation Committee and member of the Audit and Corporate Governance Committees.
[4] Prof. Daniel Lew is a member of the Corporate Governance Committee.
[5] Mr. Steven D. Skolsky and Dr. Thomas Werner are members of the Compensation Committee.
[6] Mr. Hans-Beat Gürtler was a member of the Board of Directors, member of the Audit and Corporate Governance Committees until April 21, 2016.
[7] Includes the Company's and the Board members' contributions to social security, etc., where such contributions occur.

DISCLOSURE OF THE COMPENSATION FOR THE MEMBERS OF THE MANAGEMENT COMMITTEE

The total compensation and the highest individual compensation of the members of the Management Committee in calendar years 2017 and 2016 are outlined below:

In CHF	Cash compensation	Cash compensation variable	Stock options [1]	Social security and other fringe benefits [2]	**Total**
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** [3]	**2 656 138**	**668 217**	**6 871 367**
2016					
Chief Executive Officer Ronald Scott	573 937	474 909 [4]	717 757	149 035	1 915 638
Total Management Committee [6]	**2 629 039**	**1 379 953** [5]	**2 838 162**	**674 694**	**7 521 848**

[1] Based on the grant-date fair value per stock option of CHF 35.84 (2016: CHF 34.89) using a binomial valuation model.
[2] Includes employers' contributions to pension plans, social security, life insurance etc.
[3] This amount includes a cash bonus true-up of CHF – 20,465 between actual pay-out and accrued cash bonus in 2016.
[4] This amount includes the estimated cash bonus for 2016 of CHF 401,755 and cash bonus true-up of CHF 73,154 between actual pay-out and accrued cash bonus in 2015.
[5] This amount includes the estimated cash bonus for 2016 of CHF 1,234,695 and cash bonus true-up of CHF 145,258 between actual pay-out and accrued cash bonus in 2015.
[6] These amounts include the compensation of the CTO since February 1, 2016 and of the former CTO who retired on August 31,2016.

GRANTING OF STOCK OPTIONS

The development of stock option holdings for the total Management Committee and the highest paid Management Committee member in 2017:

For year 2017	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 vested stock options at the end of the year	Number of unvested stock options at the end of the year
Chief Executive Officer Ronald Scott	58 566	51 215	21 242	8 693	65 485	56 845
Total Management Committee	**203 024**	**174 578**	**74 111**	**20 173**	**230 921**	**200 619**

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 US 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 developing products that address the medical challenge of increasing resistance and non-response to current treatment options in the therapeutic areas of bacterial infections, fungal infections and oncology.

In 2017, the Company entered into a new license agreement with Pfizer for Cresemba, initially for Europe (excluding the Nordic Countries), Russia, Turkey and Israel, later extended to China and Asia-Pacific and received CHF 70.0 million in upfront payment.

In addition, the Company entered into a license agreement for China for Zevtera and distribution agreements for Europe and Israel for Zevtera and for Cresemba as well as Zevtera for Canada.

In June 2017, the Company was awarded USD 54.8 million of additional funding by BARDA to support phase 3 development of ceftobiprole with the goal to gain regulatory approval in the United States. Total contract value could reach up to USD 108 million upon successful completion of pre-defined milestones.

The Company recognized operating income of CHF 101.5 million 2017 (2016: CHF 66.0 million). Operating income in 2017 included CHF 37.7 million contract revenue related to the agreement with Stiefel, a GSK company, for Toctino® (2016: CHF 37.7 million), contract revenue related to the license agreement with Astellas for isavuconazole of CHF 30.2 million (2016: CHF 19.3 million) and contract revenue related to distribution and license agreements of CHF 6.1 million (2016: CHF 0.7 million). Moreover, operating income included product revenue in the amount of CHF 16.3 million (2016: CHF 7.1 million), other revenue in the amount of CHF 10.8 million (2016: CHF 0.9 million) and revenue from R&D services in the amount of CHF 0.3 million (2016: CHF 0.2 million).

In 2017, the Company invested CHF 53.5 million (2016: CHF 48.4 million) in research and development activities related to its antibiotic ceftobiprole, its cancer drug candidates 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 53.1 million in 2017 (2016: CHF 56.1 million).

The cash and cash equivalents and investments amounted to CHF 310.7 million as of December 31, 2017, compared to CHF 289.0 million at year-end 2016.

RESULTS OF OPERATIONS

The following table outlines the Company's consolidated results of operations for the fiscal years 2017 and 2016:

In CHF million	**2017**	2016
Product revenue	16.3	7.1
Contract revenue	74.0	57.7
Revenue from R&D services	0.3	0.2
Other income	10.8	0.9
Total operating income	**101.5**	**66.0**
Cost of products sold	(9.0)	(5.3)
Research & development expenses, net	(53.5)	(48.4)
Selling, general & administrative expenses	(53.1)	(56.1)
Total operating expenses	**(115.7)**	**(109.9)**
Operating loss	**(14.1)**	**(43.9)**
Interest income	0.0	0.0
Interest expense	(6.7)	(6.4)
Other financial income	4.8	1.6
Other financial expenses	(3.1)	(2.3)
Income taxes	(0.3)	(0.3)
Net loss	**(19.4)**	**(51.3)**

Note: Consistent rounding was applied.

Revenues

Operating income included product revenue in the amount of CHF 16.3 million (2016: CHF 7.1 million), contract revenue in the amount of CHF 74.0 million (2016: CHF 57.7 million), which mainly results from the recognition of contract revenue from Stiefel of CHF 37.7 million (2016: CHF 37.7 million) related to the upfront payment of CHF 224.1 million in 2012 and the recognition of contract revenue from Astellas of CHF 16.8 million (2016: CHF 11.8 million) in connection with the upfront payment of CHF 67.5 million in 2010 and the milestone payments of CHF 12.0 million in 2014 and CHF 30.0 million in 2016, which were recorded as deferred revenue and the sales milestone payment of CHF 5.0 million received in 2017. In 2017, the Company recognized additional contract revenue in the total amount of CHF 13.4 million (2016: CHF 7.5 million) comprising CHF 13.3 million (2016: CHF 7.3 million) related to royalties from Astellas and CHF 0.1 million (2016: CHF 0.2 million) related to services provided by the Company to Astellas for isavuconazole. Furthermore, the Company recognized contract revenue in the amount of CHF 4.4 million (2016: CHF 0.7 million) from upfront and regulatory milestone payments from distribution and license agreements in 2017 and CHF 1.7 million royalties from Pfizer. In other revenue, the Company recognized CHF 10.5 million in 2017 related to its agreement with BARDA (2016: CHF 0.7 million).

Moreover, the Company recognized revenue from R&D services in the amount of CHF 0.3 million (2016: CHF 0.2 million).

Costs of products sold

The Company recognized cost of products sold of CHF 9.0 million (CHF 5.3 million) for Cresemba and Zevtera.

Research and development expenses, net

Research and development expenses amounted to CHF 53.5 million (2016: CHF 48.4 million), representing 46% of the total operating expenses (2016: 44%).

Research and development expenses in 2017 were mainly related to activities for the U.S. phase 3 program of the antibiotic ceftobiprole, the phase 1/2a development of oncology drug candidate BAL101553, phase 1 clinical development of cancer drug candidate BAL3833, costs for the pediatric program for ceftobiprole and activities related to isavuconazole as well as further compounds in the Company's research portfolio.

The increase of CHF 5.1 million as compared to 2016 is mainly driven by the ceftobiprole U.S. phase 3 program.

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 2017 also included stock-based compensation expenses of CHF 2.0 million (2016: CHF 3.8 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 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 53.1 million (2016: CHF 56.1 million). Selling, general and administrative expenses in 2017 included costs related to the commercialization of isavuconazole and ceftobiprole and stock-based compensation of CHF 2.6 million (2016: CHF 4.2 million).

The decrease of CHF 3.0 million as compared to 2016 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, sales force, 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, 2017, the Company had subsidiaries in Germany, Italy, Spain and the United Kingdom.

Net financial income/expenses

Net financial income, excluding interest, amounted to CHF 1.7 million (2016: Net financial expenses of CHF 0.7 million).

Net interest expenses amounted to CHF 6.7 million (2016: CHF 6.4 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, 2017 and December 31, 2016. The Company incurred income taxes of CHF 0.3 million in 2017 and 2016 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 2017, the Company received non-refundable upfront and milestone payments of CHF 86.0 million (2016: CHF 19.1 million) from distribution and licensing partners.

The cash used by the Company in 2017 was primarily related to its operating activities, in particular the commercial activities as well as development programs.

The cash and cash equivalents and investments, available as of December 31, 2017, amounted to CHF 310.7 million (December 31, 2016: CHF 289.0 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, 2017 and December 31, 2016, CHF 50.0 million were invested in long-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 out- standing as of December 31, 2017 and 2016.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with US 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 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, reflecting its standalone selling price, 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 upon satisfaction of the criteria associated with the milestones. Royalty revenue is recognized when earned. 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 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 commercial-related manufacturing services consisting of another. 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 are another unit of accounting since they have value to Astellas and there is evidence of fair value of the undelivered commercial-related manufacturing services 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 and the participation in the joint steering committee. The related revenue is recognized over the period over which the services are rendered based on an input measure which results in higher revenue recognized in the first years when more services were rendered. The period during which the Company has to satisfy its contractual performance obligations is expected to be until October 2020. Following the amendment of the agreement in 2014, the Company reassessed the remaining expected period during which the Company has to satisfy its contractual performance obligations and reduced it from lasting until July 2029 to lasting until October 2020. Accordingly, the recognition of the upfront payment in contract revenue is accelerated.

The Company also received non-refundable milestone payments in the total amount of CHF 42.0 million from Astellas. The milestone payments were deferred and are recognized on a straight-line basis as contract revenue over the remaining period during which the Company has to satisfy its contractual obligations.

The agreement with Stiefel related to Toctino 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. 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 on a straight-line basis as contract revenue over the expected period during which the Company has to satisfy its performance obligations. 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.

The agreement with BARDA for the phase 3 development of ceftobiprole with the goal to gain regulatory approval in the United States is considered as part of the Company's ongoing major operations. Revenue from this contract is recognized as allowable costs are incurred applying the proportional performance revenue recognition method in other revenue.

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 and deemed the milestone to be non-substantive; as such the milestone payment was deferred and is recognized as contract revenue over the remaining service period.

The Company received upfront payments under distribution agreements for isavuconazole and ceftobiprole which were deferred and are recognized as contract revenue on a straight line basis over the remaining performance period.

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 4.6 million in 2017 (2016: CHF 8.0 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 cost 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 2017 and 2016, 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 3.8 million will be accreted over the remaining term of the Convertible Senior Unsecured Bonds, which is approximately 5 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 119.8 million as of December 31, 2017 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 unfavourable 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

On January 10, 2018, the amendment to the license agreement between the Company and Pfizer for isavuconazole was closed and the Company received a non-refundable upfront payment of USD 3.0 million.

The Company has evaluated subsequent events through February 15, 2018, 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. and subsidiaries (the Group) which comprise the consolidated balance sheet, the consolidated statements of operation, comprehensive income/loss, cash flows and changes in shareholders' equity and the notes (pages 64 to 97) for the year ended December 31, 2017.

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, 2017 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. Furthermore, the Company continues to supply Pfizer with finished products for a pre-determined period. Management concluded that the up-front payment is for the license and the supply obligation and therefore recognizes the respective product revenue over the estimated supply period. We consider the assessment of the current and future accounting implications of the contract to be a key audit matter given the magnitude of the contract, its complexity and the judgments involved specifically in relation to the up-front payment. *Refer to note 1 Summary of significant accounting policies (pages 71-72) and note 10 Agreements (pages 80 and 81) of the consolidated financial statements* .	We read the underlying contractual agreement and the respective accounting position paper prepared by Management. We specifically focussed on the proposed accounting treatment of the non-refundable CHF 70 million up-front consideration which the Company received in 2017. 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 assessed the method selected by Management to recognize product revenue based on shipments to Pfizer and considered the method to be acceptable. As part of our assessment we considered alternative accounting treatments, including immediate income statement recognition of the up-front payment, but determined this accounting treatment not to be appropriate given the continuous involvement of the Company due to the supply obligation. We found the judgments made by Management on the up-front payment 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 of agreed development cost up to an amount of USD 74.8 million over a period of 4.5 years if pre-defined milestones are met. 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 (pages 71-72) and note 10 Agreements (pages 85 and 86) 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 10.5 million in the year ended December 31, 2017. 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 15, 2018

CONSOLIDATED FINANCIAL STATEMENTS

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Consolidated balance sheets as of December 31, 2017 and 2016 (in CHF thousands, except for number of shares)

	Footnote reference	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	7	200 724	239 030
Short-term investments	6	60 000	-
Accounts receivable	5	4 955	2 492
Other receivables	8	10 071	4 917
Inventories	9	15 320	14 931
Other current assets		1 906	7 124
Total current assets		**292 976**	**268 494**
Non-current assets			
Tangible assets, net	2	7 768	8 878
Intangible assets, net	3	326	232
Long-term investments	6	50 000	50 000
Other non-current assets		95	154
Total non-current assets		**58 189**	**59 264**
TOTAL ASSETS		**351 165**	**327 758**
LIABILITIES			
Current liabilities			
Accounts payable		4 353	1 851
Deferred revenue	10	49 923	51 615
Accruals and other current liabilities	12	25 215	19 448
Total current liabilities		**79 491**	**72 914**
Non-current liabilities			
Convertible senior unsecured bonds	11	196 224	195 466
Deferred revenue, less of current portion	10	100 403	74 511
Other non-current liabilities	17	16 487	19 867
Total non-current liabilities		**313 114**	**289 844**
Total liabilities		**392 605**	**362 758**
Commitments and contingencies	21		
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital [1]	15	11 872	11 812
Additional paid-in capital		917 701	910 509
Accumulated other comprehensive loss	15	(19 204)	(24 872)
Treasury shares held by a subsidiary	15	(1 000)	(1 000)
Accumulated deficit:			
Loss carried forward		(931 449)	(880 162)
Net loss for the year		(19 360)	(51 287)
Total shareholders' equity (deficit)		**(41 440)**	**(35 000)**
TOTAL LIABILITIES AND EQUITY (DEFICIT)		**351 165**	**327 758**

[1] As of December 31, 2017, 11,871,656 registered shares were issued and outstanding with a par value of CHF 1.00 per share.
As of December 31, 2016, 11,811,973 registered shares were issued and outstanding with a par value of CHF 1.00 per share.

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, 2017 and 2016 (in CHF thousands, except per share amounts)

	Footnote reference	2017	2016
Product revenue	4	16 294	7 143
Contract revenue	4, 10	74 044	57 661
Revenue from research & development services	4	336	234
Other revenue	4	10 847	946
Total revenue		**101 521**	**65 984**
Cost of products sold		(9 025)	(5 347)
Research & development expenses, net		(53 493)	(48 449)
Selling, general & administration expenses		(53 139)	(56 077)
Total cost and operating expenses		**(115 657)**	**(109 873)**
Operating loss		**(14 136)**	**(43 889)**
Interest income		22	34
Interest expense	11	(6 675)	(6 413)
Other financial income		4 819	1 631
Other financial expenses		(3 056)	(2 317)
Loss before taxes		**(19 026)**	**(50 954)**
Income taxes	13	(334)	(333)
Net loss		**(19 360)**	**(51 287)**
Loss per share	16	**2017**	2016
Basic loss per share, in CHF		(1.79)	(5.07)
Diluted loss per share, in CHF		(1.79)	(5.07)

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Consolidated statements of comprehensive income/loss for the years ended December 31, 2017 and 2016 (in CHF thousands)

	Footnote reference	2017	2016
Net loss		**(19 360)**	**(51 287)**
Currency translation adjustments		712	(837)
Unrecognized pension costs		3 085	(7 399)
Amortization of unrecognized pension costs		1 871	1 232
Other comprehensive income/(loss), net of tax	15	**5 668**	**(7 004)**
Comprehensive loss		**(13 692)**	**(58 291)**

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, 2017 and 2016
(in CHF thousands)

	Footnote reference	2017	2016
Cash flow from operating activities			
Net loss		(19 360)	(51 287)
Adjustments to reconcile net loss to net cash used in/provided by operating activities:			
Depreciation and amortization		1 991	2 319
Gain on disposal of assets, net		(5)	(4)
Stock-based compensation		4 621	8 025
Interest and accretion of debt issuance cost	11	758	775
Change in operating assets/liabilities:			
Accounts receivable		(2 277)	(1 097)
Other receivables		(5 126)	(1 935)
Inventories		(45)	(6 855)
Accounts payable		2 500	764
Deferred revenue		24 200	(31 116)
Accruals and other current liabilities		5 551	1 086
Other operating cash flow items		6 206	4 322
Net cash provided by/used in operating activities		**19 014**	**(75 003)**
Cash flow from investing activities			
Payments for short-term investments	6	(60 000)	-
Maturities of short-term investments	6	-	51 635
Payments for long-term investments	6	-	(50 000)
Proceeds from sale of assets		5	7
Investments in tangible assets	2	(711)	(394)
Investments in intangible assets	3	(234)	(37)
Net cash used in/provided by investing activities		**(60 940)**	**1 211**
Cash flow from financing activities			
Net proceeds from exercise of stock options	14	2 631	411
Net cash provided by financing activities		**2 631**	**411**
Effect of exchange rate changes on cash and cash equivalents		**989**	**(653)**
Net change in cash and cash equivalents		**(38 306)**	**(74 034)**
Cash and cash equivalents, beginning of period		**239 030**	**313 064**
Cash and cash equivalents, end of period	7	**200 724**	**239 030**
Supplemental information			
Cash paid for interest		5 756	5 881
Cash paid for income taxes		283	56

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, 2017 and 2016
(in CHF thousands, except for number of shares)

	Footnote reference	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income/loss	Treasury shares held by a subsidiary	Accumulated deficit	**Total**
Balance at December 31, 2015		**10 800 623**	**10 801**	**902 085**	**(17 868)**	**-**	**(880 162)**	**14 856**
Net loss		-	-	-	-	-	(51 287)	(51 287)
Other comprehensive loss		-	-	-	(7 004)	-	-	(7 004)
Shares issued to a subsidiary	15	1 000 000	1 000	-	-	(1 000)	-	-
Exercise of stock options, net		11 350	11	400	-	-	-	411
Stock-based compensation, net		-	-	8 024	-	-	-	8 024
Balance at December 31, 2016		**11 811 973**	**11 812**	**910 509**	**(24 872)**	**(1 000)**	**(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**	**917 701**	**(19 204)**	**(1 000)**	**(950 809)**	**(41 440)**

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 developing products that address the medical challenge of increasing resistance and non-response to current treatment options in the therapeutic areas of bacterial infections, fungal infections and cancer. 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, Germany and Italy. The Company has a further subsidiary in Spain. 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	**2017**	2016
Convertible senior unsecured bonds (Level 1)	215.0	204.0

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.

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-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.

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

The Company recognizes revenue when it is realized or realizable and earned in accordance with ASC 605 "Revenue Recognition". For agreements with multiple deliverables, the Company recognizes revenue separately for each unit of accounting in accordance with ASC 605. A deliverable is separable if it is deemed to have standalone value to the customer, delivery and performance is considered probable, within a company's control and the best estimate of selling price is determined in a way that is consistent with the price at which the Company would sell the deliverable if the item were to be sold separately.

Product revenue

The Company recognizes revenue from the sale of its products when the following conditions are met: delivery has occurred; the price is fixed or determinable; the collectability is reasonably assured and persuasive evidence of an arrangement exists. Product revenues are recognized net of any sales and value added taxes and sales deductions. Allowances are recorded for estimated rebates, discounts, returns and charge backs. If the Company grants rights of return to its customers, allowances for sales returns are recorded at the time of sale. If the Company cannot reasonably estimate the amount of future sales returns, revenue is recognized only when the risk of product return has expired, and when the Company can reasonably estimate the amount of future sales returns. 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 to gross revenues.

Contract revenue
Contract revenue includes realized or realizable amounts from upfront and milestone payments in connection with licensing and distribution agreements and royalties. Contract revenue also includes consideration received or receivable from a licensee for services provided by the Company in accordance with the respective license agreement.

For license agreements with multiple deliverables, the Company allocates the arrangement consideration, including upfront payments, to the separate deliverables based on the relative selling price of each deliverable under the agreements. The Company recognizes revenue for each separately identified deliverable as the revenue recognition criteria for each deliverable are fulfilled.

The amount of upfront and milestone payments under a license agreement allocated to the grant of the license is recognized over the estimated remaining agreement period or over the expected period during which the Company has to satisfy its contractual performance obligations, depending on the terms of the agreement. Milestone payments under license agreements are recognized in its entirety as revenue when the respective milestone is achieved, if such milestone meets the following criteria to be considered substantive: the milestone is commensurate with the Company's performance to achieve the milestone; the milestone relates solely to past performance; and the milestone amount is reasonable relative to all deliverables and payment terms in the arrangement. Milestone payments under license agreements for which these criteria are not met are recognized as revenue over the estimated remaining agreement period.

Upfront and milestone payments under distribution agreements, which are allocated to the grant of the distribution right are recognized over the estimated remaining agreement period, depending on the terms of the agreement.

Revenue related to sales-based royalties received from licensees is recognized when earned, meaning when the royalties can be reasonably estimated based on the net sales of the underlying products and when collectability is reasonably assured. The Company considers sales-based milestone payments under license and distribution agreements as contingent considerations which are recognized based on achievement.

To the extent the Company receives payments, including non-refundable payments, in excess of the recognized revenue, such excess is recorded as deferred revenue until the respective revenue is earned.

Following the guidance in ASC 808 "Collaborative Arrangements", the Company presents the result 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 (see Note 10 Agreements) is to evaluate amounts due from (or owed to) other 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 from the contract with the Biomedical Advanced Research and Development Authority (BARDA) for the ceftobiprole U.S. phase 3

development. The Company considers the arrangement to be part of its ongoing major operations. Revenue from this contract is recognized as allowable costs are incurred applying the proportional performance revenue recognition method.

Cost of products sold

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.

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.

Advertising costs

Advertising costs are expensed as incurred and are included in selling, general and administration expenses. Advertising costs were approximately CHF 0.0 million in 2017. In 2016, CHF 0.2 million advertising costs were incurred.

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.

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.

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 pronouncement below may have an impact on the financial statements of the Company.

In May 2014, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers" (Topic 606): the development of this new standard is a part of the joint project of the FASB and the International Accounting Standards Board (IASB) to clarify the principles for revenue recognition and to develop a common standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thereby, this core princi-

ple is achieved by applying the following five steps: identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when the Company satisfies each performance obligation. In March 2016, the FASB issued an amendment to the standard, ASU No. 2016-08, "Revenue from Contracts with Customers" (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued an additional amendment to the standard, ASU No. 2016-10, "Revenue from Contracts with Customers" (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the guidance on identifying performance obligations and the implementation guidance on licensing.
The FASB voted on July 9, 2015 to approve a one-year deferral of the effective date of ASU No. 2014-09, "Revenue from Contracts with Customers", to make it effective for public companies for annual periods beginning after December 15, 2017. The FASB issued its final ASU formally amending the effective date in August 2015. The Company anticipates adopting the new standard using the modified retrospective method. The Company has substantially completed the analysis of existing ongoing contracts and assessed the differences in accounting for such contracts under the new standard compared with the current revenue accounting standards. Based on the review of current ongoing contracts, the Company currently does not expect that the implementation of the new standard will have a material impact on the financial statements. In limited instances, the Company may recognize revenue earlier than under the current standard. Currently, the Company defers certain revenue where the price pursuant to the underlying customer arrangement is not fixed and determinable. Under the new standard, such customer arrangements will be accounted for as variable consideration, which may result in revenue being recognized earlier provided the Company can reliably estimate the ultimate price expected to be realized from the customer. The new standard will result in additional revenue-related disclosures in the footnotes to 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 is currently assessing the impact on the financial statements of this new accounting pronouncement.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows" (Topic 230) - Restricted Cash: the amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.
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, 2017, whereby early adoption is permitted in any interim or annual period. The Company currently does not anticipate a significant impact on the current cash-flow statement disclosure.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits" (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost: the amendment requires the splitting of the net benefit cost. Thereby, the service cost component will be presented with other employee compensation costs within the result from operations (or capitalized in assets). The other components will be reported separately outside of the result of operations and will not be eligible for capitalization.
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, 2017, 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 May 2017, the FASB issued ASU No. 2017-09, "Compensation – Stock Compensation" (Topic 718) - Scope of Modification Accounting: the amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The current disclosure requirements apply regardless of whether an entity is required to apply modification accounting under the amendments in this update.
The amendments in this update will be effective for public companies for annual periods and interim periods within those annual periods, beginning after December 15, 2017, whereby early adoption is permitted in any interim period for which financial statements have not yet been issued. The Company is currently assessing the impact on the financial statements of this amendment.

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, 2016: ASU No. 2015-11, "Inventory": Simplifying the Measurement of Inventory (Topic 330); ASU No. 2015-17, "Income Taxes" (Topic 740) - Balance Sheet Classification of Deferred Taxes; ASU No. 2016-09, "Compensation - Stock Compensation" (Topic 718) - Improvements to Employee Share-Based Payment Accounting and ASU No. 2016-19, "Technical Corrections and Improvements". The implementation of these accounting pronouncements had no significant impact on these consolidated financial statements as of December 31, 2017.

2 Tangible assets

In CHF million	Land/Land-use rights	Buildings	Equipment	**Total**
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**
2016				
Cost				
January 1, 2016	1.5	19.0	25.4	45.9
Additions	0.0	0.0	0.4	0.4
Disposals	0.0	0.0	(0.8)	(0.8)
Currency effect	0.0	(0.1)	(0.2)	(0.3)
December 31, 2016	1.5	18.9	24.8	45.2
Accumulated depreciation				
January 1, 2016	0.0	12.5	22.7	35.2
Additions	0.0	1.0	1.2	2.2
Disposals	0.0	0.0	(0.8)	(0.8)
Currency effect	0.0	(0.1)	(0.2)	(0.3)
December 31, 2016	0.0	13.4	22.9	36.3
Net book value as of December 31, 2016	**1.5**	**5.5**	**1.9**	**8.9**

3 Intangible assets

The intangible assets as of December 31, 2017 and 2016 consist of software for internal use:

In CHF million	2017	2016
Cost		
January 1	**4.8**	**4.8**
Additions	0.2	0.0
Disposals	-	(0.0)
Currency effect	0.0	0.0
December 31	**5.0**	**4.8**
Accumulated amortization		
January 1	**4.6**	**4.5**
Additions	0.1	0.1
Disposals	-	(0.0)
Currency effect	0.0	0.0
December 31	**4.7**	**4.6**
Net book value as of December 31	**0.3**	**0.2**

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

Amount in CHF million	
2018	0.2
2019	0.1
2020	0.0
2021	-
2022	-
Thereafter	-
Total	**0.3**

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	2017	2016
Switzerland	6.4	7.5
China	1.4	1.4
Total	**7.8**	**8.9**

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

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

In CHF million	2016
UK	39.5
Japan	19.6
Germany	3.1
Other	3.8
Total	**66.0**

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

In 2017, the Company recognized total contract revenue in the amount of CHF 37.7 million (2016: CHF 37.7 million) with Stiefel, a GSK company (Stiefel), and CHF 30.2 million (2016: CHF 19.2 million) with Astellas.

5 Accounts receivable

The accounts receivable primarily consist of receivables from product revenue as well as receivables related to activities for isavuconazole for Astellas. The Company did not record an allowance for estimated uncollectible receivables as of December 31, 2017 and 2016.

6 Short- and long-term investments

The short-term investments as of December 31, 2017 contain short-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 60.0 million (December 31, 2016: none). The long-term investments as of December 31, 2017 and 2016 contain long-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 50.0 million.

7 Cash and cash equivalents

Cash and cash equivalents consisted of the following components:

In CHF million	**2017**	2016
Cash [1]	50.1	33.4
Short-term time deposits	150.6	205.6
Total	**200.7**	**239.0**

[1] As of December 31, 2017 the position includes CHF 2.1 million (December 31, 2016: CHF 0.5 million) restricted cash.

8 Other receivables

The following table shows the components of other receivables as of December 31, 2017 and 2016:

In CHF million	**2017**	2016
VAT receivables	1.4	1.7
Royalty receivables (see Note 10 Agreements)	5.9	2.4
Receivables from BARDA (see Note 10 Agreements)	2.4	0.2
Other	0.4	0.6
Total	**10.1**	**4.9**

9 Inventories

The following table shows the components of inventories as of December 31, 2017 and 2016:

In CHF million	**2017**	2016
Raw materials	1.9	3.2
Semi-finished products	21.5	21.7
Finished products	2.5	1.0
Inventory provisions	(10.6)	(11.0)
Total	**15.3**	**14.9**

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 reflect mainly that material was produced prior to approval. The Company intends to use such material to manufacture products for commercialization.

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 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 extent the Territory to China (including Hong Kong and Macao) and sixteen countries in the Asia Pacific region. The Amendment was subject to customary regulatory approval and completed on January 10, 2018.

Under the terms of the original agreement, the Company was eligible for 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 received an additional non-refundable upfront payment of USD 3.0 million on January 16, 2018 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 China and the Asia Pacific region. In addition, the Company will also receive royalties in the mid-teen range on Pfizer Inc.'s sales in the Territory.

The original agreement consists of three deliverables: grant of an exclusive commercialization 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.

In 2017, the Company received a non-refundable upfront payment of CHF 70.0 million from Pfizer Inc. The entire non-refundable upfront was allocated to the combined performance obligation for the grant of the exclusive commercial license and obligation to supply isavuconazole to Pfizer Inc., as for the PIP studies a separate pricing, reflecting its standalone selling price, exists. 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 represents a contract modification and therefore, will be treated as a separate contract.

As the Company acts as principal for the sale of the product during the Supply Service Term, the sales of the 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 upon satisfaction of the criteria associated with the milestones. Royalty revenue will be recognized when earned.

As of December 31, 2017, the Company presented deferred revenue of CHF 67.0 million on its balance sheet, of which CHF 11.1 million is presented as current liabilities.

In 2017, the Company recognized CHF 4.3 million (2016: none) as product revenue related to the upfront payment and product sales to Pfizer Inc., as well as royalty revenue of CHF 1.7 million (2016: 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. The agreement was further amended in August 2015, providing the Company full rights to isavuconazole in all markets outside the U.S. 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 42.0 million, sales milestone payments of up to CHF 290 million and royalty payments from Astellas relating to its territory. The Company received total CHF 42.0 million regulatory milestone payments in 2014 and 2015 and a sales milestone payment of CHF 5.0 million in 2017 from Astellas. The achievement and timing of the sales milestones depend on the sales progress of the product in the future.

As such 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) and development-related manufacturing services. 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, 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 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 commercial-related manufacturing services consisting of another. 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 are another unit of accounting since they have value to Astellas and there is evidence of fair value of the undelivered commercial-related manufacturing services in the arrangement. The entire upfront payment was allocated to the unit of accounting composed of the co-development services, the grant of the license and the participation in the Committee. The related revenue is recognized over the period over which the services are rendered based on an input measure which results in higher revenue recognized in the first years when more services were rendered. The period during which the Company has to satisfy its contractual performance obligations is expected to be until October 2020. Following the amendment of the agreement in 2014, the Company reassessed the remaining expected period during which the Company has to satisfy its contractual performance obligations and reduced it from the end of July 2029 to 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 participation in the Committee. As of December 31, 2017, the Company presented deferred revenue of CHF 12.9 million on its balance sheet, of which CHF 4.5 million is presented as current liabilities. In 2017 and 2016, 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. The Company deemed the milestone not to be substantive and as such the milestone payment was deferred and is recognized as contract revenue over the remaining period during which the Company has to satisfy its contractual performance obligations, expected to be until October 2020. As of December 31, 2017, the Company presented deferred revenue of CHF 5.5 million on its balance sheet, of which CHF 2.0 million is presented as current liabilities. In 2017 and 2016, the Company recog-

nized CHF 2.0 million as contract revenue related to this additional milestone payment received upon acceptance of filing.

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. The Company deemed the milestone not to be substantive and as such the milestone payment was deferred and is recognized as contract revenue over the remaining period during which the Company has to satisfy its contractual performance obligations, expected to be until October 2020. As of December 31, 2017, the Company presented deferred revenue of CHF 15.0 million on its balance sheet, of which CHF 5.3 million is presented as current liabilities. In 2017 and 2016, the Company recognized CHF 5.3 million as contract revenue related to this additional milestone payment received upon approval.

In October 2017, the Company received a sales milestone payment of CHF 5.0 million from Astellas as a certain threshold of net sales of isavuconazole in the U.S. was exceeded. The Company fully recognized the sales milestone of CHF 5.0 million as contract revenue in 2017.

In 2017, the Company recognized CHF 16.8 million (2016: CHF 11.8 million) as contract revenue related to the upfront and milestone payments and recognized additional contract revenue in the total amount of CHF 13.4 million (2016: CHF 7.4 million) comprising CHF 13.3 million (2016: CHF 7.3 million) related to royalties and CHF 0.1 million (2016: CHF 0.1 million) related to services provided by the Company to Astellas related to isavuconazole.

In 2017, the Company reported CHF 1.0 million (2016: CHF 0.5 million) research and development expenses for isavuconazole net of cost reimbursements from Astellas of CHF 0.3 million (2016: CHF 0.6 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. The Company deemed the milestone not to be substantive and as such the milestone 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, 2017, the Company presented deferred revenue of CHF 5.3 million on its balance sheet, of which CHF 1.3 million is presented as current liabilities.

In 2017, the Company recognized CHF 1.3 million (2016: CHF 0.4 million) as contract revenue related to this upfront payment.

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

In September 2017, the Company entered into a development, manufacturing and commercialization agreement with Shenzhen China Resources Gosun Pharmaceutical 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 (together the 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 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 Company deemed the milestone not to be substantive and as such the milestone 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, 2017, the Company presented deferred revenue of CHF 2.6 million on its balance sheet, of which CHF 0.6 million is presented as current liabilities.

In 2017, the Company recognized CHF 0.1 million (2016: none) 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 Cardiome Pharma Corp. (Cardiome) 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 132.8 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 on a straight line basis over the remaining performance period, approximately until 2032. As of December 31, 2017, the Company presented deferred revenue of CHF 18.1 million on its balance sheet, of which CHF 1.2 million is presented as current liabilities.

In 2017, the Company received a regulatory milestone payment of CHF 2.0 million from GBT. The Company fully recognized the regulatory milestone of CHF 2.0 million as contract revenue in 2017.

In 2017, the Company recognized CHF 3.0 million (2016: CHF 0.3 million) as contract revenue related to these payments and product revenue in the total amount of CHF 0.7 million (2016: none) related to these distribution agreements.

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.

In June 2017, the Company was awarded two additional options with a total amount of USD 54.8 million under the contract with BARDA to further support the phase 3 development of ceftobiprole which add to the approximately USD 20 million initial funding awarded by BARDA in 2016. The Company considers the arrangement to be part of its ongoing major operations. Hence, other revenue is recorded using the proportional performance revenue recognition method and the associated costs are reflected as a component of research and development expenses.

In 2017, the Company recognized CHF 10.5 million (2016: CHF 0.7 million) as other revenue related to these services.

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 2017, the Company reported CHF 0.5 million (2016: CHF 2.8 million) in research and development expenses, net related to this agreement.

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 on a straight-line basis 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, commer-

cial supply chain, and manufacturing process and requirements related to the API and drug product. As of December 31, 2017, the Company presented deferred revenue as current liabilities of CHF 23.9 million on its balance sheet.

In 2017 and 2016, the Company recognized CHF 37.7 million as contract revenue related to this upfront payment.

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 costs. The following table shows the carrying amount of the convertible senior unsecured bonds as of December 31, 2017 and 2016:

In CHF million	**2017**	2016
Convertible senior unsecured bonds	196.2	195.5

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, 2017 and 2016, 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 3.8 million will be accreted over the remaining term of the convertible senior unsecured bonds, which is approximately 5 years.

The amortization table related to the convertible senior unsecured bonds as of December 31, 2017 is as follows:

Amount in CHF million	
2018	6.3
2019	6.3
2020	6.3
2021	6.3
2022	206.0
Total minimum payments, including unamortized issuance costs	**231.2**
Less amount representing interest	(31.2)
Convertible senior unsecured bonds, gross	**200.0**
Unamortized issuance costs on convertible senior unsecured bonds	(3.8)
Convertible senior unsecured bonds, including unamortized issuance costs	**196.2**

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, 2017 and 2016 consisted of the following:

In CHF million	**2017**	2016
Accrued research & development expenses	6.5	3.6
Accrued personnel and compensation costs	8.3	8.4
Accrued sales and marketing expenses	4.8	2.9
Other	5.6	4.5
Total accruals and other current liabilities	**25.2**	**19.4**

The accrued sales and marketing expenses as of December 31, 2017 include expenses related to the Pfizer license agreement implementation preparation in the amount of CHF 1.6 million.

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

13 Income taxes

The Company has tax loss carry forwards of CHF 382.8 million as of December 31, 2017 (December 31, 2016: CHF 405.6 million) of which CHF 250.5 million will expire within the next five years, CHF 132.3 million will expire between six and eight years. CHF 0.0 million of the tax losses carry forwards do not expire. In 2017, tax loss carry forwards of CHF 26.3 million expired.

The significant components of net deferred taxes as of December 31, 2017 and 2016 are shown in the following table:

In CHF million	**2017**	2016
Deferred tax assets:		
Net benefit from tax loss carryforwards [1]	73.9	79.4
Deferred revenue	30.1	25.2
Stock-based compensation cost	14.8	14.2
Other, net	1.0	0.7
Valuation allowance	(119.8)	(119.5)
Net deferred taxes	**0.0**	**0.0**

[1] As of December 31, 2017 the position includes CHF 2.2 million (2016: CHF 2.0 million) related to windfall tax benefits from stock-based compensation that would be credited to shareholders' equity, if realizable.

The Company recorded a valuation allowance in 2017 and 2016 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 2017 was 1.8% (2016: 0.7%). The following table shows the income taxes in 2017 and 2016:

In CHF million	**2017**	2016
Current tax expenses	(0.3)	(0.3)
Total income tax expenses	**(0.3)**	**(0.3)**

The current tax expenses in 2017 and 2016 are solely related to foreign taxable income.

The expected tax rate for 2017 was 14.2% (2016: 17.7%). The following table shows the reconciliation between expected and effective tax rate:

In percent	**2017**	2016
Expected tax rate	14.2	17.7
Effect of not-taxable differences [1]	1.0	0.1
Valuation allowance on deferred tax assets	(13.4)	(17.1)
Effective tax rate	**1.8**	**0.7**

[1] 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 2016.

As of December 31, 2017 and 2016, there were no unrecognized tax benefits. The Company did not incur any significant interest or penalties in connection with income taxes in the years 2017 and 2016.

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. 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, 2017. CHF 1.5 million of this remaining available conditional capital are reserved for stock options, which were issued and outstanding as of December 31, 2017.

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, 2017, 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.

In 2010, the Company offered participants of its stock option plan an option to amend the terms and conditions of certain outstanding stock options, in return for the cancellation of a number of stock options. The amendment of the stock options was value-neutral, as at the date of amendment the fair value of these original stock options equalled the fair value of the reduced number of stock options at amended terms. The amendment of the stock options included an amendment of the strike price to the closing share price of Basilea's shares as of the date of the amendment, plus 15%. In addition, the term of the amended options ends in December 2018. The vesting periods of the outstanding stock options were not amended. As the amendment of stock options was value neutral, this modification of stock options did not result in any incremental compensation costs to be recognized.

Following the annual general meeting's approval in April 2013 of a distribution of CHF 5.00 to the shareholders, the Board of Directors made an equitable adjustment of CHF 5.00 to the strike price for outstanding options to compensate for the adjustment in fair value.

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, 2015	**78.09**	**1 248 951**
Options granted	83.00	194 564
Options forfeited	93.59	(19 417)
Options exercised	36.50	(11 350)
Options expired	198.00	(4 833)
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**

The following table provides information on the stock options outstanding and the stock options exercisable as of December 31, 2017:

	Options exercisable plus options expected to vest[1]	Options exercisable
Number of options	1 408 394	1 015 959
Weighted average exercise price, in CHF	79.74	75.23
Weighted average remaining contractual life, in years	5.4	4.2

[1] Number of options considers expected forfeitures.

Based on (a) the stock options exercisable as of December 31, 2017, including stock options expected to vest in the future and (b) the stock options exercisable as of December 31, 2017, the aggregate intrinsic values of such number of options were CHF 11.8 million and CHF 11.8 million, respectively. The exercise prices of the options granted in 2017 and 2016 equalled the market price of the shares at the respective grant date.

The weighted average grant-date fair value of options granted in 2017 was CHF 35.84 per option (2016: CHF 34.89). The total aggregate intrinsic value of stock options exercised during 2017 was CHF 2.4 million (2016: CHF 0.4 million).

The fair value of the stock options granted in 2017 and 2016 was determined at the grant date using a binomial model. The weighted average assumptions used for these determinations are outlined in the table below:

	2017	2016
Risk-free interest rate	0.13%	(0.12%)
Expected term of stock options	7 to 8 years	7 to 8 years
Expected volatility	40%	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, 2017 related to stock options amounts to CHF 6.6 million and is expected to be recognized over a weighted average period of 2.3 years.

The Company recorded total stock-based compensation expenses of CHF 4.6 million in 2017 related to its stock-based compensation award programs (2016: CHF 8.0 million), of which CHF 2.0 million was recorded in research & development expenses (2016: CHF 3.8 million) and CHF 2.6 million as part of selling, general & administration expenses (2016: CHF 4.2 million) in the statement of operations.

15 Shareholders' equity

As of December 31, 2017, Basilea had 11,871,656 registered shares (Namenaktien) issued and outstanding with a par value of CHF 1.00 per share. As of December 31, 2016, Basilea had 11,811,973 registered shares with a par value of CHF 1.00 per share issued and outstanding respectively.

In 2017, a total of 59,683 stock options were exercised, using conditional capital, which resulted in the issuance of 59,683 registered shares with a par value of CHF 1.00 per share. In 2016, a total of 11,350 stock options were exercised resulting in the issuance of 11,350 registered shares with a par value of CHF 1.00 per share.

Basilea had a total approved conditional capital of CHF 2,528,485 as of December 31, 2017 for the issuance of a maximum of 2,528,485 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,888,485 (1,888,485 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.

By shareholder approval at the 2014 ordinary general meeting of shareholders, Basilea was authorized to increase its share capital by a maximum of CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares with a par value of CHF 1.00 per share. This authorization was valid for two years and expired in April 2016. In January 2016 Basilea increased the share capital by CHF 1,000,000 out of this authorized capital by issuing 1,000,000 registered shares with a par value of CHF 1.00 per share to a subsidiary of Basilea. These issued shares are held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and are presented as treasury shares in these consolidated financial statements.

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. This authorization is valid for two years.

Changes in accumulated other comprehensive income/loss as of December 31, 2017 and 2016:

In CHF million	Currency translation adjustment	Unrecognized pension cost	**Total**
December 31, 2015	**(0.8)**	**(17.1)**	**(17.9)**
Change during the period	(0.8)	(6.2)	(7.0)
Total change during the period	**(0.8)**	**(6.2)**	**(7.0)**
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)**

16 Earnings/Loss per share

The calculation of the basic and diluted loss per share in 2017 and 2016 is shown in the table below:

	2017		2016	
	Basic	Diluted	Basic	Diluted
Numerator				
Net loss, in CHF million	(19.4)	(19.4)	(51.3)	(51.3)
Net loss for loss per share calculation, in CHF million	(19.4)	(19.4)	(51.3)	(51.3)
Denominator				
Weighted average shares outstanding, including actual conversion of stock options	10 845 892	10 845 892	10 121 121	10 121 121
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	10 845 892	10 845 892	10 121 121	10 121 121
Loss per share in CHF	**(1.79)**	**(1.79)**	**(5.07)**	**(5.07)**

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.

As of December 31, 2016, there were 854,500 stock options outstanding with a weighted-average exercise price of CHF 95.79 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 2016, 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 for 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 2017 and 2016:

In CHF million	**2017**	2016
Service cost	4.0	4.0
Interest cost	0.4	0.8
Expected return on plan assets	(1.0)	(1.3)
Amortization of pension related net loss	2.2	1.3
Amortization of prior service cost	(0.3)	(0.1)
Gross benefit expense	5.3	4.7
Participant contributions	(1.1)	(1.1)
Net periodic pension cost	4.2	3.6

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	**2017**	2016
Projected benefit obligation, beginning of period	**75.0**	**66.3**
Service cost	4.0	4.0
Interest cost	0.4	0.8
Transfers-in and (-out), net	(2.8)	(4.3)
Plan amendment	-	(1.9)
Actuarial (gain)/loss	(3.1)	10.1
Projected benefit obligation, end of period	**73.5**	**75.0**
Plan assets, beginning of period	**55.3**	**53.7**
Actual return on plan asset	1.0	2.2
Employer contributions	2.6	2.6
Participant contributions	1.1	1.1
Transfers-in and (-out), net	(2.8)	(4.3)
Plan assets, end of period	**57.2**	**55.3**
Accrued pension liability	**(16.3)**	**(19.7)**

As of December 31, 2017, the Company recorded an accrued pension liability of CHF 16.3 million in other non-current liabilities (December 31, 2016: CHF 19.7 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, 2017, the accumulated other comprehensive income/loss includes unrecognized pension cost of CHF 18.3 million, consisting of a net loss of CHF 19.9 million, determined using actuarial assumptions, and a prior service cost of CHF (1.6) million, that have not yet been recognized as a component of net periodic pension cost. As of December 31, 2016, the accumulated other comprehensive income/loss included unrecognized pension cost of CHF 23.3 million, consisting of a net loss of CHF 25.2 million and a prior service cost of CHF (1.9) million, that have not yet been recognized as a component of net periodic pension cost. The Company expects that a net amount of CHF 1.2 million will be reclassified from accumulated other comprehensive income/loss

and recognized as a component of net periodic pension cost in 2018 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	**2017**	2016
Net loss, beginning of period	**(25.2)**	**(17.2)**
Other gain/loss during the period	3.1	(9.3)
Amortization of pension related net loss	2.2	1.3
Net loss, end of period	(19.9)	(25.2)
Prior service cost, beginning of period	**1.9**	**0.1**
Amortization of prior service cost	(0.3)	(0.1)
Plan amendment	-	1.9
Prior service cost end of period	1.6	1.9
Total unrecognized pension cost, end of period	**(18.3)**	**(23.3)**

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

	2017	2016
Discount rate	0.75%	0.50%
Rate of increase in compensation level	1.00%	1.00%
Expected long-term rate of return on plan assets	2.00%	1.75%

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, 2017 and 2016 amounts to CHF 69.0 million and CHF 70.8 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 2018 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	
2018	4.0
2019	3.8
2020	4.0
2021	4.5
2022	3.4
2023 – 2027	19.3

In addition to the defined benefit plan described above, the Company recognized CHF 0.0 million of expenses related to defined contribution plans of Basilea's subsidiaries in 2017 (2016: CHF 0.1 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 0.6 million and CHF 0.5 million for the years ending December 31, 2017 and 2016, respectively.

The future minimum payments as of December 31, 2017 for operating leases with initial or remaining non-cancellable terms in excess of one year are as follows:

Amount in CHF million	
2018	0.4
2019	0.3
2020	0.2
2021	0.0
2022	-
Total	**0.9**

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, 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. As of December 31, 2016, all investments were invested long-term with one bank and amounted to CHF 50.0 million.

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. The cash and cash equivalents as of December 31, 2016 amounted to CHF 239.0 million, of which CHF 230.5 million were held with three different banks. As of December 31, 2017, the highest total amount of cash and cash equivalents and investments held at one bank amounted to CHF 119.1 million. As of December 31, 2016, the highest total amount of cash and cash equivalents and long-term investments held at one bank amounted to CHF 142.8 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, 2017, is from Pfizer Inc. in the amount of CHF 2.5 million in connection with the

license agreement related to isavuconazole. As of December 31, 2016, the highest total amount of accounts receivables with an individual counterparty was from Alliance Healthcare (Distribution) Limited in the amount of CHF 0.6 million in connection with product revenue in the United Kingdom.

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, 2017 and 2016.

In 2017 and 2016, 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, 2017, there are no significant contingencies.

22 Subsequent events

On January 10, 2018 the Amendment to the license agreement between the Company and Pfizer Inc. for isavuconazole was closed and the Company received a non-refundable upfront payment of USD 3.0 million. For further details please refer to Note 10 Agreements.

The Company has evaluated subsequent events through February 15, 2018, the date on which the financial statements were available to be issued.

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 100 to 106) for the year ended December 31, 2017.

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, 2017 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, 2017 Basilea Pharmaceutica Ltd. reports net investments in subsidiaries of CHF 208 million and accounts receivables affiliates of CHF 352 million. The balance includes subordinated accounts receivables of a subsidiary of CHF 200 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. (the Group) reports a net loss for the year ended December 31, 2017. *Refer to note 2 Investments (page 103) 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, 2017. The market capitalization of the Group as at December 31, 2017 is higher than 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 reviewed the Group's multi-year plan and discussed its contents and the strategic initiatives with Management focusing on the key judgments on the future value of the development projects and the contractual agreements. We also discussed the strategic initiatives with the Audit Committee of the Group. We determined the fundamental principles and assumptions 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 available earnings 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 15, 2018

FINANCIAL STATEMENTS OF BASILEA PHARMACEUTICA LTD.

BASILEA PHARMACEUTICA LTD.
Balance sheets as of December 31, 2017 and 2016 (in CHF thousands)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	56 517	69 531
Accounts receivable:		
Affiliates	351 428	336 801
Other receivables	107	28
Total current assets	**408 052**	**406 360**
Non-current assets		
Investment in subsidiaries, net	207 563	208 239
Total non-current assets	**207 563**	**208 239**
TOTAL ASSETS	**615 615**	**614 599**
LIABILITIES		
Current liabilities		
Payables, affiliates [1]	331	327
Other current liabilities	152	152
Accruals	30	-
Total current liabilities	**513**	**479**
Non-current liabilities		
Convertible senior unsecured bonds [1]	196 224	195 466
Total non-current liabilities	**196 224**	**195 466**
Total liabilities	**196 737**	**195 945**
SHAREHOLDERS' EQUITY		
Share capital [2]	11 872	11 812
General reserve:		
Reserve from capital contributions	419 896	414 974
Treasury shares held by a subsidiary	(1 000)	(1 000)
Accumulated deficit	(7 132)	(1 408)
Net loss	(4 758)	(5 724)
Total shareholders' equity	**418 878**	**418 654**
TOTAL LIABILITIES AND EQUITY	**615 615**	**614 599**

[1] Interest bearing.
[2] As of December 31, 2017, 11,871,656 registered shares were issued and outstanding with a par value of CHF 1.00 per share.
As of December 31, 2016, 11,811,973 registered shares were issued and outstanding with a par value of CHF 1.00 per share.

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

BASILEA PHARMACEUTICA LTD.
Statements of operations for the years ended December 31, 2017 and 2016 (in CHF thousands)

	2017	2016
Administrative expenses	(715)	(735)
Total operating expenses	**(715)**	**(735)**
Operating loss	**(715)**	**(735)**
Financial income	2 526	1 349
Financial expenses	(6 569)	(6 338)
Loss before taxes	**(4 758)**	**(5 724)**
Income taxes	-	-
Net loss	**(4 758)**	**(5 724)**

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

BASILEA PHARMACEUTICA LTD.
Notes to the financial statements as of December 31, 2017

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 2017 and 2016, 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.

Short-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. These investments are carried at acquisition cost. Gains and losses resulting from such investments are included as a component of financial income/expense in the statement of operations.

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, 2017 and 2016.

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.

Convertible senior unsecured bonds

In December 2015, the Company issued a convertible senior unsecured bond 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.

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, 2017, 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, Munich	100%	EUR 25 000	Distribution
Basilea Pharmaceutica Italia S.r.l.	Italy, Milan	100%	EUR 10 000	Distribution
Basilea Pharmaceutica España S.L. [2]	Spain, Madrid	100%	EUR 3 000	Distribution
BPh Investitionen Ltd.	Switzerland, Baar	100%	CHF 131 950	Holding company

1 In 2017 the Company subordinated accounts receivable from an affiliate in the amount of CHF 200.0 million (2016: CHF 150.0 million).

2 Organization is in liquidation.

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, 2017, the Company had 11,871,656 registered shares (Namenaktien) issued and outstanding with a par value of CHF 1.00 per share. As of December 31, 2016, the Company had 11,811,973 registered shares with a par value of CHF 1.00 per share issued and outstanding respectively.

In 2017, a total of 59,683 stock options were exercised, using conditional capital, which resulted in the issuance of 59,683 registered shares with a par value of CHF 1.00 per share. In 2016, a total of 11,350 stock options were exercised resulting in the issuance of 11,350 registered shares with a par value of CHF 1.00 per share.

The Company had a total approved conditional capital of CHF 2,528,485 as of December 31, 2017 for the issuance of a maximum of 2,528,485 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,888,485 (1,888,485 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.

By shareholder approval at the 2014 ordinary general meeting of shareholders, the Company was authorized to increase its share capital by a maximum of CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares with a par value of CHF 1.00 per share. This authorization was valid for two years and expired in April 2016. In January 2016, the Company increased the share capital by CHF 1,000,000 out of this authorized capital by issuing 1,000,000 registered shares with a par value of CHF 1.00 per share to a subsidiary of the Company. These issued shares are held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and are presented as treasury shares in these financial statements.

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. This authorization is valid for two years.

4 Shareholdings and stock options

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

As of December 31, 2016, the shareholdings in the Company of members of the Board of Directors and of the Management Committee are outlined below:

	Number of shares
Mr. Domenico Scala, Chairman	-
Dr. Thomas M. Rinderknecht, Vice-Chairman	-
Dr. Günter Ditzinger, Chief Technology Officer since February 1, 2016	580
Dr. Ingrid Heinze-Krauss, Chief Technology Officer until January 1, 2016*	-
Prof. Achim Kaufhold, Chief Medical Officer	-
Dr. Laurenz Kellenberger, Chief Scientific Officer	500
Prof. Daniel Lew, Director	4 110
Ms. Heidi McDaid, Head of Global Human Resources	-
Dr. Martin Nicklasson, Director	-
Mr. Ronald Scott, Chief Executive Officer	7 750
Mr. Steven D. Skolsky, Director	-
Mr. Donato Spota, Chief Financial Officer	-
Mr. David Veitch, Chief Commercial Officer	-
Dr. Thomas Werner, Director	-

* Number of shares as of January 31, 2016.

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

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

The following table shows the holdings of stock options in the Company of members of the Board of Directors and of the Management Committee as of December 31, 2016:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Mr. Domenico Scala, Chairman	3 600	550	4 150
Dr. Thomas M. Rinderknecht, Vice-Chairman	3 600	550	4 150
Dr. Günter Dizinger, Chief Technology Officer since February 1, 2016	18 061	14 185	32 246
Dr. Ingrid Heinze-Krauss, Chief Technology Officer until January 31, 2016*	29 295	16 457	45 752
Prof. Achim Kaufhold, Chief Medical Officer	29 083	29 866	58 949
Dr. Laurenz Kellenberger, Chief Scientific Officer	46 586	26 734	73 320
Prof. Daniel Lew, Director	9 509	550	10 059
Ms. Heidi McDaid, Head of Global Human Resources	21 935	23 340	45 275
Dr. Martin Nicklasson, Director	1 801	600	2 401
Mr. Ronald Scott, Chief Executive Officer	58 566	51 215	109 781
Mr. Steven D. Skolsky, Director	11 570	550	12 120
Mr. Donato Spota, Chief Financial Officer	42 496	28 184	70 680
Mr. David Veitch, Chief Commercial Officer	8 232	24 394	32 626
Dr. Thomas Werner, Director	3 600	550	4 150

* Number of options as of January 31, 2016

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, 2017 and 2016 according to the share register of the Company:

	Ownership of outstanding shares	
	December 31, 2017	December 31, 2016
RBC Investor + Treasury Services	5.9%	7.3%
Chase Nominees Ltd.	4.1%	9.4%

The ownership percentages in the table above are based on 11,871,656 shares outstanding as of December 31, 2017 and 11,811,973 shares outstanding as of December 31, 2016.

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 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 5.07% of the shares of the Company as of December 1, 2015.

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)**

Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2016:

In CHF thousands	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(1 408)
Net loss of the year	(5 724)
Balance to be carried forward	**(7 132)**

At the ordinary general meeting of shareholders on April 27, 2017, the shareholders of the Company approved to carry forward the loss of CHF 7.1 million.

ANNUAL GENERAL MEETING
The annual general meeting of shareholders for the financial year 2017 will take place on April 18, 2018 in Basel, Switzerland.

The Basilea Pharmaceutica Ltd. Annual Report 2017 consists of the business review, the corporate governance section, the compensation report and the financial report. The document is published in English and German. In case of discrepancies the English version prevails.

Product photography
Christopher Gmuender, Muttenz

Design, project management and production
phorbis Communications AG, Basel

Print
Poppen & Ortmann KG, Freiburg

CONTACT INFORMATION

BASILEA PHARMACEUTICA LTD.
Grenzacherstrasse 487
4058 Basel
Switzerland

Phone +41 61 606 1111
Fax +41 61 606 1112

INVESTOR & PUBLIC RELATIONS
Dr. Peer Nils Schröder
Head of Corporate Communications &
Investor Relations

Phone +41 61 606 1102
Fax +41 61 606 1238
E-mail investor_relations@basilea.com

▸ www.basilea.com