ANNUAL REPORT 2015

basilea
PHARMACEUTICA

WE ARE DELIVERING ON OUR VISION

BASILEA IN BRIEF

OUR COMPANY

Basilea Pharmaceutica Ltd. is a biopharmaceutical company developing products that address the increasing resistance and non-response to current treatment options in the therapeutic areas of bacterial infections, fungal infections, and cancer. The company uses the integrated research, development, and commercial operations of its Swiss subsidiary Basilea Pharmaceutica International Ltd. to discover, develop and commercialize innovative pharmaceutical products to meet the medical needs of patients with serious and potentially life-threatening conditions. Basilea Pharmaceutica Ltd. is headquartered in Basel, Switzerland and listed on the SIX Swiss Exchange (SIX: BSLN).

Basilea currently has approximately 250 employees (full-time equivalents/FTE), in Switzerland, its European affiliates and China.

OUR VISION

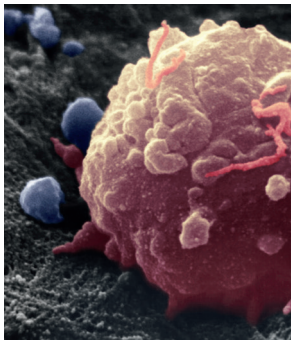
We strive for excellence in integrated research, development, and commercialization of pharmaceutical products fighting infectious diseases and cancer. We aspire to make innovative medications solving unmet medical needs in the area of resistance available to patients through a sustainable business which maximizes shareholder value.

▸ www.basilea.com

TO COMBAT RESISTA

TABLE OF CONTENTS

NCE



Skin **cancer cell** (melanoma)

2015 OVERVIEW

KEY EVENTS

FINANCIALS

- CHF 200 million convertible bonds issued
- Year-end 2015 cash and short-term investments of CHF 364.7 million

PROGRAM PROGRESS 2015

Antifungal CRESEMBA® (isavuconazole)

- Gained approval for sale in the European Union and Iceland, Liechtenstein and Norway for the treatment of adult patients with invasive aspergillosis and for the treatment of adult patients with mucormycosis for whom amphotericin B is inappropriate
- Gained approval for sale in the United States from the Food and Drug Administration (FDA) for the treatment of invasive aspergillosis and invasive mucormycosis in adults
- Launched in the United States by Basilea's licensee Astellas Pharma U.S.
- Reported topline results from phase 3 ACTIVE study for the treatment of invasive yeast (*Candida*) infections; the study did not meet its primary endpoint but the key secondary endpoint was comparable between treatment groups

Antibiotic ZEVTERA®/MABELIO® (ceftobiprole medocaril)

- Discussions held on the U.S. clinical phase 3 development program with the FDA
- Gained approval for sale in Canada and Switzerland
- Launched in France, Italy, the United Kingdom and Austria
- Appointed Hikma Pharmaceuticals LLC as exclusive distributor for the Middle East and North Africa (MENA) region
- Received U.S. Qualified Infectious Disease Product (QIDP) designation for the treatment of community-acquired bacterial pneumonia and acute bacterial skin and skin structure infections

Gram-negative antibiotic BAL30072

- Initiated development of an inhaled formulation with the iABC consortium, addressing antibiotic resistance in cystic fibrosis and bronchiectasis; part of European New Drugs for Bad Bugs program
- Completed phase 1 study evaluating an intravenous formulation of BAL30072 in combination with the carbapenem antibiotic meropenem under a contract with the U.S. Biomedical Advanced Research and Development Authority (BARDA), and subsequent completion of BARDA contract

Anticancer drug BAL101553 (tumor checkpoint controller)

- Completed patient recruitment and reported interim phase 1/2a study data for the intravenous dosage form in patients with advanced solid tumors
- Initiated phase 1/2a clinical study with oral dosage form in adult patients with advanced solid tumors
- Presented preclinical study data at AACR-NCI-EORTC conference on inhibitory activity on tumor stem cells in models of brain cancer

Anticancer drug BAL3833 (panRAF-SRC kinase inhibitor)

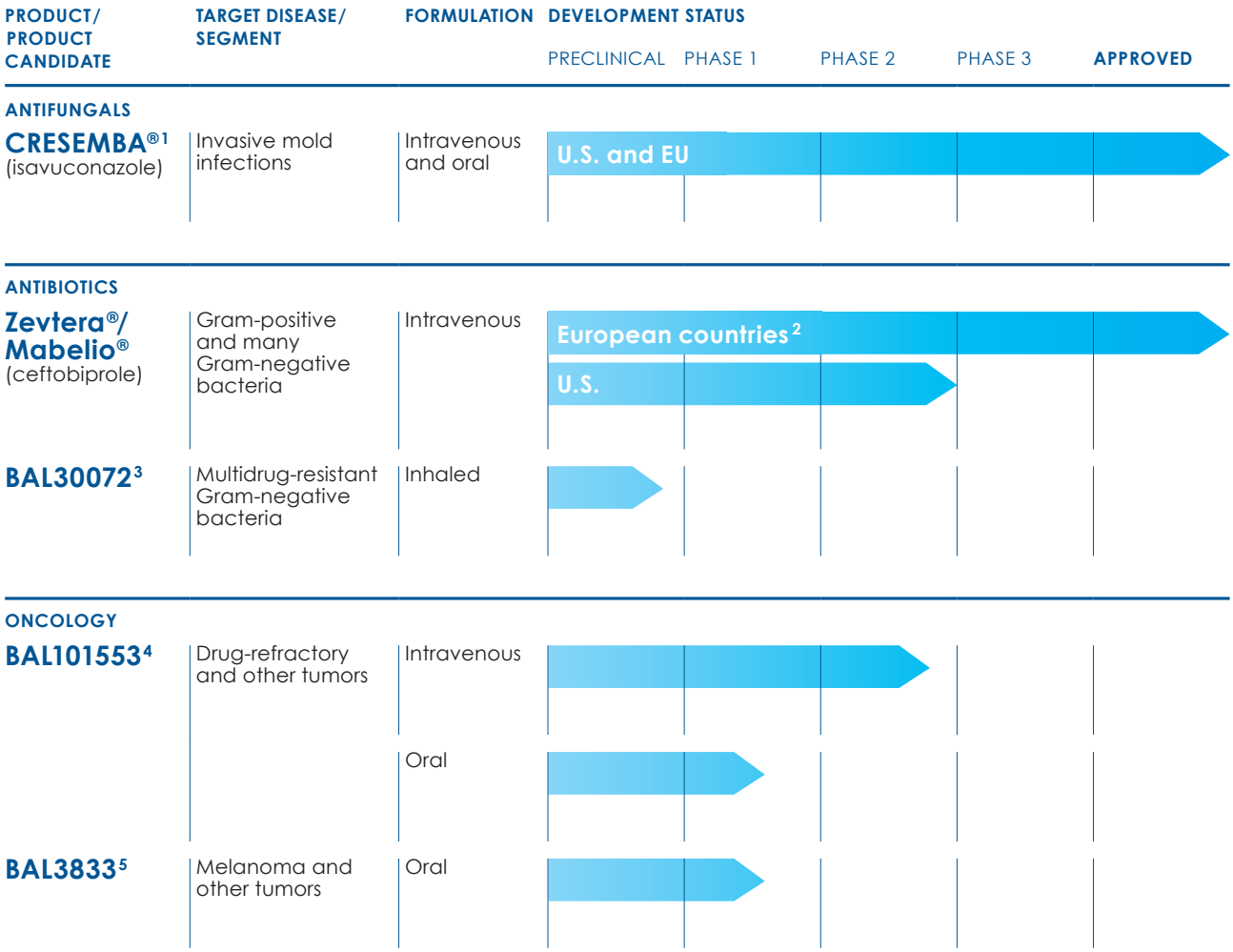
- Initiated phase 1 clinical study with oral dosage form in adult patients with advanced solid tumors

Dermatology drug Toctino® (oral alitretinoin)

- In January 2016, GlaxoSmithKline informed Basilea that it has elected to discontinue its U.S. alitretinoin program. Basilea has the option to regain the U.S. alitretinoin rights

CURRENT STATUS

- CRESEMBA® (isavuconazole) approved for sale in the European Union (EU) and the United States; marketed in the United States by Basilea's licensee Astellas Pharma U.S.
- Zevtera®/Mabelio® (ceftobiprole medocaril) currently available in Austria, France, Germany, Italy and the U.K.; approved in 13 European countries plus certain non-European countries
- Tumor checkpoint controller BAL101553 completing phase 2a study with intravenous dosage form; oral formulation in phase 1 clinical development
- Oral panRAF-SRC kinase inhibitor BAL3833 in phase 1 clinical development



1 Approved in the United States and the EU; U.S. rights licensed to Astellas
2 Approved in 13 European countries and certain non-European countries
3 Initiation of cystic fibrosis/bronchiectasis program in late 2015
4 Intravenous formulation in phase 2a study: oral formulation in phase 1/2a study
5 In phase 1 study

DEAR SHAREHOLDERS

left: **Dr. Martin Nicklasson**, Chairman of the Board
right: **Ronald Scott**, Chief Executive Officer

2015 was a year of significant achievements for Basilea. A key milestone was the approval of isavuconazole by the U.S. FDA for the treatment of invasive aspergillosis and invasive mucormycosis in adults in March, and its launch under the tradename CRESEMBA by our licensee Astellas Pharma U.S. in April. Basilea benefits from Astellas' U.S. sales through royalties and sales milestone payments.

The introduction of CRESEMBA – the first new antifungal agent for almost a decade – marks an important step in providing new treatment options for these life-threatening infections. Worldwide, invasive fungal infections are on the rise due to an aging population and advances in medical therapy for critically ill patients, such as cancer therapies resulting in intensified immunosuppression. In immunocompromised patients, many fungi have the potential to cause serious morbidity and mortality. In addition, the range and diversity of fungi that cause disease have broadened.

Approximately 80% of worldwide sales of recent antifungals were generated in territories outside the U.S. in 2014. Basilea has full commercial rights for isavuconazole outside the U.S. In October the second key milestone was reached for isavuconazole. The European Commission approved isavuconazole for the treatment of invasive aspergillosis in adults and the treatment of mucormycosis in adults for whom amphotericin B is inappropriate. In addition to our regulatory activities, we have been engaged in preparing and submitting CRESEMBA pricing and reimbursement dossiers for all major European markets. We have been building awareness within the medical community of the unmet medical need associated with current treatments and the benefits of treatment with CRESEMBA. With the first CRESEMBA launches we will be bringing our second hospital anti-infective to European markets.

The European Commission approved isavuconazole for the treatment of invasive aspergillosis in adults and the treatment of mucormycosis in adults for whom amphotericin B is inappropriate.

In addition to Germany, in 2015 we launched Zevtera (ceftobiprole), our anti-MRSA broad-spectrum antibiotic for the treatment of severe bacterial lung infections in France, Italy and the United Kingdom. We built a dedicated commercial structure in our European core markets to launch Zevtera. Our target customers for Zevtera and CRESEMBA are similar, enabling our dedicated hospital sales team to promote both products which provides significant commercial synergies.

In 2015 we achieved many Zevtera formulary inclusions at the regional and local hospital level, which will provide the basis for sales growth in 2016. We concluded a Zevtera distribution agreement for the Middle East and North Africa (MENA) region with Hikma Pharmaceuticals LLC in October. Outside our core European markets, we are actively negotiating distribution agreements for the commercialization of both of our products, Zevtera and CRESEMBA.

Ceftobiprole was granted U.S. Qualified Infectious Disease Product (QIDP) designation for the treatment of community-acquired bacterial pneumonia and acute bacterial skin and skin structure infections.

In August ceftobiprole was granted U.S. Qualified Infectious Disease Product (QIDP) designation for the treatment of community-acquired bacterial pneumonia (CABP) and acute bacterial skin and skin structure infections (ABSSSI). Among other benefits QIDP designation is associated with additional five years of market exclusivity resulting in a total of ten years market exclusivity for ceftobiprole from marketing authorization in the U.S. We also discussed U.S. phase 3 studies for CABP, ABSSSI and *Staphylococcus aureus* bacteremia with the FDA. Bacteremia is among the anti-bacterial indications with the highest unmet need. In 2016 we aim to conclude corresponding Special Protocol Assessments for these indications with the FDA to establish agreed clinical study designs.

In December 2015 we issued a CHF 200 million convertible bond to enable us to further pursue key company activities, including our financial participation in potential ceftobiprole phase 3 clinical studies to gain U.S. regulatory approval, with the goal of entering the significant U.S. antibiotic market.

In April 2015 we added BAL3833, a panRAF-SRC kinase inhibitor targeting BRAF resistance to our oncology pipeline, strengthening our second pillar in the hospital sector. BAL3833 entered phase 1 clinical development in advanced solid tumor patients in May. Molecules from this novel class of panRAF kinase inhibitors have shown activity in tumors which have developed resistance to currently available BRAF kinase inhibitors. In addition, studies indicate that BAL3833 inhibits the SRC oncogene, thus potentially targeting additional resistance pathways. Our oncology programs are guided early on by thorough biomarker development aimed at identifying those patients who may most benefit from the potential therapies.

Despite significant advances in the development of targeted immunotherapies there remains a need for novel, differentiated "backbone" cancer therapeutics such as our tumor check point controller BAL101553. In December we reported interim data from a phase 1/2a intravenous study of BAL101553 in heavily pretreated solid tumor patients. BAL101553's oral formulation, currently in phase 1 development, potentially offers increased flexibility for both single agent and drug combination treatment strategies. In addition, preclinical data support its development for the treatment of brain cancer, an area of high medical need.

In closing, we are excited to launch our second anti-infective, CRESEMBA, in key European markets and to advance partnerships to bring CRESEMBA and Zevtera to the market globally, while continuing to progress our oncology pipeline focused on cancers resistant to current therapies.

We appreciate your continued support which allows us to realize our mission of overcoming resistance to existing therapies by providing new treatments for the benefit of patients.

Basel, January, 2016

Dr. Martin Nicklasson
Chairman of the Board

Ronald Scott
Chief Executive Officer

CRESEMBA®
APPROVED
FOR THE
EUROPEAN
AND THE
U.S. MARKETS

FEATURE: LEVERAGING COMMERCIAL SYNERGIES ACROSS OUR PORTOFOLIO

INTERVIEW WITH BASILEA'S CHIEF COMMERCIAL OFFICER **DAVID VEITCH**

Basilea's second anti-infective, the antifungal CRESEMBA (isavuconazole), was approved in Europe in October 2015. How do you lay the groundwork for a successful launch?
The key ingredient for a successful product launch is that the product has to address an unmet medical need in the market.

From an operational point-of-view, I think the following key elements are critical:

- Working as a team, because one function alone cannot achieve success. We need the strength of a cross-functional team to deliver success.
- Preparing the market by raising awareness of the unmet medical need in the treatment of invasive fungal infections and explaining how CRESEMBA addresses these needs. We have been achieving this through the support of such activities as scientific congresses and symposia, advisory boards and publications.
- Effective training. We have trained the field force teams on CRESEMBA and its positioning in the first markets such that they can enter into the appropriate level of detailed discussions with our customers.
- Preparing and submitting solid pricing and reimbursement dossiers for the priority EU countries. We are now in the process of gaining the pricing approvals from these countries. Some countries have quicker processes than others, which explains our staggered launch timelines. We are now preparing national launch meetings throughout 2016, first in the U.K. and Germany to be followed by Italy and France.

Are you selling CRESEMBA by yourself or through distributors?
Our approach is to sell CRESEMBA by ourselves in those major European countries where we have already established a dedicated sales force through a field force provider. This sales force focuses on those hospitals that have the potential to prescribe both our products, CRESEMBA and our antibiotic Zevtera/Mabelio. The prescribing hospital specialists are largely overlapping between the two brands, providing significant commercial synergies.

David Veitch,
Chief Commercial Officer

"WE ARE FOCUSING ON THOSE HOSPITALS THAT HAVE THE POTENTIAL TO PRESCRIBE BOTH **CRESEMBA** AND OUR **ANTIBIOTIC ZEVTERA/MABELIO** IN ORDER TO TAKE ADVANTAGE OF THE SIGNIFICANT **COMMERCIAL SYNERGIES** BETWEEN THE TWO DRUGS.

Outside the major European countries, we are actively seeking partnerships such as distribution or license agreements, for one or both Zevtera and CRESEMBA. An example of this was the announcement that we entered into a distribution agreement for Zevtera in the Middle East and North Africa region with Hikma Pharmaceuticals.

What are potential barriers to market entry?
Following the approval of a new hospital drug in Europe, typically in many countries there are national, regional and local market access hurdles, such as pricing reimbursement and hospital formulary discussions that have to take place. However CRESEMBA had already been provisionally added to an important treatment guideline in Europe, prior to its launch, emphasizing the potential benefit of our drug for patients.

"CRESEMBA has twelve years of U.S. and ten years of EU market exclusivity, due to a combination of U.S. QIDP status, EU and U.S. Orphan Drug status and data exclusivity."

"Our commercial aim is to maximize the opportunity for the benefit of patients, our customers and Basilea."

CRESEMBA has twelve years of U.S. and ten years of EU market exclusivity, due to a combination of U.S. QIDP status, EU and U.S. Orphan Drug status and data exclusivity. Our commercial aim is to maximize the opportunity over this time period for the benefit of patients, our customers and Basilea.

What is the medical need for CRESEMBA?
There is a clear unmet medical need in the treatment of invasive mold infections. Even with the currently available treatments, mortality rates are high, and current treatments have limitations. CRESEMBA offers a broad spectrum of coverage and is the only azole that is approved in Europe for the treatment of adult patients with invasive aspergillosis and adult patients with mucormycosis for whom amphotericin B is inappropriate. It has a favorable safety profile compared to the current standard of care in invasive aspergillosis and can be given to patients with kidney impairment or mild to moderate liver impairment without dose adjustment. In addition, it has a linear, dose-proportional pharmacokinetic, leading to consistent plasma levels with once-daily dosing. Furthermore, the availability of an oral dosage form in addition to the i.v. one allows to switch from i.v. to oral dosing.

The number of patients with invasive mold infections is increasing, due to a higher incidence of immunocompromised patients, in particular, the increasing number of cancer patients who are being aggressively treated for their malignancies. This growing market size combined with its attractive product profile highlight the opportunity for CRESEMBA.

What is the experience with CRESEMBA in the U.S. market?
In the United States, CRESEMBA is commercialized by our licensee Astellas, from whom we receive royalties on sales and may receive sales milestone payments as certain sales levels are met. The initial sales reported by Astellas indicate that the drug has been well received by physicians in the U.S.

"The number of patients with invasive mold infections is increasing, due to a higher incidence of immunocompromised patients, in particular the increasing number of cancer patients who are being aggressively treated for their malignancies. This growing market size combined with its attractive product profile highlight the opportunity for CRESEMBA."

We are working with Astellas to align our activities where appropriate and build a global brand for CRESEMBA.

Key visual of the launch campaign

What is the strategic fit between your anti-infectives products and oncology product candidates?
Patients with cancer are very often the same patients who suffer from invasive fungal infections and bacterial infections as a result of chemotherapy-induced immunosuppression. Thus the same treating physicians will be potentially interested in both our anti-infective and oncology products. We therefore anticipate commercial synergies to be present across our portfolio of commercialized products and product candidates in the future.

Patients with **cancer** are very often the same patients who suffer from **invasive fungal infections.**

OUR TWO PILLARS IN THE HOSPITAL FIELD ARE ANTI-INFECTIVES & ONCOLOGY

OUR **PORTFOLIO**

ANTI-INFECTIVES

CRESEMBA® (ISAVUCONAZOLE)

Invasive fungal infections are debilitating and often life-threatening. Fungi commonly involved include *Aspergillus* molds, *Candida* yeasts, and increasingly Mucorales molds. For example, invasive aspergillosis is estimated to occur in 5 – 13% of patients who have received intensive chemotherapy for leukemia, in 2 – 26% of bone marrow transplant recipients and 3 – 9% of patients who have received heart or lung transplants.

Worldwide, invasive fungal infections are increasing due to the growing number of immunocompromised patients – an ageing population in countries with advanced medical technology and intensive care for critically ill patients, and more patients undergoing intense cancer therapy. Basilea estimates that the annual worldwide sales of prescription systemic antifungals in 2014 were approximately USD 3.7 billion, with a worldwide growth rate of 5% from 2013 to 2014. While the market for antifungal agents is large and growing, physicians' options for the treatment of fungal infections are limited by a lack of new therapies.

While the market for antifungal agents is large and growing, physicians' options for the treatment of fungal infections are limited by a lack of new therapies.

Isavuconazole is a once-daily intravenous and oral azole antifungal and the active agent of the prodrug isavuconazonium sulfate. It provides broad-spectrum coverage of a variety of pathogenic molds. The clinical study program for isavuconazole showed the treatment to have a number of key attributes, including a favorable safety profile over the current standard of care in invasive aspergillosis, linear, dose-proportional pharmacokinetics and a convenient dosing regimen.

In March 2015 isavuconazole was approved by the FDA for the treatment of invasive aspergillosis and invasive mucormycosis in adults and commercially launched by Basilea's licensee for the U.S., Astellas Pharma U.S. under the trade name CRESEMBA® in April 2015. Isavuconazole was approved in October 2015, by the European Commission for the treatment of adult patients with invasive aspergillosis and for the treatment of adult patients with mucormycosis for whom amphotericin B is inappropriate.

Invasive *Aspergillus* infections are associated with **mortality rates** of **34–58%. Mucormycosis** is a rapidly progressing and life-threatening invasive fungal infection with **mortality rates** of **40–80%.**[1,2,3]

In the major European markets Basilea has established a dedicated sales force focusing on those hospitals that have the potential to prescribe both of its marketed products, Zevtera®/Mabelio® and CRESEMBA®. Pricing and reimbursement dossiers have been prepared for the major European countries. As market access is achieved CRESEMBA® is being rolled out in the first European countries with launch meetings scheduled throughout 2016. Outside the major European markets, distribution or license agreements are being sought.

Isavuconazole has received Orphan Drug Designation for the treatment of invasive aspergillosis and mucormycosis in the U.S. and in Europe, providing seven years of market exclusivity in the U.S. and ten years in Europe. In addition, it has been granted Qualified Infectious Disease Product (QIDP) status (for the treatment of invasive aspergillosis and invasive mucormycosis), providing an additional five years of exclusivity in the U.S.

The phase 3 program for isavuconazole consisted of three completed clinical trials, SECURE, VITAL and ACTIVE. The SECURE and VITAL study data led to the regulatory approval of isavuconazole.

As market access is achieved CRESEMBA® is being rolled out in first European countries. Outside the major European markets, distribution or license agreements are being sought.

In July 2015 Basilea announced top-line data from the ACTIVE study of isavuconazole in patients with invasive candidiasis or candidemia. The ACTIVE study did not meet its primary endpoint (non-inferior efficacy of isavuconazole versus the study comparator at the end of i.v. therapy). The overall response rates at two weeks after treatment were, however, comparable between the two treatment groups. Overall response at two weeks after treatment was the key secondary endpoint of the study. In addition, the secondary endpoint of all-cause mortality was comparable at study day 14 and day 56 in both treatment groups.

ZEVTERA®/MABELIO® (CEFTOBIPROLE MEDOCARIL)

Many strains of bacteria have developed resistance over time to existing antibiotics, resulting in infections that are increasingly serious and more difficult to treat. The declining efficacy of existing antibiotics potentially jeopardizes outcomes in patients undergoing medical procedures. It has been reported that between 39-51% of pathogens causing surgical site infections and 29% of pathogens causing infections after chemotherapy are resistant to standard antibiotics in the U.S.

Basilea's lead antibacterial product, ceftobiprole (Zevtera®/Mabelio®), has a broad antibacterial spectrum that encompasses both resistant Gram-positive pathogens and many Gram-negative organisms and has demonstrated a low propensity to induce bacterial resistance. In addition, it has the potential to offer a simplified monotherapy option relative to combination therapies for empiric treatment, which is a treatment approach to administer broad-spectrum antibiotics when the causative organism of an infection is not known. Ceftobiprole is the only antibiotic monotherapy

that is approved in key European countries for the treatment of adults with community-acquired pneumonia and hospital-acquired pneumonia, excluding ventilator-associated pneumonia, with activity against methicillin-resistant *Staphylococcus aureus* (MRSA) and many Gram-negative pathogens including *Pseudomonas* spp.

Ceftobiprole is currently approved for sale in 13 European countries and Canada. Basilea is launching ceftobiprole in Europe on a rolling basis following completion of pricing and reimbursement negotiations on the country level. Ceftobiprole is currently available in Germany, France, Italy and the United Kingdom, and Austria under the trade name Zevtera® or Mabelio®. Further it is planned to launch Zevtera® in Switzerland in early 2016 and to launch in other countries through distributors or licensees.

Ceftobiprole was granted U.S. Qualified Infectious Disease Product designation for the treatment of community-acquired bacterial pneumonia and acute bacterial skin and skin structure infections.

In the United States, the FDA granted ceftobiprole Qualified Infectious Disease Product (QIDP) designation in August 2015 for the treatment of community-acquired bacterial pneumonia (CABP) and acute bacterial skin and skin structure infections (ABSSSI). This designation provides future New Drug Applications priority review and additionally gives a further five years of data exclusivity resulting in a total of 10 years market exclusivity post-approval.

Basilea is considering phase 3 studies in CABP, ABBSSI and *Staphylococcus aureus* bacteremia. There is a high medical need in *Staphylococcus aureus* bacteremia where new, safe and effective antibiotics with bactericidal activity against both methicillin-susceptible and resistant strains are urgently needed. Ceftobiprole could provide a potential treatment option for this high unmet medical need. Based on discussions with the FDA, Basilea believes that two successful cross-supportive phase 3 studies may be sufficient to support U.S. regulatory approval.

Basilea plans to discuss and agree with the FDA on the design of phase 3 studies under Special Protocol Assessments (SPAs). Basilea currently expects that it would not initiate phase 3 studies until such time as it has entered into a collaboration agreement with a third party for this program.

People with **MRSA** are estimated to be **64% more likely to die** than people with a non-resistant form of the infection.[4]

BAL30072

Infections caused by multidrug-resistant Gram-negative bacteria present a growing challenge to successful antibiotic therapy. Of particular concern is the emergence of Gram-negative bacterial strains with newly acquired resistance mechanisms, such as pathogens that have acquired the ability to produce enzymes, or beta-lactamases, that destroy beta-lactam antibiotics, which have been the mainstay of antibiotic therapy for several decades.

Chronic bacterial pulmonary infection leading to an irreversible decline in lung structure and function is the main cause of mortality and morbidity in patients with cystic fibrosis. *Pseudomonas aeruginosa* is the most frequently isolated pathogen. Chronic bacterial pulmonary infection is also of serious concern in patients with bronchiectasis. Currently, a limited number of inhaled antimicrobials are available for use in cystic fibrosis, and no antibiotics are approved to treat lung infections in patients with bronchiectasis.

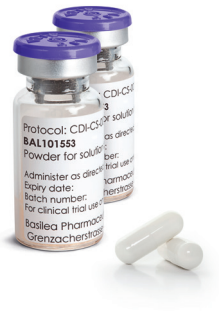
60% of **adult cystic fibrosis patients** have **lung infections** caused by difficult-to-treat bacteria such as ***Pseudomonas aeruginosa.***[5]

BAL30072 is an antibiotic with bactericidal activity against many clinically relevant multidrug-resistant Gram-negative bacteria. In *in-vitro* and *in-vivo* studies, it demonstrated bactericidal activity against *Acinetobacter baumannii,* Enterobacteriaceae and *Pseudomonas aeruginosa*, including resistant strains. BAL30072 demonstrated *in-vitro* activity against *Burkholderia cepacia* complex and *Stenotrophomonas maltophilia*, pathogens often found in cystic fibrosis patients.

BAL30072 completed a phase 1 study with the intravenous (i.v.) dosage form in combination with the carbapenem antibiotic meropenem under a contract with the U.S. Biomedical Advanced Research and Development Authority (BARDA), which was subsequently completed. Basilea is currently advancing BAL30072 in preclinical studies as an inhaled formulation for treatment of Gram-negative chronic pulmonary bacterial infections.

The inhaled formulation will be funded in part by iABC, a consortium of researchers from academic and industry organizations.

Chronic bacterial pulmonary infection leading to an irreversible decline in lung structure and function is the main cause of mortality and morbidity in patients with cystic fibrosis.



ONCOLOGY

BAL101553

Despite advances in the development of targeted therapies, there is still a need for novel agents to overcome resistance and non response to current cancer therapy. There has been little advancement in the development of 'backbone' oncology treatments, which have been and remain highly successful treatment strategies both alone and in combination.

Basilea's BAL101553 is a novel small molecule tumor checkpoint controller (TCC) candidate, promoting tumor cell death through activation of a checkpoint in cell proliferation. Its intravenous formulation (i.v.) is currently being explored in a phase 1/2a clinical study and its oral formulation in a phase 1/2a study, both with solid tumor patients who have failed standard therapy or for whom no effective standard therapy is available.

Despite advances in the development of targeted therapies, there is still a need for novel agents to overcome resistance and non-response to current cancer therapy.

Interim phase 1/2a i.v. data have been reported in December 2015 following completion of patient recruitment. Of the 52 patients that underwent evaluation for tumor response by December 2015, one patient with an ampullary pancreatic cancer achieved a partial response and was treated for more than two years with BAL101553 and twelve patients had stable disease lasting between two and eight months. The majority of these patients were at the recommended dose for future 2-hour infusion phase 2 studies of 30mg/m^2.

In addition, BAL101553 demonstrated anti-proliferative and anti-vascular effects as evidenced by tumor biopsies and from circulating vascular cell levels obtained from patients before and after dosing with BAL101553. Pharmacodynamic assessments together with preclinical data support a separation of the anti-tumor cell effect from the anti-vascular effect at different dose levels, enabling the design of combination studies with other agents or radiotherapy where BAL101553 has shown a combination potential in preclinical models.

The recommended two-hour intravenous dose has been defined based on the observed good tolerability, without myelosuppression, and on pharmacodynamic and clinical response. Dose-limiting adverse effects in the phase 1 part of the study included transient and reversible Grade 2 to Grade 3 gait disturbance which occurred together with transient peripheral sensory neuropathy. In addition, cardiac ischemia was observed in the phase 2a portion of the study at dose levels above the recommended dose.

The oral formulation of BAL101553 may provide advantages complementary to the intravenous formulation, both as single agent and in drug combination, potentially offering flexible treatment strategies for different tumor types and for diverse human cancers. BAL101553 also has activity against brain tumor cells and animal models show that it penetrates the brain, allowing potential application for the treatment of brain tumors (glioblastoma), a form of cancer that in many cases is currently either not or only partly treatable. Recent data demonstrate that BAL101553 inhibits stem cell characteristics in glioblastoma stem-like tumor models *in vitro* and *in vivo*.

This class of compounds, targeting the RAF and SRC kinases, has been shown to have anti-tumor activity not only in BRAF-driven melanoma models but also in diverse patient-derived models resistant to standard BRAF as well as MEK therapy.

BAL3833

Basilea's oncology product candidate BAL3833 is an orally available small molecule panRAF-SRC kinase inhibitor targeting cell proliferation signaling pathways that are associated with tumor growth and therapeutic resistance. Since its in-licensing in April 2015, BAL3833 has advanced into a phase 1 study in adult patients with advanced solid tumors.

BAL3833 is the lead compound of a series of panRAF inhibitors in-licensed by Basilea under an agreement with The Institute of Cancer Research, Cancer Research Technology, the Wellcome Trust and The University of Manchester. This class of compounds, targeting the RAF and SRC kinases, has been shown to have anti-tumor activity not only in BRAF-driven melanoma models (that are regulated by RAF and SRC kinases), but also in diverse patient-derived models resistant to standard BRAF as well as MEK therapy. MEK is a kinase involved in RAF signaling. Activity has also been observed in tumor models derived from patients unresponsive to ipilimumab, an immunotherapy approved for the treatment of metastatic melanoma.

The ongoing phase 1 development is funded by The Institute of Cancer Research and The Royal Marsden NHS Foundation Trust. Basilea collaborates through a joint steering committee in the oversight of the phase 1 development and will assume full operational responsibility after its completion.

Although chemotherapy of tumors has scored successes, **drug resistance** remains the **major cause of death** of **cancer** patients.[6]

REFERENCES

1 J. W. Baddley et al. Factors Associated with Mortality in Transplant Patients with Invasive Aspergillosis. Clinical Infectious Diseases 2010 (50), 1559-1567

2 M. M. Roden et al. Epidemiology and Outcome of Zygomycosis: A Review of 929 Reported Cases. Clinical Infectious Diseases 2005 (41), 634-653

3 R. N. Greenberg et al. Zygomycosis (Mucormycosis): Emerging Clinical Importance and New Treatments. Current Opinion in Infectious Diseases 2004 (17), 517-525

4 WHO Press Release. 30 April 2014. WHO's first global report on antibiotic resistance reveals serious, worldwide threat to public health. http://www.who.int/mediacentre/news/releases/2014/amr-report/en/ (Accessed January 25, 2016)

5 Inhaled antibiotics in bronchiectasis and cystic fibrosis (iABC). Summary. http://www.imi.europa.eu/content/iabc (Accessed January 25, 2016).

6 P. Borst. Cancer drug pan-resistance: pumps, cancer stem cells, quiescence, epithelial to mesenchymal transition, blocked cell death pathways, persisters or what? Open Biology 2012 http://dx.doi.org/10.1098/rsob.120066

OUR INNOVATIVE RESEARCH SITE IN **CHINA**

Basilea Pharmaceutica China Ltd. ("Basilea China") is a wholly-owned subsidiary of Basilea Pharmaceutica Ltd., located near Shanghai in the Haimen Economic-Technological Development Zone, Jiangsu Province of the People's Republic of China. The employees of Basilea China are part of the extended R&D team within Basilea, focusing on organic chemistry and analytics.

Basilea China was founded in 2002 as one of the first foreign investment biotech companies in China. Operating in an innovative R&D environment, the company relies on highly qualified, well trained and experienced professionals. The team of Basilea China supports Basilea's key R&D projects with chemical synthesis, analytical development and process research and development. In addition, Basilea China provides a range of custom chemical synthesis and analytical services on a fee-for-service basis to third parties including Chinese and international pharmaceutical companies.

Basilea China supports all key R&D projects of Basilea, focusing on chemical synthesis, analytical development, process research and development.

Basilea China operates a quality and environmental management system which is compliant with ISO 9001:2008 and ISO 14001:2004 requirements and which has been successfully audited on a regular basis, including in 2015 by the British Standards Institution (BSI). It has been repeatedly recognized for its operational excellence. This includes the award of the High-tech Enterprise status on the national level (2008, 2011 and 2014) and on the provincial (2006) level. In addition, from 2007 through 2014, the company was granted the "A" class of safety operation and received the Best Safety Performance award from the local government. In 2015 Basilea China was also rewarded by the Jiangsu province for its contribution to the development of the local R&D service business.

"**BASILEA CHINA** WAS FOUNDED IN 2002 AS **ONE OF THE FIRST** FOREIGN INVESTMENT **BIOTECH COMPANIES** IN **CHINA.**"

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

As of December 31, 2015, the Company had approximately 250 employees (full-time equivalents/FTE).

Basilea subsidiaries and subholdings (as of December 31, 2015)

- Basilea Pharmaceutica China Ltd., Haimen, China
- Basilea Pharmaceuticals A/S, Copenhagen, Denmark
- Basilea Pharma SAS, Boulogne-Billancourt, France
- Basilea Pharmaceutica Deutschland GmbH, Munich, Germany
- Basilea Pharmaceutica Italia S.r.l., Milano, Italy
- Basilea Pharmaceutica España S.L., Madrid, Spain
- BPh Investitionen Ltd., Baar, Switzerland
- Basilea Pharmaceutica International Ltd., Basel, Switzerland
- Basilea Medical Ltd., Rickmansworth, UK
- Basilea Pharmaceuticals Ltd., Rickmansworth, UK

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 located within Basilea International.

In 2015, Basilea International was operationally organized along core activities with the Chief Executive Officer responsible for overseeing the Management Committee as well as legal, quality management, business development and licensing. The members of the Management Committee were the Chief Financial Officer, the Chief Medical Officer, the Chief Scientific Officer, the Chief Technology Officer, the Chief Commercial Officer, and the Head of Global Human Resources. For further information on the Management Committee, please refer to the section "Management Committee/Members, functions and other activities" on page 30.

Basilea is represented on the Board of Directors of 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) 1 143 244. The ISIN is CH0011432447. The Common Code is 018859220. The ticker symbol is BSLN.

As of December 31, 2015, the market capitalization of Basilea amounted to CHF 1,040,099,995 (10,800,623 registered shares with a nominal value of CHF 1 per share). None of its shares were held by the Company on this date.

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, 2015. 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 97) to the financial statements.

SIGNIFICANT SHAREHOLDERS

As of December 31, 2015, Basilea had 10,800,623 registered shares issued and outstanding.

According to the Company's share register, Chase Nominees Ltd., London Wall 125, London EC2Y 5AJ, UK, held 911,586 Basilea shares as of December 31, 2015, nominally corresponding to 8.44% of the voting rights but registered without voting rights.

In addition, according to the Company's share register, RBC Dexia Investor Services Trust, Swane Lane, Riverbank House 2, London EC4R 3AF, UK, held 594,733 Basilea shares as of December 31, 2015, nominally corresponding to 5.51% of the voting rights, but registered without voting rights.

Furthermore, Basilea received the following notifications in accordance with the Swiss Federal Act on Stock Exchanges and Securities from shareholders who held more than three percent as of December 31, 2015 (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 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.

On January 6, 2015, Franklin Resources, Inc., One Franklin Parkway, San Mateo, CA 94403, USA, notified Basilea that Franklin Templeton Investments Australia Limited, Franklin Templeton Investments Corp., Franklin Templeton Investment Management Limited, Templeton Global Advisors Limited and Templeton Investment Counsel, LLC held 942,758 Basilea shares, corresponding to 9.24% of the voting rights, as of January 5, 2015.

On September 8, 2014, Credit Suisse Funds AG, Uetlibergstrasse 231, 8045 Zurich, Switzerland, notified Basilea of a change in address and of its holdings of 417,549 Basilea shares, corresponding to 4.09% of the voting rights, as of June 13, 2014.

On June 3, 2014, UBS Fund Management (Switzerland) AG, P.O. Box, 4002 Basel, Switzerland, notified Basilea of its holdings of 311,088 Basilea shares, corresponding to 3.05% of the voting rights, as of May 27, 2014.

Additionally, Basilea reported that, as of December 23, 2015, based on the issuance of the convertible bonds the number of short conversion rights held by Basilea amounted to 40,000, related to 1,586,017 voting rights and corresponding to 14.997% of the voting rights. Basilea also reported that as of the same date, the outstanding options amounted to 1,249,071, corresponding to 11.81% of the voting rights.

All disclosures of shareholdings, including those of shareholders that fell below three percent during 2015, 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).

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, 2015.

CAPITAL STRUCTURE AND SHARES

SHARE CAPITAL

As of December 31, 2015, Basilea's issued fully paid-in share capital consists of CHF 10,800,623 divided into 10,800,623 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, 2015, the Company did not hold any shares of Basilea.

AUTHORIZED CAPITAL AND CONDITIONAL CAPITAL

Under the articles of association, the Board of Directors is authorized at any time until April 9, 2016, to 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. In January 2016 CHF 1,000,000 reserved shares were created for the convertible bonds, reducing the authorized capital to now CHF 1,000,000.

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.

On April 29, 2015, the ordinary general meeting of shareholders approved to increase the conditional capital of the Company by CHF 500,000 for the exercise of option rights granted under the Company's option plan.

As of December 31, 2015, the total conditional capital amounted to CHF 1,959,518.

The share capital may be increased by a maximum aggregate amount of CHF 1,959,518 through the issuance of not more than 1,959,518 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, 2015, 1,248,951 options were granted.

The 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 an authorized or conditional capital are subject to the transfer restrictions set forth under "limitations on transferability of shares and nominee registrations" on page 22.

CHANGES IN CAPITAL

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.

In 2014 Basilea increased its share capital by CHF 375,055 (375,055 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 2013 Basilea increased its share capital by CHF 612,612 (612,612 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 2015, 2014 and 2013, including changes in reserves and retained earnings, please refer to the consolidated statement of changes in shareholders' equity as well as note 14 (shareholders' equity, page 86) to the consolidated financial statements, and note 3 (share capital, page 97) to the financial statements of Basilea. Please also refer to the consolidated statement of changes in shareholders' equity included in the annual reports 2014 and 2013 for information on changes in equity in the respective years.

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 will maintain 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.

Voting rights may be exercised only after a shareholder has been entered in the share register (Aktienbuch) with his or her name and address (in the case of legal entities, the registered office) as a shareholder with voting rights. Basilea enters an acquirer of shares as shareholder with voting rights, if the acquirer discloses its name, citizenship or registered office, respectively, and address and explicitly states that the acquirer acquired the shares in its own name and for its own account.

Failing such registration by the respective 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 2015.

According to the nominee regulation enacted by the Board of Directors, a person or legal entity not explicitly stating in its registration request that it will hold the shares for its own account ("nominee") 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 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% shall apply 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 35.

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 divided into bonds with denominations of CHF 5,000 each. The bonds carry a coupon of 2.75% per annum, payable semi-annually in arrear on December 23 and June 23, for the first time on June 23, 2016. The bonds are listed on the SIX Swiss Exchange (security number: 30.539.814; ISIN: CH0305398148. Eligible existing 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 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, 2015, 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 13 (stock-based compensation, page 84) 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, 2015:

Name	Year of first election	End of current term
Dr. Martin Nicklasson, Chairman	2013	2016
Mr. Domenico Scala, Vice-Chairman	2011	2016
Mr. Hans-Beat Gürtler	2009	2016
Prof. Daniel Lew	2003	2016
Dr. Thomas M. Rinderknecht	2011	2016
Mr. Steven D. Skolsky	2008	2016
Dr. Thomas Werner	2011	2016

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

Dr. Martin Nicklasson, Swedish citizen, has served as a member of the Board of Directors and Chairman since 2013. Dr. Nicklasson is an honorary Associate Professor at the Pharmaceutical Faculty, University of Uppsala (Sweden) since 1985. He is currently a senior partner at Nicklasson Life Science AB, an independent consultancy and advisory company to the pharmaceutical and biotechnology sector. 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), PledPharma AB (Sweden), Premier Research Group Ltd. (UK) and chairman of the board of directors of Farma Holding AS (Norway), Orexo AB (Sweden) and Zealand Pharma A/S (Denmark). Dr. Nicklasson is a certified pharmacist and holds a Ph.D. in Pharmaceutical Technology from the University of Uppsala.

Domenico Scala, Swiss and Italian citizen, has served as a member of the Board of Directors and Vice-Chairman since 2011. Since January 2015, Mr. Scala has been President of i-net innovation networks switzerland. From 2007 to 2011, he 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, Mr. Scala 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 chairman of the Audit and Compliance Committee of FIFA (Fédération Internationale de Football Association), a member 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). Mr. Scala graduated from the University of Basel with a degree in economics and holds Executive Development degrees from INSEAD and London Business School.

Hans-Beat Gürtler, Swiss citizen, has served as a member of the Board of Directors since 2009. Since September 2002, he has been a management partner for entrepreneurial investments of Varuma AG, a privately held Swiss investment company. Prior to joining Varuma, he held the position of Global Chief Executive Officer at Novartis Animal Health in Basel from 1990 to 2002. From 1969 to 1990, he held various management positions at Ciba-Geigy Ltd. Mr. Gürtler is presently Vice-Chairman of Implenia AG and serves on the board of directors of several start-up to medium-sized Swiss-based companies, primarily in the pharma and biotech sector. Mr. Gürtler holds a Commercial Diploma.

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, president 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. Thomas M. Rinderknecht, 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 has served on the boards of directors of several biotech, pharma and

Board of Directors as of December 31, 2015 (from left to right and top to bottom):
Dr. Martin Nicklasson
Mr. Domenico Scala
Mr. Hans-Beat Gürtler
Prof. Daniel Lew
Dr. Thomas M. Rinderknecht
Mr. Steven D. Skolsky
Dr. Thomas Werner

medtech companies, including Speedel AG, Basel, Glycart Biotechnology AG, Schlieren, and Ganymed Pharmaceuticals AG, Mainz (Germany). He currently serves 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, and as member of the board of InSpero AG, Schlieren, the Veritas/Fundmaster Family Office Companies and Twin Dolphins AG, Zug. Until February 2016 he served as chairman of Vecap Venture Capital Partners AG, Stansstad, and FLH Brands AG, Zug, and as member of the board of the NorseSatCom Group of Companies. Dr. Rinderknecht holds a Ph.D. in law from the University of Zurich and is admitted to the Bar in Zurich.

Steven D. Skolsky, U.S. citizen, has served as a member of the Board of Directors since 2008. Since 2011, Mr. Skolsky has served as a senior executive at Quintiles Transnational Holdings where he currently holds the position of Senior Vice President and Managing Director. From 2006 to 2011, Mr. Skolsky served as the 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, Global Product Strategy and Clinical Development, and Managing Director of GSK's operations in Australia and New Zealand. Mr. Skolsky serves on the Foundation Board of the Kenan-Flagler School of Business at the University of North Carolina at Chapel Hill (USA) and also on the board of directors at Fennec Pharmaceuticals Inc. 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 sits on the boards of SkyePharma plc, NewOncology AG, formerly Blackfield AG, and BSN Medical and is a member of the advisory board of Riemser Pharma GmbH. 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 served in the management of Basilea or any of its subsidiaries since inception of Basilea.

There are no other significant business connections between members of the Board of Directors and Basilea or any of its subsidiaries. For further information, please refer to note 19 (related party transactions, page 91) to the consolidated financial statements.

Apart from the information given above, there are no other activities of the members of the Board 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 provides the following with respect to permissible mandates of members of the Board of Directors in addition to their mandate for Basilea:

- 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 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.

ELECTIONS AND TERMS OF OFFICE

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 removed exclusively by shareholders' resolution. The members of the Board of Directors and the Chairman are elected annually by the general meeting of shareholders for a period until the completion of the subsequent ordinary general meeting of shareholders and are eligible for re-election. Each member of the Board of Directors must be elected individually.

According to the current organizational regulations of Basilea enacted by the Board of Directors, 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.

The current members of the Board of Directors were elected at a general meeting of shareholders held on April 29, 2015. 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 24.

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 the 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, 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.

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

INTERNAL ORGANIZATION

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

Chairman of the Board of Directors

The Chairman of the Board 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 generally 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. In 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 29, 2015, Dr. Martin Nicklasson was re-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 29, 2015, Domenica Scala was re-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 the decision-making remains within the collegial responsibility of the Board of Directors. The Board of Directors determines the terms of reference of each committee with respect to the organization, procedures, policies and activities of the committee. The Board of Directors has set up and appointed an Audit Committee and a Compensation Committee in 2003. In addition, the Board of Directors established a Corporate Governance Committee in 2012. In 2015, the full Board of Directors nominated members for each committee, except for the Compensation Committee as its members were elected by the shareholders at the 2015 annual general meeting.

In the meeting of the Board of Directors subsequent to the ordinary general meeting of shareholders on April 29, 2015, the following board members were appointed to the **Audit Committee:** Mr. Domenico Scala (Chairman), Mr. Hans-Beat Gürtler, Dr. Martin Nicklasson and Dr. Thomas M. Rinderknecht.

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

The Audit Committee held three meetings at the offices of Basilea in 2015, lasting between two and three hours. The main topics at these meetings were the review of the year-end financial statements and Annual Report 2014; the review of the half-year financial statements 2015; the review of the annual budget 2015 and 2016 as well as mid-term financial forecasts; financial and non-financial risk management and the scope of the external audit 2015 as well as the scope and results of the internal audit 2015. The external auditors were present at three Audit Committee meetings in 2015 to report on the results of the audit and the half-year review 2015 as well as services performed in relation to preparing a U.S. IPO and the issuance of the convertible bond in December 2015. The respective recommendations of the Audit Committee were then provided for approval or modification to the full Board of Directors.

At the ordinary general meeting of shareholders on April 29, 2015, 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 the employees and the basic principles for the establishment, amendment and implementation of the stock option plan.

The Compensation Committee held three meetings in 2015, lasting approximately between two and four hours. The main topics at these meetings included the review of the 2014 achievements versus the planned Company objectives and determination of the performance-related bonus pool; the annual general salary increases; the grant of options; and the general remuneration of the Board of Directors, the Management Committee, and employees. The respective recommendations of the Compensation Committee were then provided for approval or modification by the full Board of Directors.

In the board meeting following the annual general meeting of shareholders on April 29, 2015, the following board members were appointed to the **Corporate Governance Committee:** Dr. Thomas M. Rinderknecht (Chairman), Mr. Hans-Beat Gürtler, Prof. Daniel Lew and Dr. Martin Nicklasson.

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 2015 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.

Working methods of the Board of Directors and its committees

According to the organizational regulations, the Board of Directors must hold at least four meetings per year. When required, the Board of Directors holds ad hoc meetings or telephone conferences to discuss specific issues or passes resolutions by way of circulation.

In 2015, the Board of Directors held nine meetings. Five of these meetings were held at the offices of Basilea or at the location of the ordinary general meeting of shareholders, with a typical duration of one day. Four meetings were held by telephone conference. The attendance rate for in-person board meetings and for board teleconferences was around 90%.

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, marketing activities, the status of drug supply, licensing, and financial activities. 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.

Responsibilities of the Management Committee

In accordance with the Articles and further governance documents, 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 26), 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 constituting decision making competencies 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 risk management activities and has delegated to the Audit Committee the responsibility of assisting the board in this task. While the board oversees the risk management, the Management Committee is responsible for day-to-day risk management processes. The Board of Directors expects 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 adopted by the Board of Directors.

The board meetings are the Board of Directors' main platform to supervise and control management. At board meetings, the CEO and members of the Management Committee report on the financial, research and development, commercial, drug supply and business development 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 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 financial report to the Board of Directors including an unaudited consolidated balance sheet, statement of operations and statement of cash flows for the respective month. The financial report further includes comparisons of actual versus budget 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/ beginning of February (for the audited consolidated financial statements) and end of July/ beginning of August (for the unaudited consolidated interim statements) the respective financial statements are recommended for approval by the Audit Committee to the full Board of Directors at its subsequent meeting.

Furthermore, towards year-end, 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.

The Board of Directors additionally requests the auditors to issue a written report on any of their findings with respect to internal controls as a result of their audit procedures.

MANAGEMENT COMMITTEE

MEMBERS, FUNCTIONS AND OTHER ACTIVITIES

The Management Committee, under the responsibility of the CEO and the supervision of the Board of Directors, is responsible for the operational management of the Company pursuant to the organizational regulations and reports to the Board of Directors. 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, mainly 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 people on a managerial level, 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, 2015:

Name	Appointed	Position
Mr. Ronald Scott	2013	Chief Executive Officer
Dr. Ingrid Heinze-Krauss	2006	Chief Technology Officer
Prof. Achim Kaufhold	2010	Chief Medical Officer
Dr. Laurenz Kellenberger	2009	Chief Scientific Officer
Ms. Heidi McDaid	2013	Head of Global Human Resources
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, from 1993 to 2001 Mr. Scott worked at Roche Holding AG (Roche) 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. Mr. Scott has a bachelor's degree from Utah State University (USA) and a master's degree from Harvard University (USA).

Dr. Ingrid Heinze-Krauss, German citizen, has served as Chief Technology Officer since January 2004 and has been a member of the management team since 2006. From 2001 to 2002, Dr. Heinze-Krauss served as Project Manager, and was appointed Head of Drug Supply Management in February 2002. From December 2002 to December 2003, she acted as *ad interim* Chief Scientific Officer. From 1988 to 2000, Dr. Heinze-Krauss worked at Roche where she held a series of managerial positions in Pharma Research, including Area Head Medicinal Chemistry in Antibacterial Research and R&D project management. Dr. Heinze-Krauss received a Ph.D. in Organic Chemistry from the University of Freiburg (Germany) and was a fellow at the University of Massachusetts (USA).

Prof. Achim Kaufhold, German citizen, has served as Chief Medical Officer since February 2010. 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), and also served as a member of the board of directors of Vaximm AG (until February 2016). 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. 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

Management Committee as of December 31, 2015 (from left to right and top to bottom):
Mr. Ronald Scott
Dr. Ingrid Heinze-Krauss
Prof. Achim Kaufhold
Dr. Laurenz Kellenberger
Ms. Heidi McDaid
Mr. Donato Spota
Mr. David Veitch

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.

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. Dr. Kellenberger's expertise covers the range of synthetic organic and natural product chemistry to microbial molecular genetics. 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. He holds a Ph.D. in Organic Chemistry from the Swiss Federal Institute of Technology Zurich (ETH Zürich). He is a member of the Board of the Medicinal Chemistry & Chemical Biology division of the Swiss Chemical Society.

Heidi McDaid, Swiss citizen, has served as Head of Global Human Resources since January 2008 and was appointed Executive Officer in 2013. From 2002 through 2008, Ms. McDaid has held the position Head of Human Resources. Prior to joining Basilea in 2002 as Head of Human Resources, she worked for Bank CIAL (Schweiz) AG and Mepha AG in Finance and Human Resources. From 2002 to 2003, she served as Manager and from 2003 to 2011 as the President of the Board of Trustees at the Basilea Pension Fund. Before joining Basilea, she held various positions in finance and administration at Lubapharm AG and Bank und Finanz-Institut AG. Ms. McDaid has both business management and human resources qualifications.

Donato Spota, Italian 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 (UK).

Apart from the information given above, there are no other activities of the members of the 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.

In August 2015, Basilea's Board of Directors named Dr. Günter Ditzinger, Head of Pharmaceutics, to succeed Dr. Heinze-Krauss in the role of Chief Technology Officer and as a member of the Management Committee effective February 1, 2016.

Article 26 of Basilea's articles of association provides the following with respect to permissible mandates of members of the Management Committee:

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

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

MANAGEMENT CONTRACTS

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

COMPENSATION, SHAREHOLDINGS AND LOANS

CONTENT AND METHOD OF DETERMINING BOARD AND MANAGEMENT COMPENSATION AND THE SHAREHOLDING PROGRAMS

For content and method of determining Board and Management compensation and the shareholder programs please see the Compensation Report on pages 38 to 53.

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:

- In addition to fixed compensation, members of the Board of Directors and 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 shall determine the relative weight of the performance criteria and the respective target values.
- Compensation may be paid or granted 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; it 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 pre-determined 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.

With respect to the additional amount for 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.

SHAREHOLDERS PARTICIPATION

VOTING RIGHTS AND REPRESENTATION RESTRICTIONS

Each of the shares entitles a holder to one vote, regardless of its 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 cutoff date determined by the Board of Directors. No exceptions from these restrictions were granted in 2015.

Those entitled to vote in the general meeting of shareholders may be represented by the independent voting rights representative (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 22 and "registration in the share register" on page 35.

A shareholder resolution with a qualified majority of at least two-thirds of the share votes represented as well as the majority of the par values of the shares represented at a general meeting of shareholders are required for the creation of shares with privileged voting rights.

STATUTORY QUORUMS

Shareholder resolutions and elections (including elections 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 or 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 within six months after the end of a corporation's financial year. In case of Basilea, this means on or before June 30.

General meetings of shareholders must be convened by the Board of Directors at least 20 days before the date of the meeting. The general meeting of shareholders is convened by way of a notice appearing in Basilea's official publication medium, currently the Swiss Official Gazette of Commerce (Schweizerisches Handelsamtsblatt). Registered shareholders may also be informed by ordinary mail. The notice of a general meeting of shareholders must state date, time, and place of the general meeting as well as the items on the agenda, 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 items to be discussed 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 standalone 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 the articles of association, one or more shareholders whose combined shareholdings represent the lower of (i) one tenth of the share capital or (ii) an aggregate nominal value of at least CHF 100,000, may request that

an item be included in the agenda for an ordinary general meeting of shareholders. To be timely, the shareholder's request must be received at least 45 calendar days in advance of the meeting. The request must be made in writing and contain the agenda items as well as the proposals of the shareholders for the respective agenda items.

REGISTRATION IN THE SHARE REGISTER

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

In 2015, the deadline for registration in the share register in order to participate and to vote at the ordinary general meeting of shareholders of April 29, 2015 was April 17, 2015.

The registration deadline for the ordinary general meeting of shareholders to be held on April 21, 2016 has been set as April 8, 2016.

Basilea has not enacted any rules on the granting of exceptions in relation 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 22.

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 of 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 unconditional (subject to conditions subsequent).

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 of 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 then all vested options are exercisable.

In this case, Basilea will use 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 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, 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, the employee, save for members of the Management Committee, has the right to terminate employment with immediate effect resulting in a payment 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

The statutory and group auditors of Basilea are PricewaterhouseCoopers AG, Basel, Switzerland. PricewaterhouseCoopers AG has held the function of statutory auditor since inception of Basilea on October 17, 2000, and acts as group auditor since 2002. The lead auditor of Basilea is Mr. Bruno Rossi.

AUDITING FEES

In 2015, PricewaterhouseCoopers AG and its affiliates charged the Company auditing fees in the amount of CHF 177,980 (2014: CHF 171,331) and CHF 772,000 for auditing services related to the preparation of the filing of registration statement for a potential offering in the United States and the placement of the convertible bonds in Switzerland (2014: None).

ADDITIONAL FEES

In 2015, PricewaterhouseCoopers AG and its affiliates charged the Company additional fees for compensation benchmarking services in the amount of CHF 27,540 (2014: None).

INFORMATION INSTRUMENTS OF THE AUDITORS

The Audit Committee of the Board of Directors assumes the task of supervising the auditors. 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 2015, the Audit Committee met with the auditors twice to discuss the scope and results of their year-end audit for 2014, the scope of the 2015 audit as well as the scope and results of their review of the half-year financial statements per June 30, 2015. In addition, the Audit Committee met with the auditors to discuss and review their services provided related to the preparation of the filing of registration statement for a proposed offering in the United States, and the placement of the convertible bonds in Switzerland in December 2015.

INFORMATION POLICY

Basilea publishes financial results twice a year in form of an annual report and a half-year interim report. In addition, Basilea informs shareholders and the public regarding 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 after the end of the financial year, while the interim report is customarily published within two months after the end of the half-year reporting period. Key financial figures for the respective reporting period are disclosed in a press release. Both, report and 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) 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 Board of Directors has issued a disclosure policy to ensure that investors will be informed in compliance with the requirements of the SIX Swiss Exchange.

The Company's investor relations department is available to respond to queries from shareholders or potential investors under 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 at +41 61 606 1102.

A subscription service to Basilea's press releases is provided at http://www.basilea.com/Investor-Relations/News-subscription.

POLICY ON PREVENTION OF INSIDER TRADING

The Board of Directors has approved a policy with the objective of preventing any inappropriate trading based on confidential Company information. The policy provides guidance to Company employees on their responsibilities with respect to trading. The Board of Directors has established close periods, i.e. non-trading periods, during which board and management members as well as certain groups of employees that are involved in the financial reporting or certain other activities are prohibited from trading.

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 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 also established a Compliance Code in 2015 to ensure that its commercialization and communication activities meet required compliance standards. The Company's internal Compliance Committee, established by the Management Committee in 2011, met regularly during 2015. It is comprised of representatives of the 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.

COMPENSATION REPORT

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING ON THE COMPENSATION REPORT 2015

Report of the Statutory Auditor to the general meeting of Basilea Pharmaceutica Ltd., Basel, Switzerland

We have audited pages 52 to 53 of the Compensation Report of Basilea Pharmaceutica Ltd. for the year ended December 31, 2015.

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 (the 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 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, 2015 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Bruno Rossi	Raphael Rutishauser
Audit expert	Audit expert
Auditor in charge	

Basel, February 25, 2016

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 2015.

Basilea's compensation policy is designed to promote long-term sustainable performance for the Company and its shareholders through a mix of fixed and variable elements. It includes elements such as base salary, pensions and other benefits, as well as a combination of short-term incentives such as bonuses and long-term incentives in the form of stock options.

Basilea's Ordinary General Meeting of shareholders voted in 2015 on the maximum aggregate compensation for the Board of Directors and the Management Committee and approved the Board's compensation proposals.

The Compensation Committee reviews and monitors on an ongoing basis Basilea's compensation policy and its compensation in light of the Company's business strategy, corporate goals and corporate values. External factors such as regulatory and legal developments, the international context and benchmarking data are also taken into account.

A board review of Board members' compensation took place on November 20, 2014, at which time the Board of Directors resolved that stock options would be replaced by fixed monetary compensation starting in 2014. No further changes to the compensation structure for members of the Board of Directors are currently foreseen.

The Compensation Committee routinely reviews Basilea Management Committee's compensation structure and level and shares its recommendations with the Board of Directors; the most recent such review took place on November 18, 2015. The Board found that Management Committee members' compensation packages are in line with market practice based on market benchmark analysis.

The Board of Directors has voluntarily agreed that a nonbinding advisory vote will be taken at the General Meeting 2016 on the aggregate amount of the Management Committee's variable pay in 2015.

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 663b^{bis} 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 (effective date October 1, 2014) and the Swiss Code of Best Practice for Corporate Governance (status August 28, 2014).

COMPENSATION POLICY AND GUIDING PRINCIPLES

Basilea focuses on the research, development and commercialization of products targeting the medical challenge of resistance and non-response to current treatment options for fungal infections, bacterial infections and cancer. Basilea achieved significant milestones in 2015:

- The approval of isavuconazole by the U.S. FDA for the treatment of invasive aspergillosis and invasive mucormycosis in adults and its launch in the United States under the tradename CRESEMBA® by Basilea's licensee Astellas Pharma U.S.
- European Commission approval of isavuconazole for the treatment of invasive aspergillosis in adults and the treatment of mucormycosis in adults for whom amphotericin B is inappropriate.
- In addition to its regulatory activities, Basilea has been engaged in preparing and submitting CRESEMBA® pricing and reimbursement dossiers for all major European markets.
- The launch of Zevtera® (ceftobiprole), its anti-MRSA broad-spectrum antibiotic for the treatment of severe bacterial lung infections in France, Italy and the United Kingdom with a dedicated salesforce and the execution of a distribution agreement for the Middle East and North Africa (MENA) region with Hikma Pharmaceuticals LLC.
- Completion of patient recruitment and publication of interim data of the i.v. phase1/2a study of its tumor checkpoint controller BAL101553 in advanced solid tumor patients.
- Broadening of the oncology portfolio with BAL3833, a panRAF kinase inhibitor, and initiation of a phase 1 clinical study.
- In addition, Basilea issued a CHF 200 million convertible bond to enable it to further pursue key company activities.

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 is committed to performance-based compensation principles that are fair and 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. The compensation packages are competitive with market practice to promote the long-term success of the Company and support the creation of sustainable shareholder value.

GOVERNANCE AND PROCEDURE FOR DETERMINING COMPENSATION

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 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.

In its review of Management Committee compensation, the Compensation Committee takes 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 2015, the Compensation Committee engaged independent external consultants (Towers Watson and HCM Hostettler & Company) to provide benchmarking services on compensation matters and conduct a comprehensive benchmarking analysis on executive compensation as compared to relevant peers in the healthcare sector across different geographical markets. Each Management Committee position was evaluated by Towers Watson according to their Global Grading System (GGS) and compensation level, taking into consideration company criteria such as size, complexity, responsibility and geographic scope. The evaluation found that the base salary and the total direct compensation of the CEO and the Management Committee members fall within a range of the 50th to the 75th percentile of the peer group. The performance-related bonus opportunity for the CEO and the Management Committee members is below the market median.

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.

Based on these 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 incentive in the form of a cash bonus and long-term incentive 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 share votes represented at the general meeting of shareholders). The time periods of the compensation budgets subject to shareholder approval are not identical with the reporting period (financial year 2015) for the amounts reported in this compensation report.

COMPENSATION APPROVAL PROCESS

Recipient	Proposal	Decision	Binding approval by shareholders at the AGM
Members of the Board of Directors	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 per board term from one general meeting of shareholders to the next;
- compensation based on board meeting attendance;
- compensation based on participation in board committees;
- the payment of social security contributions, where such contributions occur; and
- reimbursement of out-of-pocket expenses incurred in relation to Board member's service on an on-going basis upon presentation of the corresponding receipts.

The available amounts for the period from ordinary general meeting of shareholders 2015 ("AGM 2015") to ordinary general meeting of shareholders 2016 ("AGM 2016") were:

In CHF	AGM 2015 to AGM 2016
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.

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
Stock option program	2015: Stock options (vest over 4 years on a pro-rata basis: 25% on each of the 1st, 2nd, 3rd and 4th year from the grant date) 2016 - Stock option plan amended: 50% options vest 3 years from grant date and 50% options vest 4 years from grant date	Foster long-term focus, retention and alignment to shareholders' interests	Individual performance aligned with shareholders, Company and department goals
Indirect benefits	Pension, insurances, allowances	Protection against risks	Market practice
Special performance award eligibility	Cash (within a total amount which is agreed annually by the Board of Directors and according to limits established by the Board of Directors)	Reward for successful performance in projects outside of the usual scope of job responsibilities	Successful completion of project and achievement of an important Company goal

COMPENSATION ELEMENTS

Base salary

Base salary is determined by the position, responsibilities, experience and skills of each Management Committee member and takes into account individual performance. The Compensation Committee reviews base salaries at the beginning of each year. Any changes in Management Committee members' base salaries were effective as of April 2015.

Performance-related bonus

Performance-related bonuses vary annually and are based on individual and Company performance. Potential bonuses are determined in each member's employment contract and are calculated as a percentage of the base salary, ranging from 35% and 45% depending on position, adjusted by individual and Company performance. The payout is capped at 130% of the target bonus, which can be reached only in the event of extraordinary performance.

The individual cash bonuses for members of the Management Committee are determined by the Board of Directors upon recommendation of the Compensation Committee based on the individual performance and the Management Committee member's respective contribution to achieving the Company's goals and performance.

The performance assessment is based on:

Company goals (40% of the target bonus). Given the current stage of Basilea, with two of the Company's products in the launch phase and other product candidates in development, the Company goals are related to these key value drivers in a combination of financial and non-financial Key Performance Indicators (KPIs) and are the same for all Basilea employees:

- The financial KPIs are related to the financial performance of the Company, its financial activities including sales revenues, as well as its share price relative performance compared to the Swiss Market Index (SMI), consisting of the 20 largest companies listed on the Swiss Stock Exchange (SIX).
- The non-financial KPIs are related to operational activities 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, and product approvals), commercialization, manufacturing, operational performance, or the achievement of certain commercial goals.

The Company goals portion may be rated above 100% to a maximum of 130% of the target amount 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 130% of the respective target amount related to individual goals in the event of extraordinary performance. The total average Company-wide individual portion of the performance-related bonus cannot exceed 100% of the respective target amount.

For 2015, the Board of Directors considered the achievement of the following goals when determining the performance-related bonus for the Management Committee members:

Goals used to determine the 2015 performance-related bonus

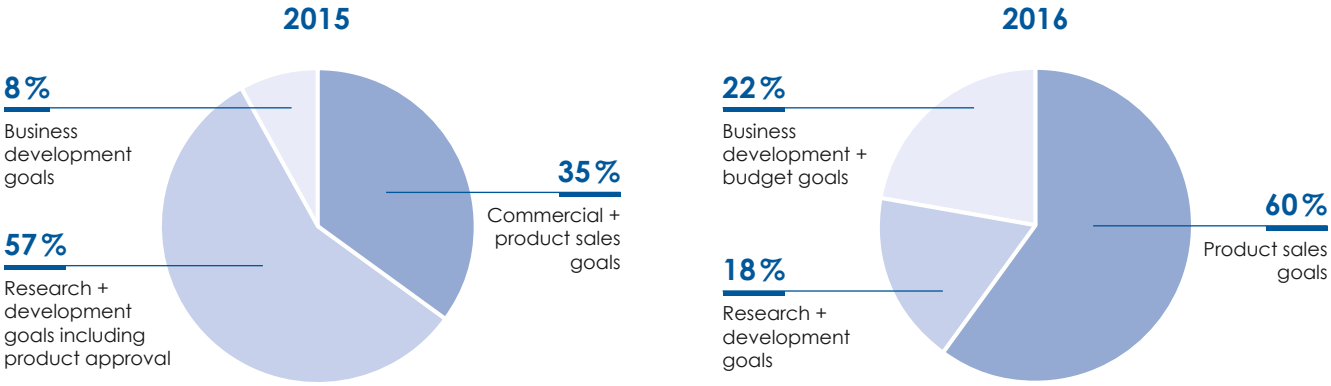
Company goals		Individual goals
Financial KPIs	Non-financial KPIs	
▶ Financial activities and achievement of budgeted sales ▶ Managing expenses ▶ Share price performance as compared to the Swiss Market Index (SMI)	▶ Zevtera® or Mabelio® (ceftobiprole medocaril) launch in additional key European markets. Execution of distribution agreements for additional territories ▶ CRESEMBA® (isavuconazole) regulatory and commercial milestones – obtaining positive opinion for invasive aspergillosis and mucormycosis by the European Committee for Medicinal Products for Human Use (CHMP) and the United States Food and Drug Administration (FDA), completion of market access dossiers for targeted price band and fully operational sales force ▶ Completion of clinical evaluation (phase 2a) of oncology drug candidate BAL101553 (i.v.) in patients with advanced solid tumors ▶ Achieving goals related to earlier stage development compounds and research activities, e.g. expansion of oncology portfolio by in-licensing exclusive worldwide rights to develop, manufacture and commercialize novel panRAF kinase inhibitors	Individual performance of the Management Committee members

The weighting of the Company goals (40%) and the individual goals (60%) is the same for all members of the Management Committee.

For the performance period 2016 following the launch of our products CRESEMBA® (isavuconazole) and Zevtera® or Mabelio® (ceftobiprole medocaril), 60% of the Company's corporate goals will be based on sales:

- Product sales goals **60%**
- Research and development goals **18%**
- Business development and budget goals **22%**

Company goals 2015 and 2016



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

Individual target bonus
(35–45% of base salary)

×

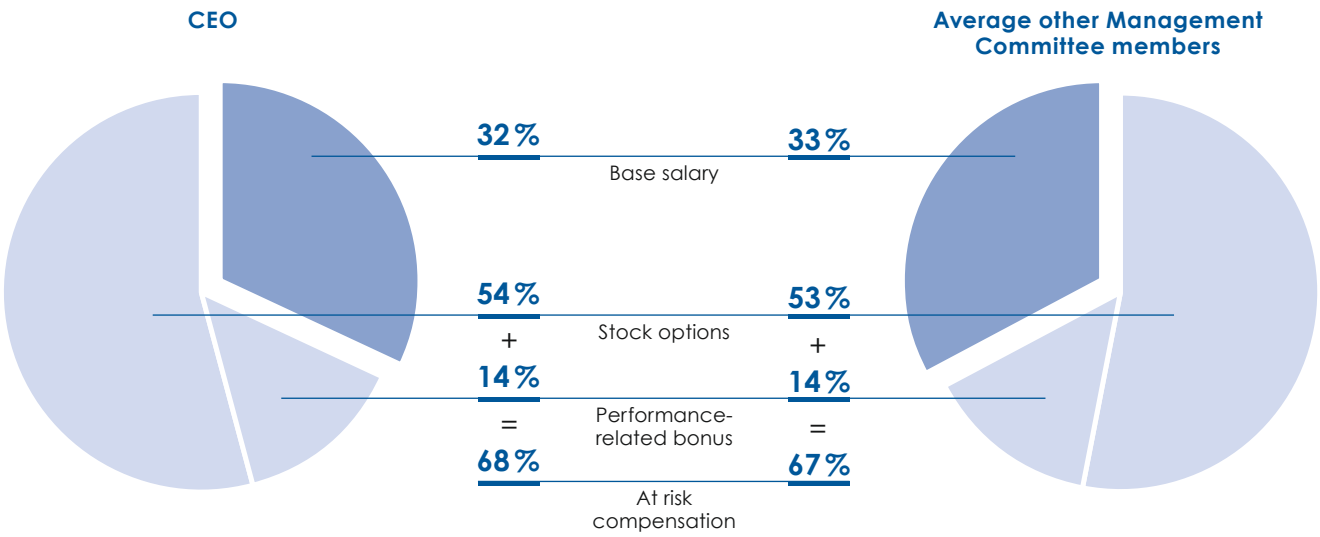
Performance assessment	Weight
Company goals (0 to 130% achievement)	40%
Individual goals (0 to 130% achievement)	60%

=

Resulting individual performance-related bonus

The majority of compensation for each Management Committee member is at risk and based on corporate and individual performance, with 68% of Basilea's CEO's direct compensation and 67% of the average direct compensation of the other Management Committee members based on the 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 future success of the Company. The program is therefore aligned with shareholders' interest to enhance shareholder value and increase the ability of the Company to attract and retain individuals with exceptional skills.

The grant of any option under the stock option program is wholly discretionary. 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 total number of Basilea shares outstanding.

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 is determined by the Board of Directors and equals the closing price of the Basilea shares on the Swiss Stock Exchange (SIX) on the grant date. The strike price of the options granted in the business year 2015 was CHF 113.10 (2014: CHF 90.75), with 25% of the options received under that annual stock option grant vesting one year from the grant date, 25% of the options vesting two years from the grant date, 25% of the options vesting three years from the grant date and 25% of the options vesting four years from the grant date. The term of the stock option grant is 10 years.

For options granted in 2016, pursuant to the amended option plan, 50% will vest three years from the grant date, and 50% will vest four years from the grant date.

Although there is no cash value of the options at grant, the fair value of the stock options granted in 2015 was determined at the grant date using a binomial model and equals to CHF 46.23 (2014: CHF 38.67) per option. The assumptions used for the fair value calculation of options can be found on page 85. Options only create cash value for Management Committee members in the event the share price after vesting exceeds the strike price, which is the share price upon grant, thus directly aligning Management Committee members' interest with shareholders' interest.

The average holding period by option plan participants is approximately 6.5 years. Participants have in the past held the options beyond the vesting period, which reflects their ongoing commitment to the Company.

Upon termination of employment resulting from notice provided by the Employee to the Company, or upon termination of employment by the Company for cause, an Employee's unvested Options are forfeited.

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, international school for children or language courses for a limited time period.

Loans and credits

The Company has not granted any loans, quasi-loans credits or guarantees to members of the Board of Directors or of the Management Committee in 2015 or 2014.

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 2015 and 2014 is outlined below:

In CHF	Fixed compensation	Committee fee	Board meeting fee	Social securities[7]	**Total**
2015					
Dr. Martin Nicklasson, Chairman[1]	238 363	23 625	56 250	67 689	385 927
Mr. Domenico Scala, Vice-Chairman[2]	150 382	5 250	31 250	23 985	210 867
Mr. Hans-Beat Gürtler, Director[3]	150 382	10 500	31 250	19 040	211 172
Prof. Daniel Lew, Director[4]	150 382	5 250	31 250	18 470	205 352
Dr. Thomas M. Rinderknecht, Director[5]	150 382	10 500	31 250	24 614	216 746
Mr. Steven D. Skolsky, Director[6]	150 382	5 250	31 250	–	186 882
Dr. Thomas Werner, Director[6]	150 382	5 250	37 500	24 734	217 866
Total	**1 140 655**	**65 625**	**250 000**	**178 532**	**1 634 812**
2014					
Dr. Martin Nicklasson, Chairman[1]	238 363	19 688	37 500	63 662	359 213
Mr. Domenico Scala, Vice-Chairman[2]	150 382	5 250	31 250	23 985	210 867
Mr. Hans-Beat Gürtler, Director[3]	150 382	10 500	31 250	28 929	221 061
Prof. Daniel Lew, Director[4]	150 382	5 250	25 000	28 675	209 307
Dr. Thomas M. Rinderknecht, Director[5]	150 382	10 500	31 250	24 614	216 746
Mr. Steven D. Skolsky, Director[6]	150 382	5 250	25 000	–	180 632
Dr. Thomas Werner, Director[6]	150 382	5 250	25 000	23 236	203 868
Total	**1 140 655**	**61 688**	**206 250**	**193 101**	**1 601 694**

[1] Dr. Martin Nicklasson is Chairman of the Board of Directors and the Compensation Committee as well as a member of the Audit and Corporate Governance Committees.
[2] Mr. Domenico Scala is Vice-Chairman of the Board of Directors and Chairman of the Audit Committee.
[3] Mr. Hans-Beat Gürtler is a member of the Audit Committee and a member of the Corporate Governance Committee.
[4] Prof. Daniel Lew is a member of the Corporate Governance Committee.
[5] Dr. Thomas M. Rinderknecht is Chairman of the Corporate Governance Committee and a member of the Audit Committee.
[6] Mr. Steven D. Skolsky and Dr. Thomas Werner are members of the Compensation Committee.
[7] Includes the Company's and the Board members' contributions to social securities, 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 2015 and 2014 are outlined below:

In CHF	Cash compensation fix	Cash compensation variable	Stock options [1]	Social securities and other fringe benefits [2]	**Total**
2015					
Chief Executive Officer Ronald Scott	544 710	236 521	926 588	186 586	1 894 405
Total Management Committee [3]	**2 489 248**	**1 083 933**	**4 068 980**	**865 705**	**8 507 866**
2014					
Chief Executive Officer Ronald Scott	536 786	506 848	775 063	342 261	2 160 958
Total Management Committee [3]	**2 227 143**	**1 263 766**	**3 403 579**	**835 458**	**7 729 946**

[1] Based on the grant-date fair value per stock option of CHF 46.23 (2014: CHF 38.67) using a binomial valuation model
[2] Includes employers' contributions to pension plans, social security, life insurances etc.
[3] Includes the compensation of the Chief Commercial Officer who joined the Company on September 1, 2014

GRANTING OF STOCK OPTIONS

The development of the stock option holding for the total Management Committee and the highest paid Management Committee member in 2015:

For year 2015	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	29 094	49 669	20 043	9 597	38 437	50 772
Total Management Committee	**159 450**	**194 091**	**88 016**	**75 946**	**155 963**	**209 648**

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 an integrated biopharmaceutical company focusing on the discovery, research, development and commercialization of innovative pharmaceutical products in the therapeutic areas of bacterial infections, fungal infections and oncology. The Company has a portfolio of marketed anti-infective drugs and a pipeline of product candidates in the area of oncology and anti-infectives.

In October 2015, the European Commission approved the Company's antifungal drug isavuconazole for the treatment of adult patients with invasive aspergillosis and for the treatment of adult patients with mucormycosis for whom amphotericin B is inappropriate. In the United States, isavuconazole was approved in March 2015 by the Food and Drug Administration for the treatment of invasive aspergillosis and invasive mucormycosis in adults, based on a New Drug Application submitted by the Company's license partner Astellas Pharma Inc. ("Astellas"), who has launched the product in the U.S. Isavuconazol is commercialized under the trade name CRESEMBA®. In 2015, the Company received a CHF 30.0 million milestone payment from Astellas related to the regulatory approval for isavuconazole in the U.S.

In 2015, the Company recognized operating income of CHF 52.8 million (2014: CHF 42.6 million). Operating income in 2015 and 2014 included CHF 37.6 million (2014: CHF 36.9 million) contract revenue related to the agreement with Stiefel, a GSK company for Toctino® and contract revenue related to the license agreement with Astellas for isavuconazole of CHF 13.6 million (2014: CHF 5.2 million). Moreover, operating income included other revenue in the amount of CHF 1.2 million (2014: CHF 0.1 million) and revenue from R&D services in the amount of CHF 0.5 million (2014: CHF 0.4 million).

In 2015, the Company invested CHF 60.1 million (2014: CHF 54.4 million) in research and development activities related to its oncology drug candidate BAL101553, the antifungal isavuconazole, its antibiotics ceftobiprole and BAL30072 and further compounds in the Company's research portfolio.

Selling, general and administrative expenses including costs for the commercialization of CRESEMBA® and Zevtera®/Mabelio® amounted to CHF 54.2 million in 2015 (2014: CHF 30.1 million).

The cash and cash equivalents and short-term investments amounted to CHF 364.7 million as of December 31, 2015, compared to CHF 226.1 million at year-end 2014.

RESULTS OF OPERATIONS

The following table outlines the Company's consolidated results of operations for the fiscal years 2015 and 2014:

In CHF million	**2015**	2014
Contract revenue	51.2	42.1
Revenue from R&D services	0.5	0.4
Other income	1.2	0.1
Total operating income	**52.8**	**42.6**
Research & development expenses, net	(60.1)	(54.4)
Selling, general & administrative expenses	(54.2)	(30.1)
Total operating expenses	**(114.3)**	**(84.5)**
Operating loss	**(61.5)**	**(41.8)**
Interest income	0.2	0.4
Interest expense	(0.2)	–
Other financial income	1.9	0.4
Other financial expenses	(1.9)	(0.5)
Income taxes	(0.1)	(0.0)
Net loss	**(61.6)**	**(41.5)**

Note: Consistent rounding was applied.

Revenues and other income

Operating income included contract revenue in the amount of CHF 51.2 million (2014: CHF 42.1 million), which mainly results from the recognition of contract revenue from Stiefel of CHF 37.6 million (2014: CHF 36.9 million) related to the upfront payment of CHF 224.1 million in 2012 and the recognition of contract revenue from Astellas of CHF 10.8 million (2014: CHF 3.9 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 2015, which were recorded as deferred revenue. In 2015, the Company recognized additional contract revenue in the total amount of CHF 2.8 million (2014: CHF 1.3 million) related to services provided by the Company to Astellas for isavuconazole and revenues related to royalties.

Moreover, the Company recognized revenue from R&D services in the amount of CHF 0.5 million (2014: CHF 0.4 million).

Research and development expenses, net

Research and development expenses amounted to CHF 60.1 million (2014: CHF 54.4 million), representing 53% of the total operating expenses (2014: 64%).

Research and development expenses in 2015 were mainly related to activities for the phase 1/2a development of oncology drug candidate BAL101553, costs for the initiation of a pediatric program for ceftobiprole, activities related to the isavuconazole program including regulatory filing and pre-launch inventory expenses, and the phase 1 development of antibiotic BAL30072.

The Company recognized CHF 4.0 million in 2015 (2014: CHF 9.5 million) related to the Biomedical Advanced Research and Development Authority ("BARDA") contract from June 24, 2013 under which BARDA provided funding in the form of reimbursement of agreed development costs for BAL30072.

The 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 2015 also included stock-based compensation expenses of CHF 4.7 million (2014: CHF 3.1 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 for clinical studies or 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 54.2 million (2014: CHF 30.1 million). Selling, general and administrative expenses in 2015 included costs related to the commercialization of isavuconazole and ceftobiprole and stock-based compensation of CHF 4.6 million (2014: CHF 2.8 million).

The increase of CHF 24.1 million as compared to 2014 is mainly due to commercial activities to prepare and support the launch of isavuconazole and the commercialization of ceftobiprole.

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

As of December 31, 2015, the Company had subsidiaries in Germany, Italy, Spain and the United Kingdom in connection with its commercialization activities.

Net financial income/expenses

Net financial expenses amounted to CHF 0.0 million (2014: Net financial income of CHF 0.3 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, 2015 and December 31, 2014. The Company incurred income taxes of CHF 0.1 million (2014: CHF 0.0 million) 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 with 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 from Astellas. In December 2015, the Company received CHF 194.7 million net of issuance costs from the issuance of convertible bonds.

In addition, the Company further realized proceeds from the issuance of shares in connection with exercises of stock options.

The cash used by the Company in 2015 was primarily related to its operating activities, in particular the commercial activities as well as research and development programs.

The cash and cash equivalents and short-term investments, available as of December 31, 2015, amounted to CHF 364.7 million (December 31, 2014: CHF 226.1 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, 2015, CHF 51.6 million (December 31, 2014: CHF 70.0 million) were mainly invested in short-term bank deposits denominated in Swiss Francs.

The Company has not entered and has not planned to enter into any commitments for any material investments other than for investments in the normal course of the business. The financial needs of Basilea's wholly-owned and fully consolidated subsidiaries are exclusively covered by the Company. None of the subsidiaries had any significant third-party debt outstanding as of December 31, 2015 and December 31, 2014.

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 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 committee. The co-development services, the grant of the license and the participation in the joint steering 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 joint steering 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 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 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 (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. 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 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 9.3 million in 2015 (2014: CHF 5.9 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 and payments that the Company made or received related to the contract with BARDA for the development of Basilea's antibiotic BAL30072 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 sales does not and will not include manufacturing costs for material, which was produced prior to obtaining regulatory approval, when the respective commercial material is sold.

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. The Company recognized interest expense of CHF 0.1 million for contractual coupon interest and CHF 0.0 million for accretion of the issuance costs. The remaining unamortized debt issuances costs of CHF 5.3 million will be accreted over the remaining term of the Convertible Senior Unsecured Bonds, which is approximately 7 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 141.9 million as of December 31, 2015 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 Swiss Francs. Besides the expenses, which are denominated in Swiss Francs, the Company also incurs expenses in foreign currencies, especially in Euro, U.S. Dollars, British Pounds, Canadian Dollars, Danish Kronen, 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 Francs 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.

RECENT DEVELOPMENTS

There have been no material adverse changes in the business or financial situation of the Company since December 31, 2015.

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

Report of the Statutory Auditor on the consolidated financial statements to the general meeting of Basilea Pharmaceutica Ltd., Basel, Switzerland

As Statutory Auditor, we have audited the consolidated financial statements of Basilea Pharmaceutica Ltd. and subsidiaries (the consolidated balance sheet and the related consolidated statement of operations, cash flows and changes in shareholders' equity and accompanying notes) for the year ended December 31, 2015, included on pages 62 to 91.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation 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 and fair presentation 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 and fair presentation 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 the 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, 2015 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 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
Global relationship partner

Basel, February 25, 2016

CONSOLIDATED FINANCIAL STATEMENTS

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Consolidated balance sheets as of December 31, 2015 and 2014 (in CHF thousands)

	Footnote reference	2015	2014
ASSETS			
Current assets			
Cash and cash equivalents	7	313 064	156 125
Short-term investments	6	51 624	70 000
Accounts receivable	5	1 545	1 171
Other receivables		3 010	7 041
Inventories	8	9 579	4 904
Other current assets		6 043	5 330
Total current assets		**384 865**	**244 571**
Non-current assets			
Tangible assets, net	2	10 724	12 158
Intangible assets, net	3	346	224
Other non-current assets		2 800	425
Total non-current assets		**13 870**	**12 807**
TOTAL ASSETS		**398 735**	**257 378**
LIABILITIES			
Current liabilities			
Accounts payable		1 094	2 113
Deferred revenue	9	49 546	43 405
Accruals and other current liabilities	11	18 196	16 173
Total current liabilities		**68 836**	**61 691**
Non-current liabilities			
Financial liabilities	10	194 706	–
Deferred revenue, less current portion	9	107 696	128 564
Other non-current liabilities	16	12 641	9 192
Total non-current liabilities		**315 043**	**137 756**
Total liabilities		**383 879**	**199 447**
Commitments and contingencies	20		
SHAREHOLDERS' EQUITY			
Share capital [1]	14	10 801	10 575
Additional paid-in capital		902 085	879 925
Accumulated other comprehensive income/loss	14	(17 868)	(14 010)
Accumulated deficit:			
Loss carried forward		(818 559)	(777 013)
Net loss for the year		(61 603)	(41 546)
Total shareholders' equity		**14 856**	**57 931**
TOTAL LIABILITIES AND EQUITY		**398 735**	**257 378**

[1] As of December 31, 2015, 10,800,623 registered shares were issued and outstanding with a par value of CHF 1.00 per share.
As of December 31, 2014, 10,575,288 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, 2015 and 2014 (in CHF thousands)

	Footnote reference	2015	2014
Contract revenue	4, 9	51 199	42 081
Revenue from research & development services	4	455	418
Other revenue	4	1 171	135
Total revenue		**52 825**	**42 634**
Research & development expenses, net		(60 075)	(54 377)
Selling, general & administration expenses		(54 235)	(30 087)
Total operating expenses		**(114 310)**	**(84 464)**
Operating loss		**(61 485)**	**(41 830)**
Interest income		160	364
Interest expense	10	(154)	–
Other financial income		1 866	397
Other financial expenses		(1 907)	(451)
Loss before taxes		**(61 520)**	**(41 520)**
Income taxes	12	(83)	(26)
Net loss		**(61 603)**	**(41 546)**

Earnings/Loss per share	15	**2015**	2014
Basic loss per share, in CHF		(6.09)	(4.17)
Diluted loss per share, in CHF		(6.09)	(4.17)

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Consolidated statements of comprehensive income/loss for the years ended December 31, 2015 and 2014 (in CHF thousands)

	Footnote reference	2015	2014
Net loss		**(61 603)**	**(41 546)**
Currency translation adjustments		(566)	428
Unrecognized pension costs		(4 133)	(3 140)
Amortization of unrecognized pension costs		841	535
Other comprehensive income/loss, net of tax	14	**(3 858)**	**(2 177)**
Comprehensive loss		**(65 461)**	**(43 723)**

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, 2015 and 2014 (in CHF thousands)

	Footnote reference	2015	2014
Cash flow from operating activities			
Net loss		(61 603)	(41 546)
Adjustments to reconcile net loss to net cash used for/provided by operating activities:			
Depreciation and amortization		2 527	2 591
Gain on disposal of assets, net		(9)	(6)
Stock-based compensation		9 289	5 921
Change in operating assets/liabilities:			
Accounts receivable		(383)	2 731
Other receivables		4 004	(3 605)
Inventories		(4 792)	(4 849)
Accounts payable		(1 016)	405
Deferred revenue		(14 727)	(28 794)
Accruals and other current liabilities		1 916	(3 682)
Other operating cash flow items		(2 986)	(627)
Net cash used for operating activities		**(67 780)**	**(71 461)**
Cash flow from investing activities			
Payments for financial investments	6	(81 600)	(90 000)
Maturities of financial investments	6	100 000	175 000
Proceeds from sale of assets		9	6
Investments in tangible assets	2	(1 009)	(1 247)
Investments in intangible assets	3	(303)	(65)
Net cash provided by investing activities		**17 097**	**83 694**
Cash flow from financing activities			
Issuance of convertible bond, net	10	194 687	–
Net proceeds from exercise of stock options	13	13 376	24 860
Net cash provided by financing activities		**208 063**	**24 860**
Effect of exchange rate changes on cash and cash equivalents		**(441)**	**134**
Net change in cash and cash equivalents		**156 939**	**37 227**
Cash and cash equivalents, beginning of period		**156 125**	**118 898**
Cash and cash equivalents, end of period	7	**313 064**	**156 125**
Supplemental information			
Cash paid for interest		–	–
Cash paid for income taxes		35	61

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

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Consolidated statements of changes in shareholders' equity
for the years ended December 31, 2015 and 2014 (in CHF thousands, except for number of shares)

	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income/loss	Accumlated deficit	Total
Balance at December 31, 2013	**10 200 233**	**10 200**	**849 519**	**(11 832)**	**(777 013)**	**70 874**
Net loss	–	–	–	–	(41 546)	(41 546)
Other comprehensive income	–	–	–	(2 178)	–	(2 178)
Exercise of stock options, net	375 055	375	24 485	–	–	24 860
Stock-based compensation, net	–	–	5 921	–	–	5 921
Balance at December 31, 2014	**10 575 288**	**10 575**	**879 925**	**(14 010)**	**(818 559)**	**57 931**
Net loss	–	–	–	–	(61 603)	(61 603)
Other comprehensive income	–	–	–	(3 858)	–	(3 858)
Exercise of stock options, net	225 335	226	12 871	–	–	13 097
Stock-based compensation, net	–	–	9 289	–	–	9 289
Balance at December 31, 2015	**10 800 623**	**10 801**	**902 085**	**(17 868)**	**(880 162)**	**14 856**

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 (collectively, "the Company"), is an integrated biopharmaceutical company focusing on the discovery, development and commercialization of innovative pharmaceutical products in the therapeutic areas of bacterial infections, fungal infections and oncology. 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 further subsidiaries in Denmark, France and Spain. All subsidiaries are wholly-owned and fully consolidated.

The Company's product portfolio focuses on anti-infectives and oncology drugs. The antifungal product isavuconazole was approved in March 2015 in the United States for the treatment of invasive aspergillosis and invasive mucormycosis in adults, where it is marketed by its partner Astellas Pharma, Inc. ("Astellas"). In October 2015, the Company received approval in the European Union for isavuconazole for the treatment of invasive aspergillosis in adults and the treatment of mucormycosis in adults for whom amphotericin B is inappropriate. In 2013, the Company obtained regulatory approval in certain European countries for its antibiotic ceftobiprole for the treatment of community-acquired pneumonia and hospital-acquired pneumonia, excluding ventilator-associated pneumonia, in adults. In addition, the Company's pipeline includes the preclinical sulfactam antibiotic BAL30072 and the Phase 1/2a anti-cancer compounds BAL101553 and BAL3833.

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). As per December 31, 2015 and for the fiscal year then ended, the primary statements are disclosed in CHF thousands. The comparative prior year figures are disclosed accordingly.

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 techniques such as the market approach, the income approach and the cost approach. A three-level valuation hierarchy, which prioritizes the inputs to valuation techniques 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 reporting entity. The three-level hierarchy for the inputs to valuation techniques 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 reporting entity's estimate of assumptions that market participants would use in pricing the asset or liability.

The book values of the short-term financial assets and liabilities, including cash and cash equivalents, short-term investments, accounts receivable, other receivables, other current assets, accounts payable and accruals and other current liabilities approximate the fair values due to the short-term nature of these positions.

The estimated fair value the Company's Convertible Senior Unsecured Bonds (including current portion) at December 31, 2015, was CHF 202.6 million compared with a carrying value of CHF 194.7 million. Fair value was estimated using recent observable market prices and would be considered Level 1 in the fair value hierarchy.

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.

Short-term investments

Short-term investments include time deposits with banks with original maturities of more than 3 months and remaining maturities of up to 12 months. These investments are carried at nominal value which approximates fair value classified based on the input as level two of the fair value hierarchy according to ASC 820. Level two uses observable inputs other than quoted prices in level one that are not observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, yield curves and similar data. 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 consist of revenue earned but not invoiced yet.

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 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 or evidence being available that regulatory approval can reasonably be expected are capitalized. Inventories are valued at the lower of cost or market. Cost is determined based on the first-in first-out principle. If inventory costs exceed market 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 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 acquired 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 fair value.

Non-current financial liabilities

The Convertible Senior Unsecured Bonds are initially measured as a liability based on the proceeds received and are presented net of issuance costs incurred. The issuance costs are amortised 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.

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 sales 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, 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 sales.

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 royalties received from licensees is recognized when earned, meaning when the royalties can be reasonably estimated based on the 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 codified in the Collaborative Arrangements Topic of FASB ASC ("ASC 808"), the Company presents the result of activities for which it acts as the principal on a gross basis and reports any payments received from (made to) other collaborators based on other applicable GAAP. The Company's accounting policy for its qualifying collaborative agreements (See Note 9. Agreements) is to evaluate amounts due from (owed to) other collaborators based on the nature of each separate activity.

Revenue from research & development services
Revenue for 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.

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 trials and research projects, costs for producing substance to be used in such trials 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 contract revenue respectively, for its mark-up earned since the Company is acting as an agent in the arrangement.

Payments the Company made or received related to its contract with the Biomedical Advanced Research and Development Authority, a division within the U.S. Department of Health and Human Services ("BARDA") for development of Basilea's antibiotic BAL30072 were recorded in research and development expenses, net since the Company was 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 0.3 million in 2015. In 2014, CHF 0.1 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 includes 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
Please refer to note 16 related to the accounting policies in connection with pension plans.

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 principle is achieved by applying 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.
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 is currently assessing the impact on the financial statements of this new accounting pronouncement.

In August 2014, FASB issued the ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" (Subtopic 205-40): under the new standard all entities will be required to perform a going concern assessment at each financial reporting period and make certain disclosures when management concludes that there is substantial doubt about an entity's ability to continue as a going concern. In this assessment, management would evaluate conditions and events known and reasonably knowable as of the financial statement issuance date to determine if it is probable that the entity will be unable to meet its obligations within one year from the date the financial statements are issued. Management's assessment would consider the mitigating

effect of its plans to the extent that it is probable that those plans will be effectively implemented and alleviate the adverse conditions within the assessment period. If substantial doubt is alleviated primarily by management's plans, limited disclosures would still be required.
The new standard will be effective for annual periods beginning after December 15, 2016 and interim periods thereafter. Early adoption is permitted. The Company currently does not anticipate a significant impact on the existing disclosures.

In July 2015, the FASB issued the ASU No. 2015-11, "Inventory: Simplifying the Measurement of Inventory" (Topic 330): the amendments apply to the subsequent measurement all inventory, which includes inventory that is measured using the first-in first-out principle or average cost. An entity should subsequently measure inventory within the scope of this update at the lower of cost and net realizable value. The net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.
The amendments in this update are effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. The amendments in this update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company currently does not anticipate a significant impact on the existing accounting treatment for inventory.

In November 2015 the FASB issued ASU No. 2015-17, "Income Taxes" (Topic 740) Balance Sheet Classification of Deferred Taxes: the amendments require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments apply to all entities that present a classified statement of financial position, whereby the current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments.
The amendments in this update are effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. The amendments in this update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented with earlier application permitted as of the beginning of an interim or annual reporting period. The Company currently does not anticipate an impact on the disclosures of deferred taxes.

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

2 Tangible assets

In CHF million	Land/Land-use rights	Buildings	Equipment	**Total**
2015				
Cost				
January 1, 2015	1.5	18.9	25.8	**46.2**
Additions	0.0	0.2	0.8	**1.0**
Disposals	0.0	0.0	(0.9)	**(0.9)**
Currency effect	0.0	(0.1)	(0.3)	**(0.4)**
December 31, 2015	1.5	19.0	25.4	**45.9**
Accumulated depreciation				
January 1, 2015	0.0	11.5	22.5	**34.0**
Additions	0.0	1.0	1.4	**2.4**
Disposals	0.0	0.0	(0.9)	**(0.9)**
Currency effect	0.0	0.0	(0.3)	**(0.3)**
December 31, 2015	0.0	12.5	22.7	**35.2**
Net book value as of December 31, 2015	**1.5**	**6.5**	**2.7**	**10.7**
2014				
Cost				
January 1, 2014	1.4	18.6	25.5	**45.5**
Additions	0.0	0.1	1.1	**1.2**
Disposals	0.0	0.0	(1.3)	**(1.3)**
Currency effect	0.1	0.2	0.5	**0.8**
December 31, 2014	1.5	18.9	25.8	**46.2**
Accumulated depreciation				
January 1, 2014	0.0	10.4	22.1	**32.5**
Additions	0.0	1.0	1.3	**2.3**
Disposals	0.0	0.0	(1.3)	**(1.3)**
Currency effect	0.0	0.1	0.4	**0.5**
December 31, 2014	0.0	11.5	22.5	**34.0**
Net book value as of December 31, 2014	**1.5**	**7.4**	**3.3**	**12.2**

3 Intangible assets

The intangible assets as of December 31, 2015 and 2014 consist of acquired software for internal use:

In CHF million	2015	2014
Cost		
January 1	4.5	4.5
Additions	0.3	0.1
Disposals	(0.0)	(0.1)
Currency effect	0.0	0.0
December 31	4.8	4.5
Accumulated amortization		
January 1	4.3	4.1
Additions	0.2	0.3
Disposals	(0.0)	(0.1)
Currency effect	0.0	0.0
December 31	4.5	4.3
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	
2016	0.1
2017	0.1
2018	0.1
2019	0.0
2020	0.0
Thereafter	0.0
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 CEO 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	2015	2014
Switzerland	9.0	10.3
China	1.7	1.9
Total	**10.7**	**12.2**

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

In CHF million	**2015**
UK	37.6
Japan	13.6
Other	0.5
Total	**51.7**

In CHF million	2014
UK	36.9
Japan	5.2
Other	0.4
Total	**42.5**

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

In 2015, the Company recognized total contract revenue in the amount of CHF 37.6 million (2014: CHF 36.9 million) with Stiefel, a GSK company ("Stiefel"), and CHF 13.6 million (2014: CHF 5.2 million) with Astellas. In addition, in 2015 the Company recognized total product revenue in the amount of CHF 0.5 million (2014: CHF 0.0 million) included in other revenue.

5 Accounts receivable

The accounts receivable primarily consist of receivables related to activities for isavuconazole for Astellas. The Company did not record an allowance for estimated uncollectible receivables as of December 31, 2015 and 2014.

6 Short-term investments

The short-term investments as of December 31, 2015 contain short-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 50.0 million and denominated in Euro, in the amount of EUR 1.5 million (December 31, 2014: CHF 70.0 million).

7 Cash and cash equivalents

Cash and cash equivalents consisted of the following components:

In CHF million	**2015**	2014
Cash	27.4	26.9
Short-term time deposits	285.7	129.2
Total	**313.1**	**156.1**

8 Inventories

The following table shows the components of inventories as of December 31, 2015 and 2014:

In CHF million	2015	2014
Raw materials	1.9	5.0
Semi-finished products	19.8	11.7
Finished products	0.8	0.0
Inventory provisions	(12.9)	(11.8)
Total	**9.6**	**4.9**

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.

9 Agreements

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 United States and Canada in return for foregoing the Company's right to co-promote the product in the United States 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 United States. The Company and Astellas will continue to coordinate their development and manufacturing activities and each company will be responsible for commercial activities in its respective territory.

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

As such the agreement consists in a multiple-element arrangement with several deliverables identified, mainly the grant of an exclusive license, compensation for co-payment of development services, participation in the joint steering committee and development-related manufacturing services. The arrangement provides for 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 trials. The Company is primarily responsible to manage the manufacturing process development, as well as, the manufacturing and procurement of clinical supplies related the co-development services, and with respect to the joint steering committee, the Company is required to participate in those joint steering 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 joint steering committee. The co-development services, the grant of the license and the participation in the joint steering 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 joint steering 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 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.

In 2010, the Company received from Astellas 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). 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 joint steering committee. As of December 31, 2015, the Company presented deferred revenue of CHF 21.9 million on its balance sheet, of which CHF 4.5 million is presented as current liabilities. In 2015, the Company recognized CHF 4.5 million (2014: CHF 3.2 million) as contract revenue related to this upfront payment related to the grant of license.

In September 2014, the U.S. Food and Drug Administration ("FDA") accepted the filing of Astellas' New Drug Application 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, 2015, the Company presented deferred revenue of CHF 9.4 million on its balance sheet, of which CHF 2.0 million is presented as current liabilities. In 2015, the Company recognized CHF 2.0 million (2014: CHF 0.6 million) as contract revenue related to this additional milestone payment received upon acceptance of filing.

In March 2015, the FDA approved Astellas' New Drug Application 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, 2015, the Company presented deferred revenue of CHF 25.6 million on its balance sheet, of which CHF 5.3 million is presented as current liabilities. In 2015, the Company recognized CHF 4.3 million as contract revenue related to this additional milestone payment received upon approval.

In 2015, the Company recognized CHF 13.0 million (2014: CHF 3.9 million) as contract revenue related to these payments and revenues related to royalties, and recognized additional contract revenue in the total amount of CHF 0.6 million (2014: CHF 1.3 million) related to services provided by the Company to Astellas related to isavuconazole.

In 2015, the Company reported CHF 5.2 million (2014: CHF 3.1 million) research and development expenses for isavuconazole net of cost reimbursements from Astellas of CHF 3.2 million (2014: CHF 6.2 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.

Contract with BARDA for the development of the antibiotic BAL30072

The Company entered into a contract with BARDA for the development of Basilea's antibiotic BAL30072 on June 24, 2013. Under this contract, BARDA provided funding of up to USD 17 million over the initial agreement period of twenty-two months starting from June 24, 2013 through April 23, 2015, and extended to September 30, 2015, in the form of reimbursement of agreed development costs. The Company and BARDA have no future funding obligations following the expiration of the agreement which occurred at the end of the extended period. Considering the agent versus principal criteria of ASC 605, the fact that the arrangement is not part of the Company's ongoing, major or central operations and the fact that BARDA was actively involved in the development, the Company determined that it was acting as an agent in the arrangement and as such recorded reimbursements received against the related development costs incurred.

In 2015, the Company recognized reimbursement of CHF 4.0 million (2014: CHF 9.5 million) in research and development expenses, net.

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 and is eligible to receive an additional payment of at least GBP 30 million, which could increase depending on the date of the FDA approval of the product in the United States, and low double-digit percentage participation in U.S. net sales, beginning on the date of the first commercial sale of the product in the United States. Existing Toctino® distribution agreements were assigned to 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, commercial supply chain, and manufacturing process and requirements related to the API and drug product. As of December 31, 2015, the Company presented deferred revenue of CHF 99.2 million on its balance sheet, of which CHF 37.7 million is presented as current liabilities. In 2015, the Company recognized CHF 37.6 million (2014: CHF 36.9 million) as contract revenue related to this upfront payment.

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 research conducted at The Institute of Cancer Research by scientists funded in part by Cancer Research UK Manchester Institute 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 receives an upfront payment and is eligible to potential milestone payments on achievement of pre-specified clinical, regulatory and commercial milestones, as well as tiered royalties on future net sales.

10 Financial liabilities

Convertible Senior Unsecured Bonds

On December 23, 2015, the Company issued CHF 200 million aggregate principal amount of Convertible Unsecured Senior 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 Bonds is accounted for at amortized costs. The following table shows the carrying amount the Convertible Senior Unsecured Bonds:

In CHF million	**2015**
Convertible Senior Unsecured Bonds	194.7

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 beginning on June 23, 2016) 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 starting on

February 2, 2016 (41 days after the payment date) into shares up to and including the earlier of 7 trading days before the Maturity Date, or 10 trading days prior to an early redemption. Upon 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 twenty out of thirty 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 are deducted from the proceeds of the Convertible Senior Unsecured Bonds by early adopting ASU No. 2015-3. The Company will accrete the issuance costs as interest expense over the contractual term of the Convertible Senior Unsecured Bonds.

For the year ended December 31, 2015, the Company recognized interest expense of CHF 0.1 million for contractual coupon interest and CHF 0.0 million for accretion of the issuance costs. The remaining unamortized debt issuances costs of CHF 5.3 million will be accreted over the remaining term of the Convertible Senior Unsecured Bonds, which is approximately 7 years.

The amortisation table related to the Convertible Senior Unsecured Bonds as of December 31, 2015 is as follows:

Amount in CHF million	
2016	6.3
2017	6.3
2018	6.3
2019	6.3
2020	6.3
Thereafter	212.2
Total minimum payments, including unamortized issuance costs	**243.7**
Less amount representing interest	43.7
Convertible Senior Unsecured Bonds, gross	200.0
Unamortized issuance costs on Convertible Senior Unsecured Bonds	(5.3)
Convertible Senior Unsecured Bonds, including unamortized issuance costs	**194.7**

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 15 to these consolidated financial statements for a computation of diluted net loss per share.

11 Accruals and other current liabilities

Accruals and other current liabilities as of December 31, 2015 and 2014 consisted of the following:

In CHF million	**2015**	2014
Accrued research & development expenses	4.1	5.1
Accrued personnel and compensation costs	8.0	7.7
Accrued sales and marketing expenses	3.1	1.6
Other	3.0	1.8
Total accruals and other current liabilities	**18.2**	**16.2**

12 Income taxes

The Company has tax loss carry forwards of CHF 491.7 million as of December 31, 2015 (December 31, 2014: CHF 515.4 million) of which CHF 250.1 million will expire within the next five years, CHF 241.3 million will expire between six and eight years. CHF 0.3 million of the tax losses carry forwards do not expire. In 2015, tax loss carry forwards of CHF 101.7 million expired.

The significant components of net deferred taxes as of December 31, 2015 and 2014 are shown in the following table:

In CHF million	**2015**	2014
Deferred tax assets:		
Net benefit from tax loss carryforwards[1]	97.4	100.5
Deferred revenue	31.4	34.4
Stock-based compensation cost	12.6	12.1
Other, net	0.5	0.5
Valuation allowance	(141.9)	(147.5)
Net deferred taxes	**0.0**	**0.0**

[1] As of December 31, 2015 the position includes CHF 1.9 million (2014: CHF 0.6 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 2015 and 2014 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 was 0.1% for the years 2015 and 2014. The following table shows the income taxes in 2015 and 2014:

In CHF million	**2015**	2014
Current tax expenses	(0.1)	0.0
Total income tax expenses	**(0.1)**	**0.0**

The current tax expenses in 2015 and 2014 are solely related to foreign taxable income.

The expected tax rate for 2015 was 19.9% (2014: 20.4%). The following table shows the reconciliation between expected and effective tax rate:

In percent	**2015**	2014
Expected tax rate	19.9	20.4
Effect of not-taxable differences [1]	2.1	1.6
Valuation allowance on deferred tax assets	(21.9)	(21.9)
Effective tax rate	0.1	0.1

[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 2014.

As of December 31, 2015 and 2014, there were no unrecognized tax benefits. The Company did not incur any significant interest or penalties in connection with income taxes in the years 2015 and 2014.

13 Stock-based compensation

Stock options

The Company established a stock option plan effective on December 13, 2000 to incentivize directors, 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 2.0 million remain available as of December 31, 2015. CHF 1.2 million of this remaining available conditional capital are reserved for stock options which are issued and outstanding as of December 31, 2015.

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, 2015, 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, 2013	**66.63**	**1 497 711**
Options granted	90.75	183 114
Options forfeited	60.12	(12 175)
Options exercised	66.95	(375 055)
Options expired	73.30	(550)
Balance at December 31, 2014	**70.02**	**1 293 045**
Options granted	113.10	195 566
Options forfeited	93.10	(8 100)
Options exercised	60.03	(225 335)
Options expired	134.20	(6 225)
Balance at December 31, 2015	**78.09**	**1 248 951**

The following table provides information on the stock options outstanding and the stock options exercisable as of December 31, 2015:

	Options exercisable plus options expected to vest[1]	Options exercisable
Number of options	1 240 429	775 395
Weighted average exercise price, in CHF	77.93	66.35
Weighted average remaining contractual life, in years	6.5	5.2

[1] Number of options considers expected forfeitures.

Based on (a) the stock options exercisable as of December 31, 2015, including stock options expected to vest in the future and (b) the stock options exercisable as of December 31, 2015, the aggregate intrinsic values of such number of options were CHF 28.8 million and CHF 25.1 million, respectively. The exercise prices of the options granted in 2015 and 2014 equalled the market price of the shares at the respective grant date.

The weighted average grant-date fair value of options granted in 2015 was CHF 46.23 (2014: CHF 38.67). The total aggregate intrinsic value of stock options exercised during 2015 was CHF 13.2 million (2014: CHF 15.1 million).

The fair value of the stock options granted in 2015 and 2014 was determined at the grant date using a binomial model. The weighted average assumptions used for these determinations are outlined in the table below:

	2015	2014
Risk-free interest rate	0.17%	0.69%
Expected term of stock options	7 years	7 years
Expected volatility	45%	45%
Expected dividend	–	–

The expected volatility was determined based on the 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, 2015 related to stock options amounts to CHF 10.7 million and is expected to be recognized over a weighted average period of 2.5 years.

The Company recorded total stock-based compensation expenses of CHF 9.3 million in 2015 related to its stock-based compensation award programs (2014: CHF 5.9 million), of which CHF 4.7 million was recorded in research & development expenses (2014: CHF 3.1 million) and CHF 4.6 million as part of selling, general & administration expenses (2014: CHF 2.8 million) in the statement of operations.

14 Shareholders' equity

As of December 31, 2015, Basilea had 10,800,623 registered shares (*Namenaktien*) issued and outstanding with a par value of CHF 1.00 per share. As of December 31, 2014, Basilea had 10,575,288 registered shares with a par value of CHF 1.00 per share issued and outstanding respectively.

In 2015, a total of 225,335 stock options were exercised, using conditional capital, which resulted in the issuance of 225,335 registered shares with a par value of CHF 1.00 per share. In 2014, a total of 375,055 stock options were exercised resulting in the issuance of 375,055 registered shares with a par value of CHF 1.00 per share.

Basilea had a total approved conditional capital of CHF 2,599,518 as of December 31, 2015 for the issuance of a maximum of 2,599,518 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,959,518 (1,959,518 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 exercise of option or conversion rights granted with new option or convertible bonds.

By shareholder approval at the 2014 ordinary general meeting of shareholders, Basilea is 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 is valid for two years.

Change in accumulated other comprehensive income/loss as of December 31, 2015 and 2014:

In CHF million	Currency translation adjustment	Unrecognized pension cost	**Total**
December 31, 2013	**(0.6)**	**(11.2)**	**(11.8)**
Change during the period	0.4	(2.6)	**(2.2)**
Total change during the period	**0.4**	**(2.6)**	**(2.2)**
December 31, 2014	**(0.2)**	**(13.8)**	**(14.0)**
Change during the period	(0.6)	(3.3)	**(3.9)**
Total change during the period	**(0.6)**	**(3.3)**	**(3.9)**
December 31, 2015	**(0.8)**	**(17.1)**	**(17.9)**

15 Earnings/Loss per share

The calculation of the basic and diluted loss per share in 2015 and 2014 is shown in the table below:

	2015		2014	
	Basic	Diluted	Basic	Diluted
Numerator				
Net loss, in CHF million	(61.6)	(61.6)	(41.5)	(41.5)
Net loss for loss per share calculation, in CHF million	(61.6)	(61.6)	(41.5)	(41.5)
Denominator				
Weighted average shares outstanding, including actual conversion of stock options	10 112 187	10 112 187	9 953 896	9 953 896
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	10 112 187	10 112 187	9 953 896	9 953 896
Loss per share in CHF	**(6.09)**	**(6.09)**	**(4.17)**	**(4.17)**

As of December 31, 2015, there were 201,998 stock options outstanding with a weighted-average exercise price of CHF 117.47 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 2015, as the effect of such stock options and shares would have been anti-dilutive.

As of December 31, 2014, there were 210,757 stock options outstanding with a weighted-average exercise price of CHF 110.96, which were not included in the calculation of loss per share for 2014, as the effect of such stock options would have been anti-dilutive.

16 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 2015 and 2014:

In CHF million	**2015**	2014
Service cost	3.4	3.4
Interest cost	1.0	1.3
Expected return on plan assets	(1.5)	(1.4)
Amortization of pension related net loss	0.8	0.5
Amortization of prior service cost	0.0	0.0
Gross benefit expense	3.7	3.8
Participant contributions	(1.1)	(1.2)
Net periodic pension cost	2.6	2.6

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	**2015**	2014
Projected benefit obligation, beginning of period	**58.7**	**51.7**
Service cost	3.4	3.4
Interest cost	1.0	1.3
Transfers-in and (-out), net	(1.5)	0.6
Plan amendment	(0.5)	–
Actuarial (gain)/loss	5.2	1.7
Projected benefit obligation, end of period	**66.3**	**58.7**
Plan assets, beginning of period	**49.5**	**45.1**
Actual return on plan assets	2.1	0.1
Employer contributions	2.5	2.5
Participant contributions	1.1	1.2
Transfers-in and (-out), net	(1.5)	0.6
Plan assets, end of period	**53.7**	**49.5**
Accrued pension liability	**(12.6)**	**(9.2)**

As of December 31, 2015, the Company recorded an accrued pension liability of CHF 12.6 million in other non-current liabilities (December 31, 2014: CHF 9.2 million).

The pension assets are measured at fair value and are invested in a single insurance pension plan which is fully insured. Plan assets mainly consist of 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 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. As of December 31, 2015, the accumulated other comprehensive income/loss includes unrecognized pension cost of CHF 17.1 million, consisting of a net loss of CHF 17.2 million and a prior service cost of CHF (0.1) million, that have not yet been recognized

as a component of net periodic pension cost. As of December 31, 2014, the accumulated other comprehensive income/loss included unrecognized pension cost of CHF 13.8 million, consisting of a net loss of CHF 13.4 million and a prior service cost of CHF 0.4 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 2016 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	**2015**	2014
Net loss, beginning of period	(13.4)	(10.8)
Other gain/loss during the period	(4.6)	(3.1)
Amortization of pension related net loss	0.8	0.5
Net loss, end of period	(17.2)	(13.4)
Prior service cost, beginning of period	(0.4)	(0.4)
Amortization of prior service cost	0.0	0.0
Plan amendment	0.5	–
Prior service cost end of period	0.1	(0.4)
Total unrecognized pension cost, end of period	(17.1)	(13.8)

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

	2015	2014
Discount rate	1.25%	1.75%
Rate of increase in compensation level	1.0%	1.0%
Expected long-term rate of return on plan assets	2.5%	3.0%

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, 2015 and 2014 amounts to CHF 63.2 million and CHF 56.2 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 2016 is CHF 2.6 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	
2016	4.1
2017	3.8
2018	3.7
2019	3.9
2020	3.6
2021 – 2025	19.2

In addition to the defined benefit plan described above, the Company recognized no expenses related to defined contribution plans in 2015 and 2014.

17 Lease commitments

The Company entered into operating lease contracts for office space. The leases expire in 2018. The aggregate minimum operating lease payments are expensed on a straight-line basis over the term of the related lease. The total expenses under operating leases were CHF 0.4 million and CHF 0.5 million for the years ending December 31, 2015 and 2014, respectively.

The future minimum payments as of December 31, 2015 for operating leases with initial or remaining non-cancellable terms in excess of one year are as follows:

Amount in CHF million	
2016	0.3
2017	0.2
2018	0.0
2019	0.0
2020	0.0
Thereafter	0.0
Total	**0.5**

18 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, 2015, the Company's short-term investments were invested with two banks and amounted to CHF 51.6 million. As of December 31, 2014, the Company's short-term investments were invested with one bank and amounted to CHF 70.0 million.

The cash and cash equivalents as of December 31, 2015 amounted to CHF 313.1 million, of which CHF 307.8 million was held with four different banks. The cash and cash equivalents as of December 31, 2014 amounted to CHF 156.1 million, of which CHF 150.8 million was held with four different banks. As of December 31, 2015, the highest total amount of cash and cash equivalents and short-term investments held at one bank amounted to CHF 145.9 million (December 31, 2014: CHF 80.1 million).

The Company is also subject to credit risk related to accounts receivable. The highest total amount of accounts receivable with an individual counterparty as of December 31, 2015 is from Astellas in the amount of CHF 1.3 million in connection with the license agreement related to isavuconazole (December 31, 2014: CHF 1.0 million).

19 Related party transactions

The accounts receivable, accounts payable and accruals and other current liabilities do not include significant positions due to or from related parties as of December 31, 2015 and 2014.

In 2015 and 2014, the Company paid no fees to its board members for consulting services.

20 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.

By agreement in 2015, Losan Pharma GmbH, Neuenburg/Germany ("Losan") granted Basilea a royalty-bearing license to a formulation patent and related know-how; in return for a payment of CHF 3.1 million, Losan has withdrawn the claim it filed in 2012 in Basel-Stadt court (*Appellationsgericht Basel-Stadt*) against Basilea and Basilea Pharmaceutica International Ltd.; and Basilea has withdrawn its pending European Patent Office challenge to Losan's patent.

As of December 31, 2015, there are no significant contingencies.

21 Subsequent events

The Company has evaluated subsequent events through February 25, 2016, 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 on the financial statements to the general meeting of Basilea Pharmaceutica Ltd., Basel, Switzerland

As Statutory Auditor, we have audited the accompanying financial statements of Basilea Pharmaceutica Ltd., which comprise the balance sheet, statement of operations and notes for the year ended December 31, 2015, included on pages 94 to 100.

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 the 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, 2015 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

We further confirm that the proposed appropriation of loss carried forward complies with relevant 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

Raphael Rutishauser
Audit expert

Basel, February 25, 2016

FINANCIAL STATEMENTS OF BASILEA PHARMACEUTICA LTD.

BASILEA PHARMACEUTICA LTD.
Balance sheets as of December 31, 2015 and 2014 (in CHF thousands)

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	81 556	67 601
Short-term investments	20 000	20 000
Accounts receivable:		
Affiliates	309 647	102 161
Other receivables	166	207
Total current assets	**411 369**	**189 969**
Non-current assets		
Investment in subsidiaries, net	208 239	208 138
Total non-current assets	**208 239**	**208 138**
TOTAL ASSETS	**619 608**	**398 107**
LIABILITIES		
Current liabilities		
Payables, affiliates [1]	719	465
Other current liabilities	137	1
Accruals	515	252
Total current liabilities	**1 371**	**718**
Non-current liabilities		
Financial liabilities [1]	194 706	–
Total non-current liabilities	**194 706**	**–**
Total liabilities	**196 077**	**718**
SHAREHOLDERS' EQUITY		
Share capital [2]	10 801	10 575
General reserve:		
Reserve from capital contributions	414 138	387 953
Accumulated deficit	(1 138)	(1 945)
Net loss/income	(270)	807
Total shareholders' equity	**423 531**	**397 389**
TOTAL LIABILITIES AND EQUITY	**619 608**	**398 107**

[1] Interest bearing.
[2] As of December 31, 2015, 10,800,623 registered shares were issued and outstanding with a par value of CHF 1.00 per share.
As of December 31, 2014, 10,575,288 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, 2015 and 2014 (in CHF thousands)

	2015	2014
Administrative expenses	(715)	(670)
Total operating expenses	**(715)**	**(670)**
Operating loss	**(715)**	**(670)**
Financial income	664	1 491
Financial expenses	(219)	(15)
Loss/income before taxes	**(270)**	**807**
Income taxes	–	–
Net loss/income	**(270)**	**807**

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

BASILEA PHARMACEUTICA LTD.
Notes to the financial statements as of December 31, 2015

1 Summary of significant accounting policies

General information

The financial statements have been prepared in accordance with the Swiss Code of Obligations, including the amended provisions governing the commercial accounting (Art. 957 – 962 Swiss Code of Obligations) which came into effect on January 1, 2013 subject to a transitional period of two years. The corresponding comparative amounts for the preceding year have been adjusted in order to comply with the requirements of the amended commercial accounting provisions of 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 2015, 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 3 months.

Short-term investments

Short-term investments include time deposits with banks with original maturities of more than 3 months and remaining maturities of up to 12 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, 2015 and 2014.

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 bond

In December 2015, the Company issued an unsecured senior convertible bond in the amount of CHF 200 million due in December 23, 2022. The bond carries a coupon of 2.75% per annum and the conversion price is CHF 126.1020. The convertible was issued at 100% of the principal amount and will also mature at 100% of that amount in December 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 for 2015 include transaction cost and interest related to the convertible bond issued in 2015.

2 Investments

As of December 31, 2015, 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 Pharma SAS[2]	France, Boulogne-Billancourt	100%	EUR 500 000	Distribution
Basilea Pharmaceuticals A/S[2]	Denmark, København	100%	DKK 3 050 000	Distribution
Basilea Pharmaceutica Italia S.r.l.	Italy, Milano	100%	EUR 10 000	Distribution
Basilea Pharmaceutica España S.L.	Spain, Madrid	100%	EUR 3 000	Distribution
BPh Investitionen Ltd.	Switzerland, Baar	100%	CHF 131 950	Holding company

[1] In 2015 the Company subordinated accounts receivable from an affiliate in the amount of of CHF 100.0 million.
[2] Organizations are dormant entities.

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, 2015, the Company had 10,800,623 registered shares issued and outstanding with a par value of CHF 1.00 per share. As of December 31, 2014, the Company had 10,575,288 registered shares with a par value of CHF 1.00 per share issued and outstanding respectively.

In 2015, 225,335 stock options were exercised, using conditional capital, which resulted in the issuance of 225,335 registered shares with a par value of CHF 1.00 per share. In 2014, 375,055 stock options were exercised resulting in the issuance of 375,055 registered shares with a par value of CHF 1.00 per share.

The Company had a total approved conditional capital of CHF 2,599,518 as of December 31, 2015 for the issuance of a maximum of 2,599,518 registered shares with a par value of CHF 1 per share. This conditional capital contained CHF 1,959,518 (1,959,518 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 exercise of option or conversion rights granted with new option or convertible bonds.

By shareholder approval at the 2014 ordinary general meeting of shareholders, the Company is 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 is valid for two years.

4 Shareholdings and stock options

As of December 31, 2015, the shareholdings in the Company of members of the Board of Directors and the Management Committee are outlined below:

	Number of shares
Dr. Martin Nicklasson, Chairman	–
Mr. Domenico Scala, Vice-Chairman	–
Mr. Hans-Beat Gürtler, Director	–
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	–
Prof. Achim Kaufhold, Chief Medical Officer	–
Dr. Laurenz Kellenberger, Chief Scientific Officer	500
Prof. Daniel Lew, Director	2 322
Ms. Heidi McDaid, Head of Global Human Resources	–
Dr. Thomas M. Rinderknecht, 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, 2014, the shareholdings in the Company of members of the Board of Directors and of the Management Committee are outlined below:

	Number of shares
Dr. Martin Nicklasson, Chairman	–
Mr. Domenico Scala, Vice-Chairman	–
Mr. Hans-Beat Gürtler, Director	–
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	–
Prof. Achim Kaufhold, Chief Medical Officer	–
Dr. Laurenz Kellenberger, Chief Scientific Officer	500
Prof. Daniel Lew, Director	2 322
Ms. Heidi McDaid, Head of Global Human Resources	–
Dr. Thomas M. Rinderknecht, 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	–

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, 2015:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Dr. Martin Nicklasson, Chairman	1 201	1 200	2 401
Mr. Domenico Scala, Vice-Chairman	2 600	1 550	4 150
Mr. Hans-Beat Gürtler, Director	4 700	1 550	6 250
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	18 370	27 382	45 752
Prof. Achim Kaufhold, Chief Medical Officer	16 946	30 422	47 368
Dr. Laurenz Kellenberger, Chief Scientific Officer	35 437	27 209	62 646
Prof. Daniel Lew, Director	10 309	1 550	11 859
Ms. Heidi McDaid, Head of Global Human Resources	10 350	29 235	39 585
Dr. Thomas M. Rinderknecht, Director	2 600	1 550	4 150
Mr. Ronald Scott, Chief Executive Officer	38 437	50 772	89 209
Mr. Steven D. Skolsky, Director	10 570	1 550	12 120
Mr. Donato Spota, Chief Financial Officer	33 679	25 420	59 099
Mr. David Veitch, Chief Commercial Officer	2 744	19 208	21 952
Dr. Thomas Werner, Director	2 600	1 550	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, 2014:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Dr. Martin Nicklasson, Chairman	601	1 800	2 401
Mr. Domenico Scala, Vice-Chairman	1 563	2 587	4 150
Mr. Hans-Beat Gürtler, Director	3 250	3 000	6 250
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	42 077	27 013	69 090
Prof. Achim Kaufhold, Chief Medical Officer	12 705	30 104	42 809
Dr. Laurenz Kellenberger, Chief Scientific Officer	40 312	28 042	68 354
Prof. Daniel Lew, Director	8 859	3 000	11 859
Ms. Heidi McDaid, Head of Global Human Resources	8 429	27 904	36 333
Dr. Thomas M. Rinderknecht, Director	1 563	2 587	4 150
Mr. Ronald Scott, Chief Executive Officer	29 094	49 669	78 763
Mr. Steven D. Skolsky, Director	9 120	3 000	12 120
Mr. Donato Spota, Chief Financial Officer	26 833	20 383	47 216
Mr. David Veitch, Chief Commercial Officer	–	10 976	10 976
Dr. Thomas Werner, Director	1 563	2 587	4 150

5 Significant shareholders

The following table shows the ownership percentage of shareholders which held a significant percentage of shares of the Company as of December 31, 2015 and 2014 according to the share register of the Company:

	Ownership of outstanding shares	
	Dec 31, 2015	Dec 31, 2014
Chase Nominees Ltd.	8.4%	9.8%
RBC Dexia Investor Services Trust	5.5%	4.9%

The ownership percentages in the table above are based on 10,800,623 shares outstanding as of December 31, 2015 and 10,575,288 shares outstanding as of December 31, 2014.

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 outstanding 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.

On January 6, 2015, Franklin Resources, Inc. notified the Company that Franklin Templeton Investments Australia Limited, Franklin Templeton Investments Corp., Franklin Templeton Investment Management Limited, Templeton Global Advisors Limited and Templeton Investment Counsel, LLC held 9.24% of the shares of the Company as of January 5, 2015.

Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2015:

In CHF thousands	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(1 138)
Net loss of the year	(270)
Balance to be carried forward	**(1 408)**

Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2014:

In CHF thousands	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(1 945)
Net income of the year	807
Balance to be carried forward	**(1 138)**

At the ordinary general meeting of shareholders on April 29, 2015, the shareholders of the Company approved to carry forward the loss of CHF 1.1 million.

ANNUAL GENERAL MEETING
The annual general meeting of shareholders for the financial year 2015 will take place on April 21, 2016 in Basel, Switzerland.

The Basilea Pharmaceutica Ltd. Annual Report 2015 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
Burger Druck, Waldkirch

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 Public Relations & Corporate Communications

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

▸ www.basilea.com