

Ready, set...





...go!

BASILEA IN BRIEF

Company

Basilea Pharmaceutica Ltd. is a biopharmaceutical company headquartered in Basel, Switzerland, listed on the SIX Swiss Exchange (SIX:BSLN). Basilea's integrated research and development operations are currently focused on new antibacterial, antifungal and oncology agents to fight drug resistance and on the development of dermatology drugs. Basilea's products are targeted to satisfy high medical and patient needs in the hospital and specialty care setting. The company has set up commercial organizations in UK, Denmark, Germany and Canada, while it is building sales and marketing organizations in other countries to commercialize alitretinoin and to co-promote ceftobiprole, subject to approval. Basilea employs more than 300 people worldwide.

Portfolio

The broad and balanced late-stage product portfolio includes novel treatments for resistant bacterial infections, systemic fungal infections, and severe skin diseases. The company's diversified portfolio comprises two commercialized drugs (Toctino® and ZEFTERA™/Zevtera™), one investigational drug in clinical phase III (isavuconazole) as well as substantial innovative early-stage programs.

Products

Alitretinoin belongs to the well studied family of retinoids and is targeted at patients with severe chronic hand eczema who do not respond to topical corticosteroids. It is marketed in the United Kingdom, in Denmark and in Germany, and is approved in Finland and France under the trade name Toctino®. Alitretinoin has been recommended for approval in six additional EU Member States and is under regulatory review in Canada and Switzerland.

Ceftobiprole, an anti-MRSA broad-spectrum cephalosporin antibiotic, which is developed in collaboration with Johnson & Johnson, is marketed in Canada under the trade name ZEFTERA™ and approved in Switzerland under the trade name Zevtera™, and is under review by regulatory authorities in the USA, the EU and in several other countries.

Isavuconazole is a novel broad-spectrum antifungal for the treatment of severe invasive fungal infections in clinical phase III testing.

Vision

We strive to lead in integrated research, development and commercialization in the hospital and specialty care setting. We aspire to provide innovative medications to patients with high medical needs through a sustainable business while maximizing shareholder value.

→ www.basilea.com

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2008 KEY EVENTS

March 18, **Ceftobiprole** **Approvable Letter received**

The U.S. Food and Drug Administration (FDA) issued an Approvable Letter for ceftobiprole, indicating that the ceftobiprole application is approvable.

March 28, **Corporate** **Holding structure implemented**

Changes of the Articles of Association approved by shareholders at the Annual General Meeting on March 19, 2008 were executed and a holding structure was implemented in order for Basilea to provide an adequate corporate group structure for the future commercialization of its products.

April 15, **Isavuconazole** **New phase III study opened**

Additional phase III study opened to evaluate the efficacy and safety of isavuconazole in special patient populations.

May 5, **Alitretinoin** **New Drug Submission accepted for review**

The Therapeutic Products Directorate of Health Canada has accepted for review the New Drug Submission of oral alitretinoin for the treatment of severe refractory chronic hand eczema (CHE).

June 30, **Ceftobiprole** **First marketing authorization**

Ceftobiprole obtained regulatory approval from Health Canada authorizing the marketing of ZEFTERA™ for the treatment of complicated skin and skin structure infections (cSSSI), including diabetic foot infections (DFI).

July 31, **Alitretinoin** **Regulatory approval recommended by concerned EU Member States**

Toctino® (alitretinoin) was recommended for regulatory approval under the European decentralized procedure.

September 8, **Alitretinoin** **First national marketing authorization in the UK**

Toctino® (alitretinoin), a new once-daily oral treatment for adults with severe CHE unresponsive to potent topical corticosteroids, has been approved by the Medicines and Healthcare products Regulatory Agency in the United Kingdom.

September 15, **Ceftobiprole** **FDA accepts for review the Complete Response to the NDA Approvable Letter**

FDA accepts for review the Complete Response to the ceftobiprole New Drug Application Approvable Letter. The FDA informed Basilea's co-development partner Johnson & Johnson Pharmaceutical Research and Development, L.L.C. that it considers the response a class two Complete Response.

September 22, **Alitretinoin** **Marketing authorization in Denmark**

Toctino® (alitretinoin), a new once-daily oral treatment for adults with severe CHE unresponsive to potent topical corticosteroids, has been approved by the Danish Medicines Agency.

October 6, **Alitretinoin** **Marketing authorization in Germany**

Toctino® (alitretinoin), a new once-daily oral treatment for adults with severe CHE unresponsive to potent topical corticosteroids, has been approved by the German health authority "Bundesinstitut für Arzneimittel und Medizinprodukte".

October 15, **Alitretinoin** **Marketing authorization in Finland**

Toctino® (alitretinoin), a new once-daily oral treatment for adults with severe CHE unresponsive to potent topical corticosteroids, has been approved by Finland's National Agency for Medicines.

October 21, **Alitretinoin** **Marketing authorization in France**

Toctino® (alitretinoin) has been approved by the French Health Products Safety Agency (Agence Française de Sécurité Sanitaire des Produits de Santé) for the once-daily oral treatment of adults with severe CHE unresponsive to potent topical corticosteroids.

November 13, **Ceftobiprole** **Marketing authorization in Switzerland**

Zevtera™ (ceftobiprole), the first-in-class anti-MRSA broad-spectrum cephalosporin, has obtained regulatory approval from Swissmedic for the treatment of complicated skin and soft tissue infections, including DFI.

November 21, **Ceftobiprole**

Positive opinion from the CHMP in the EU

Zevtera™ (ceftobiprole medocaryl), the first-in-class anti-MRSA broad-spectrum cephalosporin received a positive opinion from the Committee for Medicinal Products for Human Use for the treatment of complicated skin and soft tissue infections.

November 26, **Ceftobiprole**

FDA issues Complete Response Letter

The FDA issued to the sponsor, Johnson & Johnson Pharmaceutical Research and Development, L.L.C. a Complete Response Letter for ceftobiprole for the treatment of cSSSI, including DFI.

December 17, **Alitretinoin**

U.S. phase III study on alitretinoin opened

The “HANDEL” trial (HAND Eczema research of alitretinoin) is the first ever multi-centered, controlled clinical study for patients with severe CHE in the U.S.

Balanced Late - stage Product Portfolio

As the company's diversified portfolio includes two commercialized drugs (alitretinoin, ceftobiprole), one investigational drug (isavuconazole) in phase III as well as substantial innovative early-stage programs, Basilea is well prepared to provide innovative medications to patients with high medical needs.

		Research	Development				Under regulatory review	Market
			Phase 0	Phase I	Phase II	Phase III		
Dermatology	Alitretinoin Chronic Hand Eczema	█	█	█	█	█	█	█
Antibacterials	Ceftobiprole Broad-spectrum anti-MRSA	█	█	█	█	█	█	█
	Macrolides	█	█					
	Gram-negative Antibacterials	█	█					
	Exploratory Projects	█						
Antifungals	Isavuconazole Broad-spectrum Triazole	█	█	█	█			
Oncology	Cell Death Inducer	█	█					



LETTER FROM THE CHAIRMAN OF THE BOARD AND THE CHIEF EXECUTIVE OFFICER

Dear Shareholders

This year was an important year for Basilea manifested by the market launch of two key products. These are ceftobiprole (trade name ZEFTERA™/Zevtera™) to treat severe skin infections, including resistant bacterial infections, and alitretinoin (trade name Toctino®) to treat severe chronic hand eczema.

Toctino® is the first drug ever to receive approval for treating patients suffering from the chronic and disabling condition of severe hand eczema that does not respond to topical steroid treatment. Following an approval recommendation from the European health authority in July, UK, Denmark and Germany initiated Toctino®'s European launch roll-out with Basilea's marketing organization to be followed by eight other European countries. The drug was also approved in France and Finland. With no competitor product currently on the horizon, Toctino® occupies a unique position in helping patients with chronic hand eczema who no longer respond to topical treatments. Toctino® is undergoing regulatory review in Switzerland and Canada, while additional regulatory filings are planned over the coming year.

The approval of our novel antibiotic, ceftobiprole, by the Canadian health authority as ZEFTERA™, by the Swiss authority as Zevtera™ and the positive recommendation for approval from the European Committee for Medicinal Products for Human Use (CHMP) during the year confirmed that this novel antibiotic is considered to fulfill a high medical need. In the United States, the ceftobiprole review was delayed following the U.S. Food and Drug Administration issue of an Approvable Letter in March and a Complete Response Letter in November. We are working with the sponsor, Johnson & Johnson Pharmaceutical Research and Development, L.L.C. to address all questions raised by the FDA. Registration filings have been made in a number of other countries and are currently under review. We have exercised our option to co-promote ZEFTERA™/Zevtera™ in North America and several European countries with the Johnson & Johnson commercialization partners Ortho-McNeil, Division of Ortho-McNeil-Janssen Pharmaceuticals Inc., Janssen-Ortho Inc. and Janssen-Cilag companies in the U.S., Canada and Europe, respectively.

Our 2008 financial results reflect focused investments to support Toctino® and ZEFTERA™/Zevtera™ product launches in territories where they were approved. Our R&D investments were principally focused on phase III clinical trials with our late-stage antifungal drug, isavuconazole, and the start of a phase III program in the USA for alitretinoin (Toctino®).

Basilea's continued focus on new products is led by novel research programs against resistant Gram-negative bacteria, in the areas of inflammation and oncology. These programs address high medical needs and represent potential significant future business opportunities.

Basilea began an important transition in 2008 from an R&D organization to a fully integrated company with a strong commercial focus in order to create further shareholder value through successful product launches and sales revenues.

We would like to thank our stakeholders for their contributions in 2008, in which we saw the first two of our innovative drugs reach patients in need of new treatments.



Werner Henrich
Chairman of the Board



Dr. Anthony Man
Chief Executive Officer

From right to left:

Mr. Werner Henrich, Chairman of the Board
Dr. Anthony Man, Chief Executive Officer

PORTFOLIO

TOCTINO® (ALITRETINOIN)

Toctino® (alitretinoin) has been developed by Basilea for the treatment of adults with severe refractory chronic hand eczema. Toctino® is the first and only licensed treatment for this condition. In 2008, Toctino® received first marketing authorizations in UK, Denmark, Germany, Finland and France for this chronic disabling disease and has been recommended for regulatory approval in six additional EU Member States.



Dr. Thomas Trilling is General Manager of Basilea's German subsidiary Basilea Pharmaceutica Deutschland GmbH. In October 2008, Toctino® was approved by the German health authority "Bundesinstitut für Arzneimittel und Medizinprodukte" for the treatment of adults suffering from severe chronic hand eczema that is unresponsive to potent topical corticosteroids, a current standard of care.

What is chronic hand eczema?

Chronic hand eczema (CHE) is a persistent, relapsing inflammatory condition of the skin that is confined largely or wholly to the hands. It is one of the most common occupational skin diseases and often has an allergic background or is induced by chemical or mechanical irritation. Hand eczema is reported to affect up to ten percent of the general population. The more severe, chronic form of the condition is thought to affect five to seven percent of these patients.

What impact does severe chronic hand eczema have on a patient?

The most important patient burden is impaired use of the hands and a considerable impact on patients' quality of life. Severe chronic hand eczema can be a painful, frustrating and debilitating disease with which patients may suffer for years. Patients have substantial occupational, personal, social and psychological disability. People who have chronic hand eczema are severely disadvantaged since they cannot use their hands normally. This can lead to prolonged sick leave or even unemployment.

How effective is Toctino®?

Prior to the approval of Toctino®, no treatment was approved for use in adults with severe refractory chronic hand eczema. Toctino® is the only therapy with proven efficacy in severe chronic hand eczema refractory to potent topical corticosteroids. In clinical studies, up to 48% of Toctino®-

treated patients had clear or almost clear hands at 24 weeks versus 17% on placebo. In addition, there was up to a 75% mean reduction in signs and symptoms of the disease at 24 weeks among Toctino®-treated patients. Patients whose CHE is predominantly characterized by fissured, thick scaly skin are more likely to respond than those in whom the eczema is mainly characterized by blisters.

What is the dosing regimen for Toctino®?

Toctino® is a once-daily capsule to be taken with food. The recommended starting dose is 30 mg and a treatment course lasts up to 24 weeks depending on response. Re-treatment may be beneficial for patients who had relapsed from or not responded to a standard length of treatment.

Are there any things that one should know about Toctino®?

Toctino® is a naturally occurring, physiological retinoid and its safety profile in clinical trials is consistent with retinoid class effects. The most frequent adverse events were headache and blood lipid elevation. These were dose-dependent and reversible.

All retinoids are teratogens. Therefore pregnancy is a contraindication to alitretinoin therapy and strict pregnancy prevention measures must be in place for all women of child-bearing potential who receive alitretinoin.

Why is an effective treatment so important from a health-economic point of view?

CHE causes significant economic and occupational burden with total costs alone in Europe estimated to eleven billion Euros per year. In Germany, for example, professional partnerships pay about one billion Euros direct and indirect costs annually for chronic hand eczema sufferers. The total annual costs of work-related CHE amounted to about 8,000 Euros per patient. An effective

therapy for CHE is expected to significantly reduce days lost from work and thereby indirect costs. Furthermore, Toctino® is expected to substantially improve patients' quality-of-life, particularly in patients suffering from severe CHE.

Is Basilea planning to bring Toctino® to markets outside of Europe as well?

Toctino® has been granted local market authorizations in UK, Denmark, Germany, Finland and France. UK, Denmark and Germany initiated the European launch roll-out to be followed by eight other European countries. In addition, marketing authorization applications have been submitted with the Swiss and Canadian health authorities and are currently under review. In the USA, Basilea initiated a clinical phase III program in 2008 to confirm the relevance of the existing data in U.S. patient populations.

What were your personal highlights in 2008 with Basilea?

Toctino® is a real breakthrough for patients suffering from severe symptoms that never go away completely or keep coming back after treatment with steroid creams. These patients are severely disabled in their daily life and socially stigmatized. It is highly satisfying and rewarding to be leading the launch of Basilea's first product in the German market, one of the key markets for Toctino®.

“It is highly satisfying and rewarding to be leading the launch of Basilea’s first product in the German market, one of the key markets for Toctino®.”

Dr. Thomas Trilling, General Manager, Basilea Pharmaceutica Deutschland GmbH



ZEFTERA™/ZEVTERA™ (CEFTOBIPROLE)

ZEFTERA™/Zevtera™ is the first approved anti-MRSA broad-spectrum cephalosporin antibiotic. This innovative first-line treatment may be used before knowing the bacteria causing the infection. In June 2008, ZEFTERA™ received its first regulatory approval from Canada and in November 2008, Zevtera™ was approved in Switzerland for the treatment of complicated skin and soft tissue infections, including diabetic foot infections.



Mr. Mark Omoto is General Manager of the Canadian subsidiary Basilea Pharmaceuticals Corp. In June 2008, ZEFTERA™ (ceftobiprole medocartil for injection) obtained its first regulatory approval from Health Canada authorizing the commercialization of ZEFTERA™ for the treatment of complicated skin and skin structure infections (cSSSI), including non-limb threatening diabetic foot infections without concomitant osteomyelitis.

Why is there a need for a new antibiotic in Canada?

MRSA infections are on the rise in many countries, particularly in Canada. In Canadian hospital intensive care units MRSA rates (proportion of *Staphylococcus* clinical isolates that are methicillin-resistant) are approximately 22% and are on the rise. MRSA stands for methicillin-resistant *Staphylococcus aureus*, which is the predominant pathogen in skin infections. MRSA infections are associated with increased morbidity and mortality. With the rising incidence of MRSA, drug-resistant *Streptococcus pneumoniae* and the threat of community-acquired MRSA, an increasing number of patients with severe skin infections and pneumonia may no longer respond to traditional antibiotic treatment. There is therefore a growing need for novel first-line broad-spectrum anti-bacterials covering resistant pathogens.

What is unique about ZEFTERA™/Zevtera™?

ZEFTERA™/Zevtera™ is the first and only approved broad-spectrum antibiotic belonging to the well-accepted class of cephalosporins with anti-MRSA activity. This provides physicians with another important medication to effectively treat serious complicated infections that can be caused by multi-drug-resistant pathogens. In clinical studies ZEFTERA™/Zevtera™ was as effective as a standard combination of two antibiotics for the treatment of mixed infections and has

been well tolerated. As importantly, no resistant *staphylococci* clinical isolates have been observed so far. ZEFTERA™/Zevtera™'s low potential to induce resistance makes it suitable for empiric treatment.

Who is commercializing ceftobiprole?

Basilea Pharmaceuticals Corp. is co-promoting ceftobiprole in Canada under the trade name ZEFTERA™ with its local partner Janssen-Ortho Inc., a Johnson & Johnson company and the Johnson & Johnson company Janssen-Cilag Ltd. commercializes ceftobiprole in Switzerland under the trade name Zevtera™.

Is ZEFTERA™/Zevtera™ efficacious in the treatment of other severe bacterial infections?

The first studies evaluated ZEFTERA™/Zevtera™ in the treatment of complicated skin and skin structure infections (cSSSI), including diabetic foot infections. ZEFTERA™/Zevtera™, as a single agent, was shown to be equally effective as a combination of two antibiotics in the treatment of cSSSI. In addition, phase III trial results in the treatment of community-acquired pneumonia (CAP) requiring hospitalization, and hospital-acquired pneumonia (HAP) demonstrated equal efficacy (non-inferiority) of ZEFTERA™/Zevtera™ when compared to a combination of two antibiotics. Following consultation meetings with health authorities, follow-on filings based on the existing phase III data in pneumonia including both, hospital-acquired pneumonia (HAP) and community-acquired pneumonia (CAP) requiring hospitalization are planned.

In clinical trials, the most common side effect of ZEFTERA™/Zevtera™ was nausea (about 10%), with the majority of cases being mild, self-limiting and not leading to discontinuation. Vomiting, diarrhea, headache and unusual taste were found in less than 10% of patients.

In which other countries do you expect ZEFTERA™/Zevtera™ to be launched next?

Zevtera™ has also been approved and launched in Switzerland for the treatment of complicated skin and soft tissue infections, including diabetic foot infections. Ceftobiprole is currently under review by regulatory authorities in the USA, the European Union and other countries for the treatment of severe skin infections. Subject to approval we are planning to roll-out the launch in the other countries.

“We are very proud that it is the Canadian market where ZEFTERA™ was first approved and launched.”

Mark Omoto, General Manager, Basilea Pharmaceuticals Corp.



ISAVUCONAZOLE

Isavuconazole is a novel broad-spectrum antifungal drug in late-stage clinical testing. It is the first of its class that is available as an oral form and an intravenous injectable form and can be given to patients with normal as well as impaired renal function. Isavuconazole is a very potent azole against yeast infections and has excellent activity against molds (aspergillus) including rare molds.



Dr. Dieter Götte is Chief Medical Officer at Basilea Pharmaceutica International Ltd. Isavuconazole is currently in international phase III testing against the respective market leaders for the treatment of severe invasive candida and aspergillus infections.

Why are mortality rates associated with severe invasive fungal infections still high despite existing therapies?

Due to the often severe underlying diseases and the difficulty to diagnose fungal infections at early-stage clinical cure of invasive fungal infections is difficult to achieve. Over the last years, more options to treat patients with deadly fungal infections have become available, yet current antifungals have still significant restrictions, mainly related to administration (fast and reliable absorption) as well as safety and tolerability. In addition, quite often organ dysfunction, like kidney or liver dysfunction, prevents the use of some antifungals or leads to enhanced drug interactions.

Isavuconazole is currently in late-stage clinical testing. How is the efficacy and safety against currently used drugs being assessed?

In an earlier clinical trial isavuconazole has demonstrated excellent efficacy as well as very good tolerability when compared to standard therapy (fluconazole) in the treatment of oesophageal yeast infections. Isavuconazole's efficacy and safety is now being evaluated against the key competitors voriconazole and caspofungin, respectively, in large international phase III trials as a first-line treatment for severe invasive yeast and mold infections.

What is the key differentiating feature of isavuconazole in your view?

It is actually the combination of several unique features that could possibly position isavuconazole as the best-in-class azole. The most important differentiating feature is the fact that isavuconazole is administered as highly soluble prodrug without the addition of toxic excipients. This is particularly important for the treatment of infected patients that suffer from impaired kidney function, but also contributes to the good oral bioavailability independent of co-administration of food.

What role could isavuconazole play in the future treatment of fungal infections?

Isavuconazole may address key limitations of current therapies, most importantly gaps in the antifungal spectrum, the lack of early adequate dosing with reliable drug exposure, patient limitations due to unwanted side effects and inconvenient dosing. Expected improvements in the safety profile over current standard treatments may allow preferential administration of isavuconazole as best-in-class azole.

Your leading antibiotic ceftobiprole is currently under regulatory review in many countries and has received its first national approvals in Canada and in Switzerland in 2008. Is there a strategic fit between isavuconazole and the hospital antibiotic ceftobiprole (ZEFTERA™/Zevtera™) targeting severe bacterial infections?

In our portfolio of hospital anti-infectives, isavuconazole nicely complements our antibiotic ceftobiprole, as both products address severe infections diagnosed and treated in the hospital setting involving cancer and transplant patients, and patients treated in the intensive care unit. We envisage significant synergy when targeting the same patients and the same infectious disease specialists with two products.

“It is our primary objective to make isavuconazole available to prescribers and severely ill patients as quickly as possible through a highly focused development program.”

Dr. Dieter Götte, Chief Medical Officer, Basilea Pharmaceutica International Ltd.



“To innovate in the antibiotic area, it is essential to understand the molecular details of resistance mechanisms and to guide the drug discovery programs accordingly.”

Professor Malcolm Page, Head of Biology, Basilea Pharmaceutica International Ltd.



EARLY-STAGE PROJECTS

Clinicians are increasingly concerned about the therapeutic challenges of infections with resistant Gram-negative bacteria. Basilea is making substantial progress in the development of novel agents active against multi-drug-resistant Gram-negative pathogens. The BAL30072 project exemplifies Basilea's research efforts in the development of novel agents in this high medical need area.



Professor Malcolm Page is Head of Biology at Basilea Pharmaceutica International Ltd. In October 2008, Basilea was again selected for a presentation at the prestigious Poster Review Session at the Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC) and the Infectious Diseases Society of America (IDSA) in Washington DC. Malcolm Page presented research data on the novel antibiotic BAL30072 for the potential treatment of multi-resistant Gram-negative bacteria.

Why is the scientific and medical community so interested or rather concerned about Gram-negative infections?

Multi-resistant Gram-negative bacteria have been appearing with increasing frequency in hospitals around the world. These bacteria have acquired the reputation of "superbugs" because of their high levels of resistance to many of the currently marketed antibiotics.

What are the most dangerous Gram-negative bacteria?

Resistance rates are increasing among several problematic Gram-negative pathogens that are often responsible for serious nosocomial infections, including *Acinetobacter* spp. and *Pseudomonas aeruginosa*. They are involved in complicated urinary tract infections, nosocomial pneumonia (especially in ventilator-associated pneumonia and in patients with chronic obstructive pulmonary disease), complicated intra-abdominal infections and exacerbations of cystic fibrosis.

What are the implications for patients infected with multi-resistant Gram-negative pathogens?

Infections caused by multi-resistant bacilli have been associated with prolonged hospital stays, higher healthcare costs and increased mortality, particularly when initial antibiotic therapy does not provide coverage of the causative pathogen.

What expertise is required to be successful in antibiotic research?

It is very important to understand the molecular details of resistance mechanisms and to be able to use these insights to guide the drug discovery programs. Basilea has leading expertise in the area of beta-lactam chemistry and we have been able to use this to achieve some innovative solutions to resistance problems. For example, BAL30072, a monobactam antibiotic, combines a number of features that give it unique activity against some of the most resistant Gram-negative bacilli.

How innovative, how effective is BAL30072?

BAL30072 demonstrated excellent activity against some of the most difficult to treat multi-resistant Gram-negative bacteria, such as *Pseudomonas* and *Acinetobacter*, both *in vitro* and in animal models of infection. It has the potential to fill the treatment gaps of currently available antibiotics, such as the carbapenems. The urgent need for improved antibiotics is reflected in the high growth rates of this antibiotic market segment in recent years, of a market worth several billion dollars.

Drug resistance seems to be a common theme among the different research projects at Basilea, also for the oncology programs?

Yes, drug resistance is not only a problem in the field of anti-infectives, but is also frequently encountered in oncology. A major problem in cancer treatment is the development of resistance during therapy and subsequent relapse. Basilea's BAL27862 is active against a broad range of model tumor types, including those resistant to taxol, vinblastine and doxorubicin, which offers a potential treatment for patients not responding to previous therapy.

A man with short brown hair and glasses, wearing a light blue and white striped shirt and a striped tie, is sitting at a white desk. He is smiling and looking towards the camera. His hands are clasped on the desk. Behind him are white shelves filled with numerous white binders. On the desk, there is a computer monitor, a keyboard, and a mouse. A blue folder is also visible on the desk.

“We have highly innovative products with clear advantages over existing treatments. Our goal is to ensure that prescribers and patients optimally integrate our novel drugs into best medical practices.”

Hans Christian Rohde, Chief Commercial Officer, Basilea Pharmaceutica International Ltd.

BASILEA SUBSIDIARIES

Worldwide Subsidiaries

Basilea has an experienced international commercial leadership team covering North America and Europe. Basilea plans to commercialize Toctino® (alitretinoin), isavuconazole and other potential compounds on its own, and to co-promote ZEFTERA™/Zevtera™ (ceftibiprole) with its partner Johnson & Johnson.

In 2008, sales and marketing teams that are focused on hospital and specialty markets were established in Canada, Denmark, Germany and the United Kingdom in preparation for the launch of Toctino® and to co-promote ZEFTERA™/Zevtera™. Toctino® is the only licensed product for patients with severe chronic hand eczema not responsive to potent topical corticosteroids. ZEFTERA™/Zevtera™ is a broad-spectrum anti-MRSA cephalosporin antibiotic with the potential to be a first-line empiric therapy.

Basilea actively prepared the market for Toctino® in Europe and Canada with extensive prelaunch activities, including presence at the major dermatology congresses, and coordination of symposia, advisory boards and media events. In the United States Basilea focused on the preparation of the initiation of the U.S. phase III registration trial examining the safety and efficacy of alitretinoin in chronic hand eczema (the "HANDEL" trial).

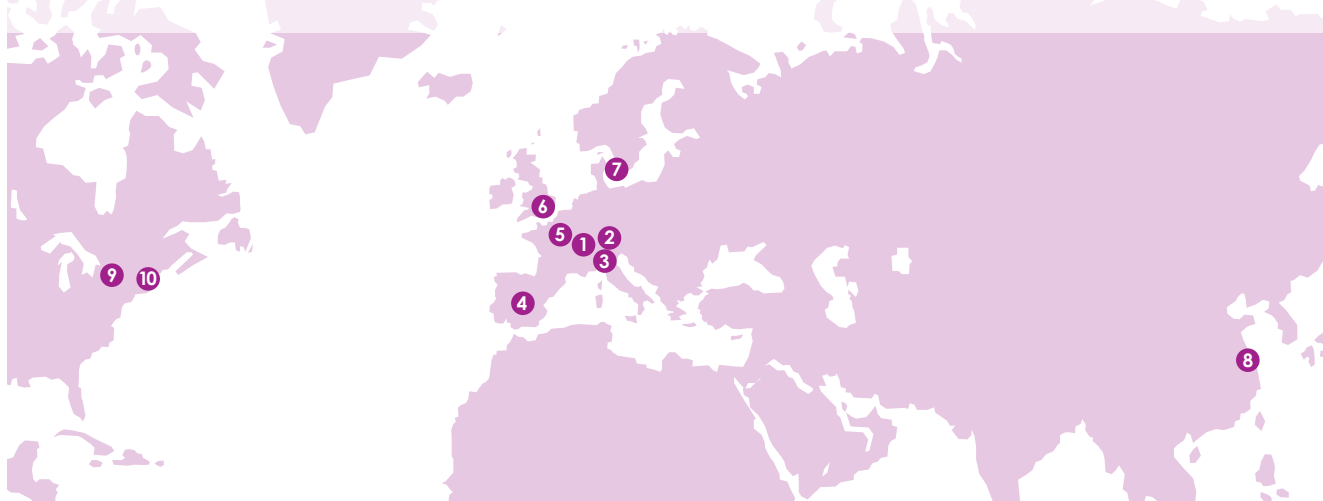
Basilea Pharmaceutica China Ltd.

Basilea Pharmaceutica China Ltd. (hereafter "Basilea China"), a wholly-owned subsidiary of Basilea Pharmaceutica Ltd., is located in the Haimen Technological Development Zone, north of Shanghai. Basilea China closely works with the chemistry and analytics groups in Basel and focuses on the organic chemistry of complex molecules and on analytics to support Basilea's drug discovery, research and drug supply chain activities.

Basilea China, founded in 2002 as the first drug research company in China entirely funded by foreign investment, has been recognized for its sustained operational excellence with the provincial High-Tech Enterprise status in 2006, was granted the "A" Class of Safety Operation by the local government in 2007 and was awarded the State High-Tech Enterprise status in 2008. In addition, the high quality of operations at Basilea China was confirmed by successfully passing again the British Standards Institute (BSI) ISO9001 audit in 2008.

Basilea China participates actively in the search of new lead compounds of natural origin via the network of traditional Chinese medicine research institutes, as well as of development product opportunities in China.

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|---|--|
| 1 Basilea Pharmaceutica International Ltd. Basel, Switzerland | 6 Basilea Pharmaceutica Ltd. Guildford, UK |
| 2 Basilea Pharmaceutica Deutschland GmbH Munich, Germany | 7 Basilea Pharmaceutica A/S Birkerød, Denmark |
| 3 Basilea Pharmaceutica S.r.l. Milan, Italy | 8 Basilea Pharmaceutica China Ltd. Haimen, China |
| 4 Basilea Pharmaceutica Iberia S.L. Madrid, Spain | 9 Basilea Pharmaceutica Corp. Toronto, Canada |
| 5 Basilea Pharma SAS Boulogne - Billancourt, France | 10 Basilea Pharmaceutica Inc. Andover, USA |



CORPORATE GOVERNANCE

Group Structure and Shareholders

Group Structure

The Basilea group is composed of its parent company, Basilea Pharmaceutica Ltd. ("Basilea"), Basilea Pharmaceutica International Ltd. ("Basilea International"), the Swiss operating subsidiary, BPh Investitionen Ltd. ("BPh"), a subholding company, Basilea Pharmaceutica China Ltd. ("Basilea China"), a Chinese operating subsidiary held through BPh, and fully owned subsidiaries in Canada, Denmark, France, Germany, Italy, Spain, United Kingdom and the United States focusing on the distribution of pharmaceutical products (collectively the "Company").

The operating activities of the Company are focused on research, development and commercialization of pharmaceutical products. The Company's operating activities are directed by and primarily located within Basilea International. Basilea International is operationally organized along core activities with Commercial Operations, headed by the Chief Commercial Officer, a Development function, headed by the Chief Medical Officer, a Research function, headed by the Chief Scientific Officer, Finance and Business Development, headed by the Chief Financial Officer and Technical Operations, headed by the Chief Technology Officer. These heads are members of the Management Committee. The Management Committee is led by the Chief Executive Officer. For further information on the Management Committee, please refer to the section "Management/Members, Functions and Other Activities".

Basilea is represented on the Board of Directors of its fully owned subsidiaries. In addition, there is a close cooperation related to the operations between Basilea International's research, development and commercial groups and its 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 (Valorenummer) 1 143 244. The ISIN is CH 001 143 244 7. The Common Code is 018859220. The ticker symbol is BSLN.

As of December 31, 2008, the market capitalization of Basilea amounted to CHF 1,425,181,907 (9,571,403 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 May 29, 2002, and incorporated with limited liability under the laws of The People's Republic of China, with a fully paid up registered capital of USD 7 million as of December 31, 2008. Basilea China is located in the Haimen Technological Development Zone, Jiangsu Province (north of Shanghai), People's Republic of China. The subsidiary provides complementary services, primarily in the field of chemical synthesis research and development, in connection with Basilea's research and development compounds. 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 Zugerstrasse 76b in 6340 Baar, Switzerland. BPh has a share capital of CHF 131,950, divided into 10,150 fully paid-up registered shares with a par value of CHF 13 each, all held and controlled by Basilea.

As of December 31, 2008, the Company engaged more than 300 employees (full-time equivalents).

For information on the non-listed companies belonging to the Company, please refer to note 7 (Investments) to the Financial Statements.

Significant Shareholders

According to the share register, the shareholders shown on the following table (see page 19) held 3% or more of the shares and voting rights of Basilea as of December 31, 2008.

Varuma AG, Aeschenvorstadt 55, CH-4051 Basel, a fully controlled company by Mr. Rudolf Maag, CH-4102 Binningen, notified Basilea Pharmaceutica Ltd. on January 15, 2008, that it held purchase positions pursuant to Art. 10 para. 3a SESTO-SFBC of Basilea Pharmaceutica Ltd. consisting of 407,351 registered shares with 4.44% of voting rights. Of these, 395,000 registered shares with 4.31% of voting rights are held by Varuma AG and 12,351 registered shares with 0.13% of voting rights are held directly by Mr. Rudolf Maag. The notification was published in the Swiss Official Gazette of Commerce on January 21, 2008.

S.A.C. Capital Advisors, LLC, 72 Cummings Point Road, Stamford, CT 06902, USA, notified Basilea Pharmaceutica Ltd. on January 15, 2008, that S.A.C. Capital Associates, LLC, P.O. Box 58, Victoria House, The Valley, Anguilla, British West Indies, increased its shareholdings in Basilea by 8,500 registered shares to 246,900 registered shares with 2.69% of voting rights and CR Intrinsic Investments, LLC, Box 174, Mitchell House, The Valley, Anguilla, British West Indies, increased its shareholdings in Basilea by 3,733 registered shares to 31,938 registered shares with 0.35% of voting rights. The total holdings of both companies were as of January 10, 2008, 278,838 registered shares with 3.04% of voting rights. The notification was published in the Swiss Official Gazette of Commerce on January 23, 2008.

Deutsche Bank AG, Frankfurt, Zürich Branch, Uraniastrasse 9, 8001 Zürich, notified Basilea Pharmaceutica Ltd. on January 23, 2008, that the shareholdings in Basilea of Deutsche Bank AG, Frankfurt, Theodor-Heuss-Allee 70, 60486 Frankfurt and Deutsche Asset Management Investmentgesellschaft mbH, Mainzer Landstrasse 178–190, 60327 Frankfurt, that both belong to the same group, decreased on January 18, 2008 and passed a threshold subject to report. The total holdings were 267,693 registered shares with 2.92% voting rights (purchase positions pursuant to Art 10. para. 3 a SESTO-SBFC) and 150,000 held share sale rights and 445,581 granted conversion and share purchase rights (in total 595,581 sale positions pursuant to Art. 10 para. 3b SESTO-SFBC) with 6.50% voting rights. The notification was published in the Swiss Official Gazette of Commerce on January 31, 2008.

Basilea received a notification of shareholdings on February 1, 2008 from S.A.C. Capital Advisors, LLC, 72 Cummings Point Road, Stamford, CT 06902, USA, that S.A.C. Capital Associates, LLC, P.O. Box 58, Victoria House, The Valley, Anguilla, British West Indies, and CR Intrinsic Investments, LLC, Box 174, Mitchell House, The Valley, Anguilla, British West Indies, decreased its shareholdings in Basilea on January 29, 2008. The new joint ownership of both companies corresponds to less than 3% of voting rights. The notification was published in the Swiss Official Gazette of Commerce on February 8, 2008.

AXA Investment Managers Deutschland GmbH, Frankfurt Branch, Bleichstrasse 2-4, 60313 Frankfurt am Main, Germany, notified Basilea Pharmaceutica Ltd. on February 26, 2008 that the shareholdings in Basilea Pharmaceutica Ltd. of AXA S.A., 25 avenue Matignon, 75008 Paris, France, and AllianceBernstein L.P., New York, NY 10105, USA, both part of the same group, increased on February 22, 2008 and passed a threshold subject to report. The total holdings were 290,503 registered shares with 3.04% voting rights. The notification was published in the Swiss Official Gazette of Commerce on March 4, 2008.

HBM BioVentures (Cayman) Ltd., Centennial Tower, 3rd Floor, 2454 West Bay Road, Grand Cayman, Cayman Islands, a fully owned subsidiary of HBM BioVentures AG, Grabenstrasse 25, 6340 Baar, Switzerland, notified Basilea Pharmaceutica Ltd. on March 25, 2008, that the Call Options BSLDU / ISIN: 0028814678 expired and the OTC Put Options DB BSLN were exercised by the contractual partner. HBM BioVentures Ltd. holds purchase positions pursuant to Art. 10 para. 3a SESTO-SFBC of Basilea Pharmaceutica Ltd. of 534,000 registered shares corresponding to 5.60% of voting rights. The notification was published in the Swiss Official Gazette of Commerce on April 2, 2008.

Deutsche Bank AG, Frankfurt, Zürich Branch, Uraniastrasse 9, 8001 Zürich, notified Basilea Pharmaceutica Ltd. on March 27, 2008, that the shareholdings in Basilea of Deutsche Bank AG, Frankfurt, Theodor-Heuss-Allee 70, 60486 Frankfurt, Germany, and Deutsche Asset Management Investmentgesellschaft mbH, Mainzer Landstrasse 178–190, 60327 Frankfurt, Germany, that both belong to the same group, due to sale have fallen below the thresholds subject to report as of March 20, 2008. The notification was published in the Swiss Official Gazette of Commerce on April 3, 2008.

Roche Finanz AG, a subsidiary of Roche Holding AG, notified Basilea Pharmaceutica Ltd. on April 11, 2008, that it decreased its holdings in Basilea of 957,205 registered shares corresponding to 10.03% of the voting rights on April 9, 2008 by 19,000 registered shares, to 938,205 registered shares corresponding to 9.83% of the voting rights. The notification was published in the Swiss Official Gazette of Commerce on April 21, 2008.

Fidelity International Ltd., Beech Gate, Midfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, United Kingdom, notified Basilea Pharmaceutica Ltd. on May 1, 2008, that Fidelity Management & Research LLC ("FMR"), principal address located at 82 Devonshire Street, Boston, MA 02109, USA, and its direct and indirect subsidiaries, with FMR as the parent holding company of Fidelity Management & Research Company ("FMRCO"), and Fidelity Management Trust Company ("FMTC"), as well as Pyramis Global Advisors Trust Company LLC ("PGATC") and Pyramis Global Advisors LLC ("PGALLC") that are both indirect wholly-owned subsidiaries of FMR reduced their holdings in Basilea Pharmaceutica Ltd. on April 30, 2008 to 279,872 registered shares corresponding to 2.93% of the voting rights. The notification was published in the Swiss Official Gazette of Commerce on May 9, 2008.

Fidelity International Ltd., Beech Gate, Midfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, United Kingdom, notified Basilea Pharmaceutica Ltd. on May 27, 2008, that FMR LLC ("FMR"), principal address located at 82 Devonshire Street, Boston, MA 02109, USA, and its direct and indirect subsidiaries, with FMR as the parent holding company of Fidelity Management & Research Company ("FMRCO"), and Fidelity Management Trust Company ("FMTC"), as well as Pyramis Global Advisors Trust Company LLC ("PGATC") and Pyramis Global Advisors LLC ("PGALLC") that are both indirect wholly-owned subsidiaries of FMR increased their holdings in Basilea Pharmaceutica Ltd. on May 22, 2008 to 291,602 registered shares corresponding to 3.06% of the voting rights. The notification was published in the Swiss Official Gazette of Commerce on June 5, 2008.

Sectoral Asset Management Inc., 1000 Sherbrooke Street West, Suite 2120, Montreal H3A 3G4, Canada, notified Basilea Pharmaceutica Ltd. on July 21, 2008, that Sectoral Asset Management Inc., as an investment advisor to several collective investment schemes for some of which Sectoral Asset Management Inc. also has the authority to vote on the shares held by the beneficial owners, increased its holdings in Basilea Pharmaceutica Ltd. on July 16, 2008 to 296,968 registered shares corresponding to 3.11% of the voting rights. The notification was

published in the Swiss Official Gazette of Commerce on July 28, 2008.

AXA Investment Managers Deutschland GmbH, headquarters, Innere Kanalstrasse 59, 50823 Köln, Germany, notified Basilea Pharmaceutica Ltd. on August 11, 2008 that the shareholdings in Basilea Pharmaceutica Ltd. of AXA S.A., 25 avenue Matignon, 75008 Paris, France, and AllianceBernstein L.P., New York, NY 10105, USA, both part of the same group, decreased on August 7, 2008. The total holdings were 280,920 registered shares with 2.94% voting rights. The notification was published in the Swiss Official Gazette of Commerce on August 19, 2008.

State of New Jersey, Department of the Treasury, Division of Investment, PO BOX 290, Trenton, NJ 08625, USA, notified Basilea Pharmaceutica Ltd. on September 23, 2008, that State of New Jersey Common Pension Fund D, PO BOX 290, Trenton, NJ 08625, USA, increased its holdings in Basilea Pharmaceutica Ltd. on September 12, 2008 to 300,000 registered shares corresponding to 3.14% of the voting rights. The notification was published in the Swiss Official Gazette of Commerce on September 29, 2008.

UBS Fund Management (Switzerland) AG, PO Box, 4082 Basel, Switzerland, notified Basilea Pharmaceutica Ltd. on October 3, 2008, that it increased its holdings in Basilea Pharmaceutica Ltd. on September 29, 2008 to 325,455 registered shares corresponding to 3.41% of the voting rights. This notification was published in the Swiss Official Gazette of Commerce on October 9, 2008.

Pictet Funds (LUX), 3, Boulevard Royal, L-2449 Luxembourg notified Basilea Pharmaceutica Ltd. on October 13, 2008, that Pictet Funds (Lux) – Biotech (sub-fund of Pictet Funds (LUX)) increased its holdings in Basilea Pharmaceutica Ltd. on July 25, 2008 to 290,402 registered shares corresponding to 3.04% of the voting rights. The notification was published in the Swiss Official Gazette of Commerce on October 20, 2008.

Sectoral Asset Management Inc., 1000 Sherbrooke Street West, Suite 2120, Montreal H3A 3G4, Canada, notified Basilea Pharmaceutica Ltd. on October 14, 2008, that Sectoral Asset Management Inc., as an investment advisor to several collective investment schemes for some of which Sectoral Asset Management Inc. also has the authority to vote on the shares held by the beneficial owners, increased its holdings in Basilea Pharmaceutica Ltd. on October 6, 2008 to 477,466 registered shares corresponding to 5.0% of the voting rights. The notification was published in the Swiss Official Gazette of Commerce on October 21, 2008.

Capital Structure and Shares

Share Capital

The share capital of Basilea as of December 31, 2008, amounted to CHF 9,571,403, consisting of 9,571,403 registered shares with a par value of CHF 1 per share. The share capital is fully paid up. As of December 31, 2008, the Company did not hold any shares of Basilea.

Authorized Capital and Conditional Capital

As of December 31, 2008, total authorized capital amounts to CHF 660,000 and total conditional capital amounts to CHF 2,828,738.

On March 7, 2007, the ordinary shareholders' meeting approved to extend the authorized capital in the amount of CHF 540,000 (540,000 registered shares with a par value of CHF 1 each), and approved additional authorized capital in the amount of CHF 1,500,000 (1,500,000 registered shares with a par value of CHF 1 each), both valid until March 7, 2009, which was entered into the Commercial Register of Basel-Stadt on the same day. The timing as well as the terms and conditions of the issuance of new shares under these two categories of authorized capital are to be set by the Board of Directors. Newly issued shares must be fully paid up. The Board of Directors is entitled to exclude the preferential subscription right ("Bezugsrecht") of shareholders for the authorized capital in the amount of CHF 540,000 if the capital increase is made for the purpose of granting an interest to strategic partners, or for the acquisition of business undertakings, a participation in business undertakings, participations, products or license rights for the development, manufacturing or distribution of products in the area of pharmacy, biology or diagnostics. Unused preferential subscription rights of both categories of authorized capital are at the disposal of the Board of Directors, who may place them at market conditions.

On March 21, 2007, the additional authorized capital in the amount of CHF 1,500,000 was reduced by the amount of CHF 1,200,000 to CHF 300,000 due to the capital increase of CHF 1,200,000 (1,200,000 registered shares with a par value of CHF 1) in an offering of 1,200,000 shares to existing shareholders and in a global offering. The preferential subscription right has been honoured. On March 26, 2007, the additional authorized capital was further reduced by the amount of CHF 180,000 to CHF 120,000 (180,000 registered shares with a par value of CHF 1) due to the exercise of the over-allotment option in the offering.

Sectoral Asset Management Inc., 1000 Sherbrooke Street West, Suite 2120, Montreal H3A 3G4, Canada, notified Basilea Pharmaceutica Ltd. on November 11, 2008, that Sectoral Asset Management Inc., as an investment advisor to several collective investment schemes for some of which Sectoral Asset Management Inc. also has the authority to vote on the shares held by the beneficial owners, decreased its holdings in Basilea Pharmaceutica Ltd. on October 30, 2008 to 476,336 registered shares corresponding to 4.99% of the voting rights. The notification was published in the Swiss Official Gazette of Commerce on November 17, 2008.

Registered Shareholders

Shareholder	Number of registered shares	Ownership percentage
Chase Nominees Ltd., London Wall 125, London WC2Y 2AJ, United Kingdom (registered without voting rights)	1 723 775	18.0
Roche Finanz AG, Grenzacherstrasse 122, 4058 Basel, Switzerland	627 127	6.6
Pictet Funds Europe SA – Rub Biotech, Boulevard Royal 1, 2449 Luxembourg, Luxembourg	456 491	4.8
Varuma AG, Aeschenvorstadt 55, 4051 Basel, Switzerland	395 000	4.1
State of New Jersey Common Pension Fund D, 50 West State Street, Trenton, New Jersey 08625, USA	386 638	4.0

The numbers of shares and ownership percentages in the table above as per December 31, 2008, take into account changes in share capital caused by the exercise of options during 2008 and the indications on significant shareholders reflected in note 12 to the Financial Statements pursuant to article 663c CO.

Cross-Shareholdings

No cross-shareholdings existed as of December 31, 2008.

Furthermore, shareholders approved to increase the conditional capital of up to CHF 3,234,635 (3,234,635 registered shares with a par value of CHF 1 each), to be fully paid up, in the ordinary shareholders' meeting of March 7, 2007. CHF 2,594,635 of the conditional capital were reserved for the exercise of option rights granted under the Company's stock option plan at a strike price to be set by the Board of Directors, and CHF 640,000 are reserved for the exercise of option or conversion rights granted to the holders of options or bonds in connection with new bonds or similar debt instruments that would be issued by Basilea or one of its subsidiaries, and for which the Board of Directors is entitled to set the conditions. The preferential subscription rights of shareholders are excluded under the conditional capital. The prior subscription right of shareholders ("Vorwegzeichnungsrecht") is granted for the portion of CHF 640,000, but its exercise is limited to three working days. The minimum issue price for shares issued in connection with bonds or similar debt instruments has to amount to at least CHF 75 per share. Relating to bonds or similar debt instruments connected with conversion or option rights for which the prior subscription right is withdrawn, the option rights may be exercised only during a maximum period of seven years, and the conversion rights only during a maximum of ten years.

In 2008, 27,725, in 2007, 378,172, and in 2006, 349,004 registered shares with a par value of CHF 1 per share were issued under the conditional capital in connection with the exercise of stock options under Basilea's stock option plan.

Any shares issued under the authorized or conditional capital are subject to the transfer restrictions set forth under "Limitations on Transferability of Shares and Nominee Registrations" (see page 21).

Changes in Capital

In 2008, Basilea increased its share capital by CHF 27,725 (27,725 registered shares with a par value of CHF 1 per share) as a result of the exercise of stock options under the Basilea's stock option plan.

In 2007, Basilea increased its share capital by CHF 1,380,000 (1,380,000 registered shares with a par value of CHF 1 per share) in connection with an offering to existing shareholders honouring the preferential subscription rights and in a global offering of the shares which had not been subscribed by existing shareholders.

In addition, in 2007, 378,172, and in 2006, 349,004, registered shares were issued as a result of the exercise of stock options under Basilea's stock option plan.

For further information on changes in capital in 2008, 2007 and 2006, including changes in reserves and retained earnings, please refer to the Consolidated Statement of changes in Shareholders' Equity as well as note 13 (Shareholders' Equity) to the Consolidated Financial Statements, and note 8 (Share Capital, Authorized Capital and Conditional Capital) to the Financial Statements of Basilea. Please also refer to the Consolidated Statement of changes in Shareholders' Equity included in the Annual Reports 2007 and 2006 for information on changes in equity in 2007 and 2006.

Shares

Basilea has only one class of shares (registered shares) and the par value of Basilea's shares is CHF 1 per share. Each share is fully paid up and carries one vote and equal dividend rights, with no special privileges.

Participation and Profit Sharing Certificates

Basilea has not issued any participation or profit sharing certificates.

Limitations on Transferability of Shares and Nominee Registrations

Basilea's shares are not certificated since its IPO. Shareholders are not entitled to request printing and delivery of share certificates, but Basilea may, in its sole discretion, decide to print and deliver share certificates. Any shareholder may, however, at any time request Basilea to issue a confirmation regarding its shareholding, but such confirmation is not a negotiable instrument.

The transfer of shares occurs through an entry in the books of a bank or depository institution following an assignment in writing by the selling shareholder and notification of such assignment to Basilea by the bank or the depository institution.

A transfer of shares further requires that a shareholder files a share registration form in order to be registered in the share register of Basilea with voting rights. Failing such registration by the deadline set from time to time by the Board of Directors, a shareholder or usufructuary ("Nutzniesser") may not vote at, or participate in a shareholders' meeting, but is still entitled to receive dividends and other rights of financial value. No exemptions were granted from the above restrictions in 2008.

According to article 5 of Basilea's Articles of Incorporation, a purchaser of shares will be recorded in Basilea's share register as a shareholder or usufructuary with voting rights if the purchaser discloses its name, citizenship or registered office, respectively, and address, and gives a declaration that it has acquired the shares in its own name and for its own account. 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 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 shareholders' meeting 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 33.

Shares may only be pledged by written pledging agreement to the bank that administers the book entries of such shares for the account of the pledging shareholder. Basilea does not need to be notified of such pledging.

Convertible Bonds and Options

For information on the stock option plan for directors, management and employees, and on the number of options granted thereunder, please refer to note 12 "Stock-Based Compensation" to the Consolidated Financial Statements included in this Annual Report.

As of December 31, 2008 there were no convertible bonds of the Company outstanding.

Board of Directors

Members, Functions and Other Activities

The following table sets forth the name and terms of the current members of the Board of Directors:

Name	Year of first election	End of current election period
Mr. Werner Henrich, Chairman	2000	2010
Dr. Andreas Wicki, Vice-Chairman	2000	2010
Prof. Peter van Brummelen	2003	2009
Dr. Walter Fuhrer	2003	2009
Prof. Daniel Lew	2003	2009
Mr. Claude Schreiner	2007	2010
Mr. Steven D. Skolsky	2008	2011
Dr. Anthony Man	2004	2011
Mr. Ronald Scott	2004	2011

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

Werner Henrich, Chairman, was born in 1943 and is a French citizen. He has an education as a chemist and European patent attorney. He worked for F. Hoffmann-La Roche Ltd. ("Roche") in Basel for more than 30 years. Mr. Henrich held various positions at Roche including Head of Global Intellectual Property and Pharmaceutical Licensing for more than 12 years. He was also a member of the Roche Pharmaceutical Division Executive Board. In this function Mr. Henrich was responsible for intellectual property activities of all Roche divisions and for major pharmaceutical transactions including research collaborations, patent settlements, licensing-in and -out as well as product acquisitions. From February 2001 to October 2001, Mr. Henrich acted as CEO of Basilea. He retired from Roche in November 2003. Mr. Henrich has a wide experience in the pharmaceutical industry both with start-ups and large pharmaceutical companies. Mr. Henrich is also a member of the board of directors of Actelion Ltd., Allschwil and Addex Pharmaceuticals Ltd., Geneva, Swiss biopharmaceutical companies listed on the SIX Swiss Exchange. He acts as a consultant for several biopharmaceutical companies on a part-time basis.

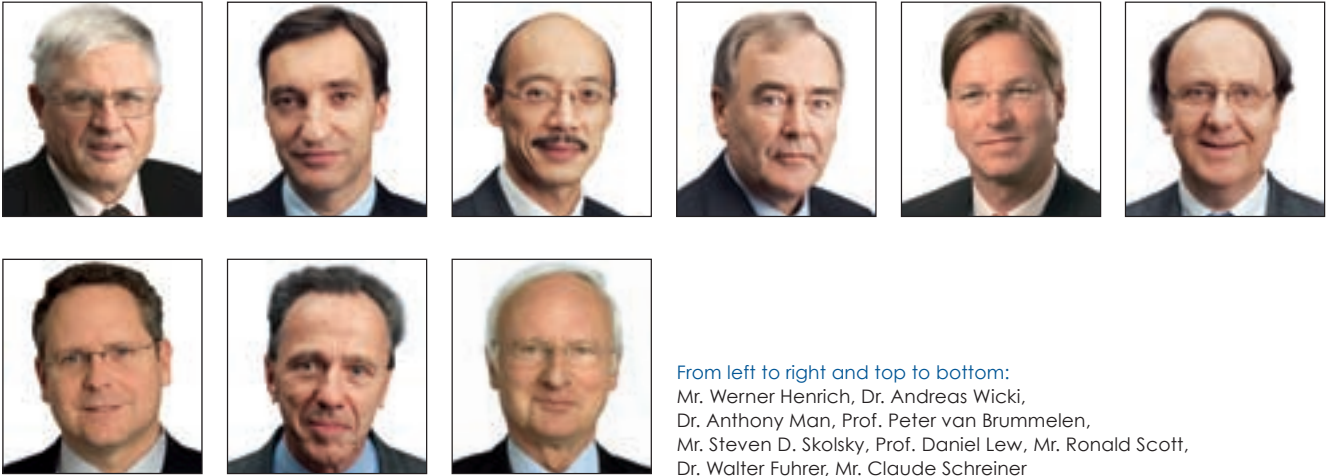
Andreas Wicki, Vice-Chairman, was born in 1958 and is a Swiss citizen. He holds a Master of Science and a PhD in chemistry and biochemistry from the University of Berne. Dr. Wicki is a successful healthcare entrepreneur and investor in the pharmaceutical and biotechnology industries. He was CEO of Clinserve AG and ANAWA Holding AG, two European

Clinical Research Organisations. Dr. Wicki currently serves as CEO of HBM Partners AG, the investment advisor of the life science investment company HBM BioVentures AG. He is also a board member of HBM BioVentures (Cayman) Ltd. Furthermore, Dr. Wicki is on the board of directors of Buchler GmbH, MDS Pharma Services Switzerland AG, and HBM Partners AG.

Peter van Brummelen was born in 1943 and is a Dutch citizen. He has an MD and a PhD from the University of Leiden (The Netherlands). After military service and training in internal medicine, he worked at the University Hospital of Leiden in various staff positions in internal medicine and nephrology. In 1979, he did a fellowship in Cardiology at the University Hospital in Basel. His main research interest was in cardiovascular disease and clinical pharmacology. He has (co-)authored more than 200 publications and book chapters. In 1986, he was appointed professor of medicine at the University of Leiden. He joined Roche in 1988, where he became Therapeutic Area Head Cardiovascular Diseases and worldwide Head of Clinical Pharmacology. In these functions he contributed to the successful development of various new drugs in different therapeutic classes. In 1990, he was appointed professor of medicine at the University of Basel. He was also actively involved in several projects to rationalize drug development, and he was a founder of the European Course in Pharmaceutical Medicine (ECPM), where he is still a Member of the Steering Committee. Since 1996

he has acted as Vice President Clinical Operations at Solvay Pharmaceuticals and later as Executive Vice-President Research and Development of Yamanouchi Europe until his retirement in May 2003. Prof. van Brummelen is on the board of Biozell S.p.A., Segrate, Italy, a company listed on the SIX Swiss Exchange, Diatos S.A., Paris, IQ Corporation BV, The Netherlands, and Movetis NV, Belgium. Prof. van Brummelen is currently an independent consultant to the pharmaceutical industry.

Walter Fuhrer was born in 1940 and is a Swiss citizen. He is an independent senior consultant in drug discovery with more than 25 years broad experience in conducting and managing medicinal chemistry and drug discovery. After completing a PhD in organic chemistry at the Eidgenössische Technische Hochschule (ETH) in Zürich in 1973, he joined Ciba-Geigy AG (later Novartis AG) where he held different positions in medicinal chemistry and in research management both in Switzerland and in the United States. As Head of Cardiovascular Chemistry he was heavily involved in the discovery and development of Diovan®, a new blockbuster antihypertensive drug. After heading the Central Research Laboratories of Ciba-Geigy AG for five years (until the merger with Sandoz) he then served as Head of Operations and Planning in Novartis' Oncology Research until 2001. Dr. Fuhrer has served as reviewer on "The Journal of Medicinal Chemistry" and is presently a member of the editorial board of "Current Opinions in Drug Discovery and Development".



From left to right and top to bottom:
 Mr. Werner Henrich, Dr. Andreas Wicki,
 Dr. Anthony Man, Prof. Peter van Brummelen,
 Mr. Steven D. Skolsky, Prof. Daniel Lew, Mr. Ronald Scott,
 Dr. Walter Fuhrer, Mr. Claude Schreiner

Daniel Lew was born in 1948 and is a Swiss citizen. He is a Professor of Medicine at the University of Geneva Medical School and Chief of the Service of Infectious Diseases, Department of Internal Medicine at the Geneva University Hospitals. He obtained his MD degree from Geneva University in 1976 and specialized in infectious diseases both in Geneva and then subsequently at Harvard Medical School and Massachusetts General Hospital in Boston, Massachusetts, United States. He is a recipient of numerous scientific awards and grants for his research work. Professor Lew lectures widely, acts both as reviewer and editor for several major scientific journals, and is author of many publications on neutrophil function, bacterial pathogenesis and drug resistance.

Claude Schreiner was born in 1942 and is a French citizen. He studied Economics at the University of Strasbourg (France) and has extensive experience in business and commerce. He started his career at Roche in 1966 and held various positions in the Pharma Division as well as in the Vitamins & Fine Chemicals Division at the Head Quarters in Basel. In 1978 he was appointed Head of the Vitamins & Fine Chemicals Division of Roche in France and subsequently General Manager of Roche's main agrochemicals company, La Quinoléine S.A. In 1990, Mr. Schreiner became Head of the Roche Vitamins & Fine Chemicals Division for Western Europe and later General Manager of Roche France. In 2001 he took over as Head of Western European Pharma Operations and became a Member of the

Roche Pharma Division Executive Committee. Mr. Schreiner has retired from Roche at the end of May 2007.

Steven D. Skolsky was born in 1956, is a US citizen, and holds a Bachelor of Arts degree in Biology from the University of North Carolina at Chapel Hill. Mr. Skolsky has over 28 years of general management and international pharmaceutical experience with emphasis on product strategy, commercialization and product development. He currently serves as the President and Chief Executive Officer of Sequoia Pharmaceuticals, a privately held, US based company specializing in novel antiviral therapeutics. Prior to his appointment at Sequoia, he held the position of Chief Executive Officer at Trimeris, Inc, a publicly held company that discovered and commercializes Fuzeon®, a novel, first-in-class HIV therapeutic in collaboration with partner F. Hoffmann-La Roche. Previously, Mr. Skolsky served over 23 years at GlaxoSmithKline 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.

Anthony Man, Chief Executive Officer, MD, FRCP, was born in 1956, is a Swiss citizen and holds an honor's degree in biochemistry in addition to a medical degree. He is an elected Fellow of the Royal College of Physicians (UK). Dr. Man has over 20 years international pharmaceutical industry experience and has developed numerous successful products

particularly in oncology. He has held a variety of senior positions spanning pre-clinical development to registration and commercialization while at Lederle, Roche, Ciba-Geigy AG, and Novartis AG. As Chief Development Officer at Basilea from 2001 to 2003, he built up the drug development organization and advanced all key development products through their major milestones. In April 2003, Dr. Man was appointed as Chief Executive Officer.

Ronald Scott, Chief Financial Officer, was born in 1955 and is a Swiss citizen. Mr. Scott obtained undergraduate and graduate degrees in planning with emphasis in finance. Prior to joining Basilea, he worked for nine years at Roche in management positions in Pharmaceutical Finance, Licensing, and the Roche Corporate Finance Mergers and Acquisitions group. His assignments included managing Roche's call, primary and secondary offerings on Genentech; Roche's biotechnology investment portfolio; acquisitions and divestitures. 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.

Dr. Man, CEO of Basilea, and Mr. Scott, CFO of Basilea, are executive members of the Board of Directors. Neither Dr. Man nor Mr. Scott is member of any of the Board Committees. All other members were non-executive board members in 2008.

Mr. Henrich, Chairman of the Board, acted as CEO of Basilea from February 2001 to October 2001. None of the other non-executive members of the Board of Directors served in the management of Basilea or any of its subsidiaries since inception of Basilea. In addition, Mr. Henrich acted as a consultant to Basilea in 2008.

There are no other significant business connections between non-executive members of the Board of Directors and Basilea or any of its subsidiaries. For further information, please refer to note 18 "Related Party Transactions" to the Consolidated Financial Statements.

Elections and Terms of Office

Basilea's Articles provide for a Board of Directors consisting of between one and eleven members. Members of the Board of Directors are appointed and removed exclusively by shareholders' resolution. Their term of office is up to three years, re-election being allowed. According to the Articles, elections are made by rotation in such a way that the term of office of about one third of the members of the Board of Directors may expire every year. The Chairman and the Vice-Chairman of the Board of Directors are designated by the Board of Directors.

According to the current organizational regulations of Basilea ("Organizational Regulations") enacted by the Board of Directors, each member of the Board of Directors shall resign effective as per the ordinary shareholders' meeting immediately following completion of his or her 70th year of age, even if the term of office has not yet expired. Newly elected members enter into the term of their predecessors.

Changes in the Board of Directors

Anthony Man and Ronald Scott were re-elected as members of the Board of Directors, each for a term of three years, at the ordinary shareholders' meeting on March 19, 2008. Peter van Brummelen, Walter Fuhrer and Daniel Lew were re-elected as members of the Board of Directors, each for a term of one year, at the ordinary shareholders' meeting on March 19, 2008. Gottlieb Keller did not stand by for re-election and his term expired at the ordinary shareholder's meeting on March 19, 2008. Steven Skolsky was elected as a new member of the Board of Directors on March 19, 2008, for a term of three years.

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 chart on page 22.

Internal Organization and 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. The Board of Directors' non-transferable and irrevocable duties include to ultimately manage the corporation and to issue the necessary directives, to determine the organization, to organize the accounting system, the financial controls as well as the financial planning and to appoint, recall, and ultimately supervise the persons entrusted with the management and representation of Basilea. Furthermore, these duties comprise the responsibility for the preparation of the annual report and the shareholders' meeting, the carrying out of shareholders' resolutions and the notification of the judge in case of over indebtedness of Basilea.

In addition or specification of these duties, the Board specifically retains certain main decision-making competencies, including setting the strategy and short- and long-term goals of Basilea; all M&A transactions as far as 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 basic principles related 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.

According to the Organizational Regulations, resolutions of the Board of Directors are passed by way of simple majority. To validly pass a resolution, 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 in connection with capital increases pursuant to articles 651 a, 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 shareholders' meetings. He supervises the implementation of the resolutions of the Board of Directors and generally supervises the CEO and his Management Committee, who 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. The Vice-Chairman of the Board of Directors exercises the powers of the Chairman in the Chairman's absence.

Board Committees

The Board of Directors established an Audit Committee and a Compensation Committee in 2003. The tasks and responsibilities of these Committees are set forth in the Organizational Regulations. These Committees make proposals to the Board of Directors in their areas of responsibilities while the resolutions are passed by the Board of Directors. The Board determined to retain nomination responsibilities for the full Board of Directors.

The **Audit Committee** consists of Andreas Wicki (Chairman), Peter van Brummelen, Walter Fuhrer, and Claude Schreiner, who all are non-executive members of the Board of Directors. The Audit Committee assists the Board of Directors in fulfilling its duties of supervision of the management. It is responsible for the guidelines of Basilea's 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 the findings by the Management Committee. The Audit Committee is at all times authorized to inspect the books and records of Basilea and to request information from and meetings with all management bodies and employees of Basilea as well as its external auditors.

The Audit Committee held three meetings at the offices of Basilea in 2008, each with a duration of approximately one half-day. The main topics at these meetings were the review of the year-end financial statements and Annual Report 2007; the review of the half-year financial statements 2008; the review of the annual budget 2009; financial and non financial risk management and the scope of the external audit 2008. The CFO was present at all Audit Committee meetings to report to the Audit Committee. In addition, the external auditors were present at two Audit Committee meetings in 2008 to report on the findings of the audit 2007 and the half-year review 2008. The respective recommendations of the Audit Committee were then further discussed for approval or modification by the full Board of Directors.

The **Compensation Committee** consists of Werner Henrich (Chairman), Daniel Lew, Claude Schreiner and Steven Skolsky, who all are non-executive members of the Board of Directors. The Compensation Committee assists the Board of Directors in compensation-related matters. It provides the Board of Directors with recommendations on the compensation of the members of the Board of Directors and of the Management Committee, the policies for the compensation of the Management Committee and Basilea's other employees, and the basic principles for the establishment, amendment and implementation of Basilea's stock option plan.

The Compensation Committee held four meetings in 2008 each with a duration of one or more hours. The main topics at these meetings included the review of the 2007 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 members of the Management Committee and employees. The CEO was present at a portion of all Compensation Committee meetings. The respective recommendations of the Compensation Committee were then further discussed for approval or modification by the full Board of Directors.

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 2008, the Board of Directors held 10 meetings with an average duration of half to two-thirds day. Except for four meetings, all were held at the offices of Basilea. Three meetings were held by telephone conference. The overall attendance rate (in person or by phone) was more than 90%.

The members of the Management Committee report to the Board of Directors at each board meeting on the status of operations, especially related to the progress of clinical development, commercial operations and research programs as well as the status of drug supply and licensing activities. In addition, an update is given at board meetings on the status of the Company's share price development.

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 the Organizational Regulations, the Board of Directors has delegated all areas of management of Basilea that are not reserved by law, the Articles or the Organizational Regulations, to the Board of Directors (see section "Responsibilities of the Board of Directors" on page 24), 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 operationally manage the Company, 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, 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 meetings are the Board of Directors' main platform to supervise and control the management. At each board meeting, the CEO and CFO report on the financial, business, research, and development status, with a particular focus on the main risks of the Company related to its key value drivers, respective measures taken and related strategic proposals. The Board of Directors from time to time also calls upon further members of the Management Committee and management to attend board meetings for reporting purposes.

In addition, management provides a monthly report to the Board of Directors on the status of operations and other issues that may be requested by the Board of Directors. The main components of this monthly report are the status of commercial operations, development and research programs as well as the status of the drug supply activities. Furthermore, management provides a monthly financial report to the Audit Committee including an unaudited consolidated balance sheet, profit and loss statement and statement of cash flows for the respective month. The financial report further includes comparisons of actual versus budget numbers.

The audited consolidated financial statements for the previous financial year are provided to the Audit Committee for their review at the end of January/beginning of February of each year. The consolidated interim financial statements for the half-year are provided to the Audit Committee at the end of July/beginning of August of each year. The financial statements are then recommended by the Audit Committee to the full Board of Directors at its subsequent meeting.

Furthermore, around November of each year, upon recommendation of the Audit Committee, the Board of Directors 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 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

Members, Functions and Other Activities

The Management Committee comprises certain executives including the CEO. Under the responsibility of the CEO and the supervision of the Board of Directors, it conducts the operational management of the Company pursuant to the Organizational Regulations and provides reports to the Board of Directors under the direction of the CEO at least on a monthly basis. 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 current members of the Management Committee. In addition, a short description of each member's nationality, business experience, education and activities is outlined on page 29.

Name	Appointed	Position
Dr. Anthony Man	2003	Chief Executive Officer
Prof. Jutta Heim	2004	Chief Scientific Officer
Dr. Ingrid Heinze-Krauss	2006	Chief Technology Officer
Dr. Dieter Götte	2008	Chief Medical Officer
Mr. Hans Christian Rohde	2007	Chief Commercial Officer
Mr. Ronald Scott	2000	Chief Financial Officer



From left to right and top to bottom:
 Dr. Anthony Man, Dr. Ingrid Heinze-Krauss,
 Mr. Ronald Scott, Mr. Hans Christian Rohde,
 Prof. Jutta Heim, Dr. Dieter Götte

For information on **Anthony Man**, Chief Executive Officer, and **Ronald Scott**, Chief Financial Officer, please refer to the section “Board of Directors” on page 23.

Dieter Götte, Chief Medical Officer, is a German citizen and holds biology and medical degrees from the universities of Marburg and Cologne. Dr. Dieter Götte has been appointed to the Basilea Management Team as Chief Medical Officer. Dr. Götte has over 20 years of industry experience with Hoechst, Aventis and Novartis across multiple therapeutic areas including anti-infectives and dermatology. His previous senior management roles have included Vice President of Regulatory & Medical Affairs, including Pharmacovigilance, at Aventis Pharma, Global Head of Corporate Medical Affairs and Global Business Unit Head for analgesics at Hoechst. Dr. Götte was also Chief Scientific Officer with Novartis Germany and Chairman of the Novartis Foundation for Therapeutic Research.

Jutta Heim, Chief Scientific Officer, is a German citizen, and holds a PhD in biology from the University of Tuebingen. Jutta Heim is also a professor in Biotechnology at the University of Basel. She has over 25 years experience of research and drug discovery in

Switzerland and the United States. She served in a variety of senior managerial and scientific expert positions for Ciba-Geigy AG and Novartis AG in the areas of cardiovascular, oncology, biotechnology, molecular biology and molecular genetics. Prior to joining Basilea in 2004 Professor Heim was a member of the Novartis Research Management Board and led the central Lead Discovery Center with worldwide screening responsibilities. Professor Heim is also a member of the Supervisory Board of Evolva AG, Allschwil and of SpinX Technologies SA, Geneva.

Ingrid Heinze-Krauss, Chief Technology Officer, is a German citizen, holds a PhD in organic chemistry from the University of Freiburg, Germany, and was a fellow at the University of Massachusetts, USA. She joined Basilea in 2001 and built up the supply chain management group. Prior to joining Basilea she held a series of managerial positions in Pharma Research at Roche, including Area Head Medicinal Chemistry in Antibacterial Research and R&D project management.

Hans Christian Rohde, Chief Commercial Officer, Danish citizen, holds a Master of Science from the University of Copenhagen, August Krogh Institute, Sports Physiology and Edu-

cation. In addition, he holds a MBA from the University of Birmingham. He has over 19 years of international experiences in the pharmaceutical industry. He has held operational and strategic positions in sales, marketing and general management across multiple therapeutic areas both in Europe and in the United States. His pharma and biotech experience was gained with Syntex Danmark A/S, Novo Nordisk A/S and Biogen Inc. Prior to joining Basilea he was Head of Global Therapeutic Area Reproductive Health with Merck Serono SA, Geneva.

Management Contracts

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

Former Activities for the Company and Changes in Management Committee

In preparation of anticipated international product commercialization including expansion of Drug Safety, Medical Information, Medical Affairs, Market Access, Supply Chain Distribution, and Global Quality Management one organizational change in the Management Committee was made in 2008. Dr. Dieter Götte joined as Chief Medical Officer and replaced Dr. Rienk Pypstra on the Basilea Management Committee. Dr. Rienk Pypstra takes on the role of Head of Portfolio Development to focus on expansion and consolidation of Basilea's R&D portfolio.

For further information on former activities for the Company and Changes in the Management Committee, please refer to the section "Board of Directors/Members, Functions and Other Activities" and "Management/Members, Functions and Other Activities".

Compensation, Shareholdings and Loans

Content and Method of Determining the Compensation and Share Option Program

The compensation of the members of the Board of Directors and of the Management Committee is set and reviewed annually by the Board of Directors, based on recommendations of the Compensation Committee in accordance with Basilea's compensation policies.

The compensation of the members of the Management Committee includes a base salary, as well as a bonus and stock options. The bonus and the stock options are based on personal and company performance. The bonus is calculated as a percentage of the base salary whereby the maximum is determined in the employment contract. The range of bonuses is between 25% and 40% of the base salary, whereby two members of the Management Committee have a guaranteed minimum bonus of 20% of their base salary provided that a bonus is distributed by Basilea. In addition, Basilea contributes to the pension plan and maintains certain insurances for death and invalidity.

The Board of Directors decides annually, considering the recommendations of the Compensation Committee, on the total amount of bonus to be granted based on the achievement of the Company goals set by the Board of Directors annually. These Company goals are related to the key value drivers of the Company, such as successful completion of clinical trials, providing drug supply for clinical trials, identification of clinical candidates, successful achievement of commercial operations goals and financing these activities. In a second step, the individual bonus for members of the Management Committee is determined by the Board of Directors upon recommendation of the Compensation Committee based on the individual performance and management's respective contribution to achieving the Company's goals.

The compensation of the members of the Management Committee and the members of the Board of Directors is reviewed yearly by the Compensation Committee. As part of this review, the Compensation Committee considers compensation packages at comparable companies in the industry based on the experience of the Committee members and publicly available information such that the Company remains competitive in its sector. This review forms the basis for the recommendation of the Compensation Committee to the Board.

The compensation package for non-executive board members consists of a fixed annual monetary compensation, a compensation based on meeting attendance and engagement in board committees as well as stock options. In addition, Basilea reimburses Director's out-of-pocket expenses related to their engagement as members of the Board. The non-executive board members obtain a fixed annual compensation for their board membership of CHF 25,000. Furthermore, each non-executive board member obtains a meeting fee of CHF 5,000 per meeting attended whereby the maximum cumulated meeting fee paid per year is limited to CHF 25,000. In addition, each non-executive board member acting as a member of the Audit or Compensation Committee obtains an annual one-time Committee fee of CHF 5,000. The Chairman of the Board of Directors receives a fixed annual compensation of CHF 37,500, an annual Committee fee of CHF 7,500 and a meeting fee of CHF 7,500 per meeting attended whereby the maximum cumulated meeting fee paid is limited to CHF 37,500.

Executive members of the Board of Directors do not obtain any compensation for their participation in the Board of Directors.

For further information on compensation and shareholdings, please refer to note 11 to the Financial Statements.

Shareholders Participation

Voting Rights and Representation Restrictions

Voting rights may be exercised only after a shareholder has been recorded in Basilea's share register ("Aktienbuch") as a shareholder or usufructuary ("Nutzniesser") with voting right. No exceptions from these restrictions were granted in 2008.

At shareholders' meetings, shareholders can be represented by proxy by a third party who does not need to be a shareholder.

Subject to the registration of shares in the share register within the deadline set from time to time by the Board of Directors before shareholders' meetings, Basilea's Articles 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 shareholders' meeting, please refer to the sections "Limitations on Transferability of Shares and Nominee Registrations" on page 21 above and "Registration in the Share Register" on page 33 above.

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 shareholders' meeting are required for the creation of shares with privileged voting rights.

Statutory Quorums

There is no provision in the Articles requiring a quorum for shareholders' meetings.

According to article 11 of the Articles, resolutions generally require the approval of the absolute majority ("absolutes Mehr") of the share votes represented at the shareholders' meeting. Shareholders' resolutions requiring such a majority include amendments to the Articles (subject to the exceptions below), elections of members of the Board of Directors, elections of the auditors and the group auditors, approvals of the annual report, the annual financial statements and consolidated financial statements of the Company, decisions regarding dividends, decisions to discharge the members of the Board of Directors and the management from liability for matters disclosed to the shareholders' meeting, and the ordering of an independent investigation into specific matters proposed to the shareholders' meeting ("Sonderprüfung").

Pursuant to article 12 of the Articles, a resolution passed at a shareholders' meeting with a qualified majority ("qualifiziertes Mehr") 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 shareholders' meeting are required for: (i) changes in Basilea's purpose; (ii) the creation of shares with privileged voting rights; (iii) restrictions on the transferability of registered shares; (iv) an authorized or conditional capital increase ("genehmigte oder bedingte Kapitalerhöhung"); (v) an increase of capital out of equity ("Kapitalerhöhung aus Eigenkapital") against contributions in kind ("Sacheinlage") or for the purpose of an acquisition of assets ("Sachübernahme") and the granting of special benefits; (vi) the limitation or withdrawal of preferential subscription rights; (vii) the change of the registered offices of Basilea; and (viii) the dissolution of Basilea without liquidation (e.g. through merger). In addition, amendments of the clauses of the Articles of Basilea on transfer restrictions, on the conversion of registered shares into bearer shares as well as amendments to the clause relating to such additional items requiring a qualified majority also require the qualified majority mentioned before.

The shareholders' meeting may at any time convert registered shares into bearer shares or bearer shares into registered shares through an amendment of the Articles.

Convening of Shareholders' Meetings and Agenda Items

The shareholders' meeting is the supreme institution of Basilea. Under Swiss law, the ordinary shareholders' meeting takes place annually within six months after the close of the business year. Shareholders' meetings may be convened by the Board of Directors or, if necessary, by the auditors. The Board of Directors is furthermore required to convene an extraordinary shareholders' meeting if so requested in writing by holders of shares representing at least 10% of the share capital of Basilea, setting forth the items to be included on the agenda and the proposals. Shareholders representing shares with a par value of at least CHF 100,000 have the right to request in writing that an item be included on the agenda of the next shareholders' meeting, setting forth the item and the proposals. According to article 7 of the Articles, the request to put an item on the agenda has to be made at least 45 days prior to the shareholders' meeting. Extraordinary shareholders' meetings can be called as often as necessary, in particular, in all cases required by law.

Shareholders' meetings must be convened by publishing a notice in the Swiss Official Gazette of Commerce ("Schweizerisches Handelsamtsblatt") at least 20 days prior to such meeting. In addition, holders of registered shares may be informed by a letter sent to the address indicated in the share register.

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 shareholders' meeting ("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 shareholders' meeting. In case that such deadline for the ordinary annual shareholders' meeting is already determined by the Board of Directors prior to the printing of the Annual Report, it will also be included in the Annual Report.

In 2008, the deadline for registration in the share register in order to participate and to vote at the ordinary shareholders' meeting of March 19, 2008, was March 7, 2008, i.e. 12 days before the shareholders' meeting. It is Basilea's intention regarding future shareholders' meetings that this timeframe will not change significantly.

The registration deadline for the ordinary shareholders' meeting to be held on April 29, 2009, has been determined to be April 16, 2009.

Basilea has not enacted any rules on the granting of exceptions in relation to these deadlines. No exceptions were granted in 2008, and the Board of Directors does not anticipate to grant any exceptions related to the shareholders' meeting on April 29, 2009.

For further information on the registration in the share register, please refer to the section "Limitations on Transferability of Shares and Nominee Registrations" on page 21.

Changes of Control and Defense Measures

Duty to Make an Offer

The Articles contain no provision which would rule out the obligation of an acquirer of shares exceeding the threshold of 33 1/3% of the voting rights to proceed with a public purchase offer (opting-out provision pursuant to article 22 para. 2 and 3 SESTA), or which would increase such threshold to 49% of the voting rights (opting-out provision pursuant to article 32 para. 1 SESTA).

Clauses on Changes of Control

Basilea's stock option plan contains provisions in respect of changes of Basilea's shareholder base. The change of control definition in the stock option plan includes the launch of any offer for the shares of the Company, which meets or exceeds the mandatory offer threshold of 33 1/3% of all shares of the Company, upon which time such offer becomes unconditional. In case of a change of control, all unexercised 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 become exercisable. The related remaining term of the stock options would be reduced proportionally in such an event.

Furthermore, upon an offer, which meets or exceeds the mandatory offer threshold of 33 1/3% becoming unconditional or a change of control, the provisions of the stock option plan cannot be changed to the detriment of their holders and Basilea will hold the option holders harmless for any income taxes or social security contributions that are due or may become due related to early vesting, exercise or exercisability of stock options. These provisions would also apply to stock appreciation rights under Basilea's stock option plan.

Upon an offer, which meets or exceeds the mandatory offer threshold of 33 1/3% becoming unconditional or a change of control, the periods of notice applicable to all employment contracts of Basilea become twelve months in the event of termination.

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 since inception of Basilea up to the shareholders' meeting in March 2008 has been Mr. Ralph R. Reinertsen. After seven years as lead auditor, Mr. Ralph R. Reinertsen rotated-out in 2008. The lead auditor of Basilea since March 2008 is Mr. Thomas Bröderlin.

Auditing Fees

In 2008, PricewaterhouseCoopers AG and its affiliates charged the Company auditing fees in the amount of CHF 211,717.

Additional Fees

In 2008, PricewaterhouseCoopers AG and its affiliates have not charged the Company any additional fees.

Control Instruments of the Auditor

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 2008, the Audit Committee met with the auditors twice to discuss the scope and results of their year-end audit for 2007, the scope of the 2008 audit as well as the results of their review of the half-year financial statements per June 30, 2008.

Information Policy

Basilea publishes financial results on a biannual basis in form of an Annual Report and a Half-year Report (Interim Report). In addition, Basilea informs shareholders and the public regarding the Company's business through press releases, conference calls, as well as roadshows. Where required by law or Basilea's Articles, publications are also made in the Swiss Official Gazette of Commerce.

The Annual Report, usually published no later than in April of the following year, and the Interim Report, usually published in July/August, are both announced by press release. Basilea intends to publish more precise information about the release date of the Annual Report on its website (www.basilea.com) in January of the respective year, and June for the Interim Report of the respective half-year.

The Annual Reports may be sent in printed form to all registered shareholders upon its disclosure. Upon disclosure, Annual Reports, Interim Reports, and press releases can be obtained free of charge in either German or English language versions upon request, and are also made available on the Company's website at www.basilea.com. The Company's website, which is the Company's permanent source of information, also provides other information useful to investors and the public, including information on the Company's development and research programs as well as contact information.

It is the Company's policy not to release explicit earnings projections, but it will provide general guidance to enable the investment community and the public to better evaluate the Company and its business prospects for future performance. The Board of Directors has issued a disclosing policy to ensure that the 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 shareholders' or potential investors' queries under investor_relations@basilea.com or via post at Basilea Pharmaceutica Ltd., Investor Relations, P.O. Box, CH-4005 Basel, Switzerland.

Additional inquiries may also be made by phone at +41 61 606 1111 or Investor Relations at +41 61 606 1233.

Insider Policy

The Board of Directors issued an insider policy, which was reviewed and amended in 2006 in order to prevent insiders from benefiting from confidential information. The policy defines guidelines on how to deter corporate insiders from making use of confidential information. The Board of Directors has established blocking periods to prevent insiders from trading during sensitive periods.

Ethical Business Conduct

The Company is committed to the highest standards of ethical business conduct. As a pharmaceutical 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. The Company expects that its employees, contractors and agents ("Personnel") shall observe the highest standards of integrity in the conduct of Company's business. The Code of Conduct sets forth Company's policy embodying the high standards of business ethics and integrity required of all Personnel when conducting business affairs on behalf of the Company. The Company is committed to complying with the spirit and letter of all applicable laws and regulations where the Company engages in business.

FINANCIAL REPORT

FINANCIAL REVIEW

Overview

The following discussion of the financial condition and results of operations of Basilea Pharmaceutica Ltd. and its subsidiaries 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. is an integrated biopharmaceutical company actively engaged in the discovery, development and commercialization of innovative drugs for the treatment of diseases associated with high unmet medical needs in the hospital and specialty care setting. Basilea's fully integrated research and development operations are currently focused on new antibacterial, antifungal and oncology agents to fight drug resistance, and on the development of dermatology drugs.

In 2008, the Company has obtained marketing authorizations for Toctino® in Germany, the United Kingdom, France, Denmark and Finland and awaits further approvals in other European countries. Toctino® is an oral treatment for patients with severe chronic hand eczema. In addition, ZEFTERA™/Zevtera™ was granted marketing authorizations in Canada and Switzerland in 2008. ZEFTERA™/Zevtera™ is a broad-spectrum cephalosporin antibiotic, which is commercialized in collaboration with Johnson & Johnson. Isavuconazole, a novel broad-spectrum antifungal for the treatment of severe invasive fungal infections is in phase III clinical development.

The Company recognized revenues (excluding other income) of CHF 11.8 million in 2008 (2007: CHF 7.9 million), of which CHF 8.2 million (2007: CHF 6.6 million) related to both the release of deferred revenue in connection with upfront and milestone payments received from Johnson & Johnson for ZEFTERA™/Zevtera™ and income from reimbursement of costs related to the co-promotion activities. Furthermore, revenues include product sales in the amount of CHF 1.9 million in 2008, as a result of the launch of Toctino® in Germany, the United Kingdom and Denmark in late 2008. Cost of sales relate to the sales of Toctino® in 2008 and include both cost of goods sold and period costs related to the manufacturing and distribution of the product.

In 2008, the Company invested CHF 97.4 million in research and development activities, mainly related to conducting the phase III clinical trials for isavuconazole. In addition, the Company invested in third-party manufacturing of isavuconazole clinical supply and registration batches and process development activities related to isavuconazole. Furthermore, expenses were incurred for the preparations of the product registration filings for Toctino® as well as for the preparations and start of clinical trials for Toctino® in the U.S. In 2008, the research and development expenses included an amount of CHF 0.0 million (2007: CHF 11.4 million) related to manufacturing of pharmaceutical material prior to obtaining regulatory approval. The Company intends to use such material for commercialization of Toctino®. Selling, general and administrative expenses amounted to CHF 66.8 million in 2008 and include expenses for the establishment and maintenance of an international commercialization organization to prepare and support the launch of Toctino® as well as the co-promotion activities related to ZEFTERA™/Zevtera™.

In 2007, the Company received additional milestone payments in the amount of CHF 36.4 million related to the filings of the new drug applications for ZEFTERA™/Zevtera™ in the United States and Europe. These payments were deferred and will be recognized as revenues over the remaining term of the agreement. In addition, the Company completed a secondary offering in March 2007 and received net proceeds of CHF 310.1 million.

The cash and cash equivalents and short-term investments amounted to CHF 293.6 million as of December 31, 2008, compared to CHF 424.8 million at year-end 2007.

Results of Operations

The following table outlines the Company's consolidated results of operations for the fiscal years 2008 and 2007:

In CHF million	2008	2007
Revenues and other income	12.0	8.2
Cost of Sales	(0.3)	–
Research & development expenses	(97.4)	(115.7)
Selling, general & administrative expenses	(66.8)	(29.0)
Total operating expenses	(164.5)	(144.7)
Operating loss	(152.5)	(136.5)
Net financial income	9.0	9.7
Loss before taxes	(143.5)	(126.8)

Revenues

The revenues in 2008 are mainly associated with income from the license agreement with Johnson & Johnson related to ZEFTERA™/Zevtera™ in the amount of CHF 8.2 million (2007: CHF 6.6 million), including both income from the release of deferred revenue in connection with upfront and milestone payments received under the agreement and income related to reimbursement of costs for the co-promotion activities. The upfront and milestone payments received under the license agreement were recorded as deferred revenue and recognized as revenue on a straight-line basis over the remaining term of the agreement.

In addition, revenues in 2008 include product sales in the amount of CHF 1.9 million in connection with the launch of Toctino® in Germany, the United Kingdom and Denmark in late 2008. Furthermore, the Company realized revenues from R&D services in the amount of CHF 1.7 million in 2008 (2007: CHF 1.3 million).

Research and Development

The research and development expenses amounted to CHF 97.4 million in 2008, representing 59% of the total operating expenses (2007: 80%).

The research and development expenses in 2008 were mainly incurred in connection with conducting the phase III trials for isavuconazole. In addition, the Company invested in third-party manufacturing of isavuconazole clinical supply and registration batches and process development activities related to isavuconazole. Furthermore, expenses were incurred for the

preparations of the product registration filings for Toctino® as well as for the preparations and start of clinical trials for Toctino® in the U.S. In addition, the research and development expenses also include activities related to the Company's late stage research programs. In 2008, the research and development expenses included CHF 0.0 million (2007: CHF 11.4 million) related to manufacturing of pharmaceutical material prior to obtaining regulatory approval. The research and development expenses in 2008 also included stock-based compensation expenses of CHF 8.4 million (2007: CHF 8.0 million).

The research and development expenses primarily contain expenses 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 research and development groups of the Company as well as depreciation of equipment used for its research and development activities. In addition, research and development expenses contain expenses for producing pharmaceutical material which may be used for commercialization and which was produced prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected.

Selling, General and Administrative Expenses

The selling, general and administrative expenses amounted to CHF 66.8 million or approximately 41% (2007: 20%) of total operating expenses in 2008. The selling, general and administrative expenses in 2008 included costs related to the establishment and maintenance of an international commercialization organization to prepare and support the launch of Toctino® as well as the co-promotion activities related to ZEFTERA™/Zevtera™. In addition, selling, general and administrative expenses included stock-based compensation expenses of CHF 7.5 million (2007: CHF 5.7 million).

Selling, general and administrative expenses mainly consist of expenses related to commercial strategy, marketing, salesforce, corporate management, finance, human resources, business development, licensing and investor relations, including personnel expenses for these functions. As of December 31, 2008, the Company has incorporated subsidiaries in the U.S., Canada, United Kingdom, Germany, Italy, Spain, Denmark and France in connection with the international commercialization activities.

Net Financial Income

Net financial income decreased to CHF 9.0 million in 2008 compared to CHF 9.7 million in 2007 as a result of the reduction of funds available for investments. As of December 31, 2008, the Company invested its short-term investments with Swiss banks in bank deposits denominated in Swiss Francs.

Income Taxes

Due to the losses incurred to date, the Company has not paid any income taxes and has not recognized any deferred taxes as of December 31, 2008.

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, Basilea performed a capital increase, in which Basilea raised net proceeds of CHF 20.7 million through the issuance of new shares in a private placement. In March 2004, Basilea issued 2.1 million registered shares in connection with its initial public offering and raised net proceeds of CHF 192.8 million. Since 2005, the Company received non-refundable upfront and milestone payments under its license agreement with Johnson & Johnson in the total amount of CHF 114.4 million. In March 2007, Basilea issued 1.4 million registered shares in connection with a secondary offering and realized net proceeds of CHF 310.1 million. In addition, the Company further realized proceeds from the issuance of shares in 2008 and 2007 in connection with exercises of stock options in the amount of CHF 1.8 million and CHF 23.8 million, respectively.

The cash used by the Company in 2008 was primarily related to its operating activities, in particular the research and development programs as well as the establishment and maintenance of an international commercialization organization. The cash and cash equivalents and short-term investments, available as of December 31, 2008, amount to CHF 293.6 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, 2008, CHF 215.0 million were 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, 2008.

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 managements' knowledge of current events and actions the Company may undertake in the future, however, actual results ultimately may differ materially from those estimates.

The upfront and milestone payments received under the license agreement for ZEFTERA™/Zevtera™ were recorded as deferred revenue and are recognized on a straight-line basis over the remaining term of the agreement in accordance with the Company's policy on revenue recognition. As a result, the Company recognized significant deferred revenue as of

December 31, 2008 related to upfront and milestone payments. Income from reimbursement of costs related to co-promotion activities of the Company in connection with ZEFTERA™/Zevtera™ is recognized as contract revenue. The costs related to the co-promotion activities are included in selling, general and administrative expenses.

Product sales are recognized 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 chargebacks. When the Company grants rights of return to its customer, revenue is recognized only, if all of the conditions of Statement of Financial Accounting Standards ("SFAS") No. 48 "Revenue recognition when right of return exists" are met. These conditions include, amongst others, that the price is fixed or determinable at the date of product sale, the obligation of the customer to pay is not contingent upon the resale of the products and the amount of future returns by customers can be reasonably estimated.

The Company adopted SFAS No. 123R related to accounting for stock-based compensation. As a result, stock options are measured based on their grant-date fair value. The Company recorded total expenses related to stock-based compensation of CHF 15.9 million in 2008 (2007: CHF 13.7 million).

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. As a result, the Company recorded expenses related to the manufacturing of commercial material for Toctino® as research and development expenses in the amount of CHF 0.0 million in 2008 (CHF 11.4 million in 2007), as regulatory approval for Toctino® was not obtained at that time. Accordingly, the cost of sales do not and will not include such manufacturing costs, when the respective commercial material is sold.

The Company assesses deferred taxes in accordance with SFAS No. 109 and accordingly 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 159.5 million as of December 31, 2008 due to the history of operating losses and the uncertainty related to the realizability of 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, US dollars, British pounds, Canadian dollars, Danish Kronen and Chinese Yuan Renminbi. Although the Company believes that the current exposure to foreign currency risk is not significant, it cannot be excluded that unfavorable developments of the value of the Swiss Franc could have a material adverse effect on the Company's financial condition, results of operations, and prospects in the future.

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

Recent Developments

There have been no material adverse changes in the business or financial situation of the Company since December 31, 2008.

REPORT OF THE STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS



Report of the Statutory Auditors on the consolidated financial statements to the General Meeting of Basilea Pharmaceutica Ltd., Basel, Switzerland

As Statutory Auditors, 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, 2008, included on pages 44 to 67.

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, 2008 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

Thomas Brüderlin
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, January 26, 2009

CONSOLIDATED FINANCIAL STATEMENTS

Basilea Pharmaceutica Ltd. and subsidiaries

Consolidated Balance Sheets as of December 31, 2008 and 2007 (in CHF)

	Footnote reference	2008	2007
ASSETS			
Current assets			
Cash and cash equivalents	7	78 630 493	169 819 448
Short-term investments	6	215 000 000	255 000 000
Accounts receivable	5	2 257 810	349 243
Other receivables		5 872 216	2 995 976
Accrued interest		1 061 910	4 079 011
Inventories	8	53 480	–
Other current assets		1 805 892	1 699 184
Total current assets		304 681 801	433 942 862
Non-current assets			
Tangible assets, net	2	20 247 544	19 269 451
Intangible assets, net	3	2 774 828	2 557 486
Other non-current assets	15	422 323	5 679 214
Total non-current assets		23 444 695	27 506 151
TOTAL ASSETS		328 126 496	461 449 013
LIABILITIES			
Current liabilities			
Accounts payable		1 794 996	2 829 006
Deferred revenue	9	8 220 649	8 251 787
Accruals and other current liabilities	10	33 298 604	24 870 311
Total current liabilities		43 314 249	35 951 104
Non-current liabilities			
Deferred revenue, less current portion	9	82 222 495	90 376 794
Other non-current liabilities	15	2 846 999	16 249
Total non-current liabilities		85 069 494	90 393 043
Total liabilities		128 383 743	126 344 147
Commitments and contingencies	19		
SHAREHOLDERS' EQUITY			
Share capital ¹	13	9 571 403	9 543 678
Additional paid-in capital		820 214 323	802 509 264
Accumulated other comprehensive income/loss		(9 900 570)	(43 907)
Accumulated deficit:			
Loss carried forward		(476 614 369)	(350 084 627)
Net loss for the year		(143 528 034)	(126 819 542)
Total shareholders' equity		199 742 753	335 104 866
TOTAL LIABILITIES AND EQUITY		328 126 496	461 449 013

¹ As of December 31, 2008, 9,571,403 shares issued and outstanding with a par value of CHF 1 per share.
As of December 31, 2007, 9,543,678 shares issued and outstanding with a par value of CHF 1 per share.

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

Basilea Pharmaceutica Ltd. and subsidiaries

Consolidated Statements of Operations for the years ended December 31, 2008 and 2007 (in CHF)

	Footnote reference	2008	2007
Product sales		1 916 563	–
Contract revenue	9	8 206 980	6 564 352
Revenue from R&D services		1 657 362	1 334 095
Other income		193 303	313 163
Total operating income		11 974 208	8 211 610
Cost of sales		(279 312)	–
Research & development expenses		(97 407 773)	(115 694 820)
Selling, general & administrative expenses		(66 793 258)	(28 986 020)
Total operating expenses		(164 480 343)	(144 680 840)
Operating loss		(152 506 135)	(136 469 230)
Interest income		8 860 731	9 325 587
Other financial income, net		117 370	324 101
Loss before taxes		(143 528 034)	(126 819 542)
Income taxes	11	–	–
Net loss		(143 528 034)	(126 819 542)
Loss per share		2008	2007
Basic and diluted loss per share, in CHF		(15.02)	(13.97)

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

Basilea Pharmaceutica Ltd. and subsidiaries

Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007 (in CHF)

	2008	2007
Cash flow from operating activities		
Net loss	(143 528 034)	(126 819 542)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	4 122 201	2 704 393
Loss/gain on disposal of assets, net	3 947	(13 444)
Stock-based compensation	15 947 030	13 659 163
Change in operating assets/liabilities		
Accounts receivable	(2 060 173)	(165 021)
Other receivables	(2 944 556)	(1 990 163)
Accrued interest	3 017 101	(2 643 348)
Inventories	(55 780)	–
Other current assets	(145 668)	1 321 948
Other non-current assets	(1 451 038)	(699 847)
Accounts payable	(905 201)	908 324
Deferred revenue	(8 191 103)	29 474 540
Accruals and other current liabilities	9 025 374	5 275 234
Net cash used for operating activities	(127 165 900)	(78 987 763)
Cash flow from investing activities		
Payments for financial investments	(480 000 000)	(500 000 000)
Maturities of financial investments	520 000 000	385 000 000
Proceeds from sale of assets	5 277	22 145
Investments in tangible assets	(3 765 304)	(3 997 848)
Investments in intangible assets	(1 452 816)	(2 536 427)
Net cash provided by/used for investing activities	34 787 157	(121 512 130)
Cash flow from financing activities		
Net proceeds from capital increase	–	310 097 353
Net proceeds from exercise of stock options	1 802 008	23 829 611
Repayments of capital lease liabilities	(6 970)	(1 916)
Net cash provided by financing activities	1 795 038	333 925 048
Effect of exchange rate changes on cash and cash equivalents	(605 250)	(199 407)
Net change in cash and cash equivalents	(91 188 955)	133 225 748
Cash and cash equivalents, beginning of period	169 819 448	36 593 700
Cash and cash equivalents, end of period	78 630 493	169 819 448
Supplemental information		
Investments through capital lease	–	27 610
Cash paid for interest	2 190	–
Cash paid for income taxes	–	–

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

Basilea Pharmaceutica Ltd. and subsidiaries

Consolidated Statement of changes in Shareholders' Equity for the years ended December 31, 2008 and 2007 (in CHF, except for number of shares)

	Number of shares	Share capital	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income/loss	Total
Balance at December 31, 2006	7 785 506	7 785 506	456 690 649	(350 084 627)	(2 081 997)	112 309 531
Currency translation adjustment	–	–	–	–	(323 910)	(323 910)
Pension-related net gains/losses	–	–	–	–	2 362 000	2 362 000
Net loss	–	–	–	(126 819 542)	–	(126 819 542)
Comprehensive income/loss	–	–	–	(126 819 542)	2 038 090	(124 781 452)
Capital increase, net	1 380 000	1 380 000	308 717 353	–	–	310 097 353
Exercise of stock options, net	378 172	378 172	23 451 439	–	–	23 829 611
Stock-based compensation, net	–	–	13 649 823	–	–	13 649 823
Balance at December 31, 2007	9 543 678	9 543 678	802 509 264	(476 904 169)	(43 907)	335 104 866
Currency translation adjustment	–	–	–	–	(35 663)	(35 663)
Pension-related net gains/losses	–	–	–	–	(9 821 000)	(9 821 000)
Net loss	–	–	–	(143 528 034)	–	(143 528 034)
Comprehensive income/loss	–	–	–	(143 528 034)	(9 856 663)	(153 384 697)
Exercise of stock options, net	27 725	27 725	1 774 283	–	–	1 802 008
Stock-based compensation, net	–	–	15 930 776	–	–	15 930 776
Effects of changing the pension plan measurement date pursuant to FASB Statement No. 158	–	–	–	289 800	–	289 800
Balance at December 31, 2008	9 571 403	9 571 403	820 214 323	(620 142 403)	(9 900 570)	199 742 753

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

Basilea Pharmaceutica Ltd. and subsidiaries

Notes to the Consolidated Financial Statements (all amounts in CHF)

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 actively engaged in the discovery, development and commercialization of innovative drugs for the treatment of bacterial infections, fungal infections, oncology and skin diseases. The Company was founded in October 2000.

In 2007, the Company incorporated subsidiaries in the U.S., Canada, United Kingdom, Germany, Italy, Spain, Denmark and France in the context of establishing an international sales and marketing organization. These subsidiaries are wholly-owned and fully consolidated.

Basilea further owns 100% of the shares of BPh Investitionen AG, Baar, Switzerland, a subholding company, which holds a 100% investment in Basilea Pharmaceutica China Ltd., Haimen, China, that performs chemical supply research and development services. Both BPh Investitionen AG and Basilea Pharmaceutica China Ltd. are fully consolidated.

In 2008, the Company obtained marketing authorizations for Toctino[®], a compound for severe chronic hand eczema in the United Kingdom, Germany, France, Denmark and Finland. In addition, the Company obtained marketing authorizations for ZEFTERA[™]/Zevtera[™], an antibiotic compound, which is commercialized in cooperation with Johnson & Johnson, in Canada and Switzerland.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP"). The financial statements are presented in Swiss Francs (CHF).

Principles of Consolidation

Subsidiaries in which Basilea has a controlling interest directly or indirectly are consolidated. Investments in which the Company exercises significant influence (generally between 20 and 50 percent of the voting rights), but which the Company does not control, are accounted for applying the method of equity accounting. Investments in which the Company does not exercise significant influence (generally ownership of less than 20 percent of voting rights) are accounted for at cost. Intercompany balances and transactions have been eliminated in consolidation. As of December 31, 2008, the Company holds only wholly-owned subsidiaries.

Use of Estimates

The preparation of financial statements in accordance with US 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. These estimates are based on managements' knowledge of current events and actions the Company may undertake in the future, however, actual results ultimately may differ from those estimates.

Cash and Cash Equivalents

The Company considers cash equivalents to be investments, which are highly liquid, 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 transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized 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 three months and remaining maturities of up to twelve months. These investments are carried at cost approximating fair value. Gains and losses resulting from such investments are included as a component of other financial income/expense in the statement of operations.

Accounts Receivable

Accounts receivable are recorded at net realizable value after consideration of an allowance for doubtful accounts.

The Company generally maintains allowances for estimated uncollectible accounts receivable 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.

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 net realizable value. Cost is determined based on the first-in first-out principle. If inventory cost exceed net realizable value a provision is recorded. In addition, provisions are recorded due to obsolescence or lack of demand.

Tangible Assets

Tangible assets are recorded at cost less accumulated depreciation. 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 R&D equipment, 3-5 years for furniture and office equipment (primarily 3 years), 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 lives of assets 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 definitive lives consist mainly of acquired or developed internal use software. The intangible assets are amortized on a straight-line basis over the estimated useful lives, which is 3 years for software. Product rights are amortized over the remaining life of the underlying patent.

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

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. An impairment is evaluated based on the sum of future cash flows, on an undiscounted basis, expected to result from the use of the asset compared to its carrying value. An impairment is recognized to the extent the carrying value of the asset exceeds its fair value.

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.

Revenue Recognition

The Company generally recognizes revenue if the criteria of Staff Accounting Bulletin ("SAB") No. 104 are met. For agreements with multiple deliverables, the Company recognizes revenue separately for each deliverable in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-21.

Product Sales

The Company recognizes revenue from the sale of its products when realizable, which is 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 chargebacks. When the Company grants rights of return to its customers, revenue is recognized if all of the conditions of Statement of Financial Accounting Standards ("SFAS") No. 48 "Revenue recognition when right of return exists" are met.

Contract Revenue

Contract revenue includes realized amounts from upfront and milestone payments, royalties as well as the income from reimbursement of costs related to the co-promotion activities of the Company in connection with ZEFTERA™/Zevtera™. The costs related to the co-promotion activities are included in selling, general and administrative expenses.

Revenue from non-refundable, upfront license fees and milestone payments under licensing agreements, where the Company has continuing involvement, is recognized over the estimated performance or agreement period, depending on the terms of the agreement. Performance based milestone payments are recognized upon achievement of the respective event and if there is no continuous involvement by the Company related to this milestone payment. To the extent that 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.

Revenue related to royalties received from licensees is recognized on an accrual basis based on the sales of the underlying products. Royalties are recognized as earned when the royalties can be reasonably estimated and when collectability is reasonably assured.

Revenue from R&D 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 & development expenses.

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development equipment with alternative future uses is capitalized and depreciated over its respective useful life.

Research and development expenses primarily contain 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 research and development groups of the Company as well as depreciation of equipment used for its research and development activities. In addition, research and development expenses contain expenses for producing pharmaceutical material which may be used for commercialization and which was produced prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected.

Stock-Based Compensation

As of July 1, 2005, the Company adopted the SFAS No. 123R related to Accounting for Stock-Based Compensation. According to SFAS No. 123R, 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. Under the modified prospective application method of SFAS No. 123R, the Company applies this accounting treatment to awards issued, modified, repurchased or cancelled after June 30, 2005 as well as to portions of awards, to the extent they have not vested by June 30, 2005.

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.

Earnings/Loss per Share

Basic earnings/loss per share is calculated by dividing the net income/loss attributable to the shareholders by the weighted average shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net income attributable to the shareholders by the weighted average shares outstanding during the period adjusted for potential dilution that could occur if dilutive securities, such as stock options and convertible debt, were exercised or converted into shares or resulted in the issuance of shares that then shared in the earnings of the Company. The potential dilution related to stock options is calculated by application of the treasury stock method.

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 once they are marketed; ability to market its products; ability to manufacture its products at reasonable costs; protection of proprietary technology; development of new technological innovations by its competitors; dependence on key personnel; dependence on key suppliers 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 accounting pronouncements below may have an impact on the financial statements of the Company.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157 related to fair value measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company adopted SFAS No. 157 as of January 1, 2008 with no significant impact on its financial position or results of operations. The effective date of SFAS No. 157 for non-financial assets and non-financial liabilities was deferred to the fiscal year 2009. The Company does not expect a significant impact on its financial position or results of operations from the adoption of SFAS No. 157 related to non-financial assets and non-financial liabilities.

In September 2006, the FASB issued SFAS No. 158 related to accounting for defined benefit and other postretirement plans. This statement requires that the funded status of defined benefit plans is recognized on the balance sheet. In addition, this statement requires that the measurement of plan assets and obligations is performed as of the fiscal year-end. Furthermore, SFAS No. 158 establishes certain additional disclosure provisions. The Company adopted the recognition provisions of SFAS No. 158 in 2006 and recognized the funded status of its defined benefit pension plan in its consolidated balance sheet as of December 31, 2006. In addition, the Company adopted December 31, as the measurement date for plan assets and obligations for the first time in fiscal year 2008. The impact of the adoption of SFAS No. 158 is reflected in the balance sheet and the statement of changes in shareholders' equity.

In February 2007, the FASB issued FAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115". This statement is effective since January 1, 2008 and provides entities the option, at specific election dates, to measure many financial instruments and certain other items at fair value. The Company has not exercised this fair value option and consequently this accounting statement did not have a significant impact on its financial position or results of operations.

In June 2007, the FASB ratified the consensus reached by the EITF on EITF Issue No. 07-3 "Accounting for Advance Payments for Goods or Services

to Be Used in Future Research and Development Activities". EITF No. 07-3 states that non-refundable advance payments for future research and development activities should be capitalized until the goods have been delivered or the related services have been performed. The Company adopted this accounting treatment prospectively for new contracts entered into beginning from January 1, 2008, the effective date of this issue, without significant impact on its financial position or result of operations.

In December 2007, the FASB ratified the consensus reached by the EITF on the EITF Issue No. 07-1 "Accounting for Collaborative Arrangements". EITF No. 07-1 prohibits the application of the equity method of accounting for collaborative arrangements unless a legal entity exists. In addition, EITF No. 07-1 states that payments between collaborative partners would be evaluated and reported in the income statement based on applicable accounting principles. The Company will adopt this accounting treatment from January 1, 2009, the effective date of this issue and does not expect that the adoption will have a significant impact on its financial position or results of operations.

2 Tangible Assets

In CHF million	Land/Land-use rights	Buildings	Equipment	Total
2008				
Cost				
January 1, 2008	1.4	17.8	21.9	41.1
Additions	0.0	0.4	3.4	3.8
Disposals	0.0	0.0	(0.4)	(0.4)
Currency effect	0.0	0.2	0.1	0.3
December 31, 2008	1.4	18.4	25.0	44.8
Accumulated depreciation				
January 1, 2008	0.0	4.8	17.0	21.8
Additions	0.0	0.9	2.0	2.9
Disposals	0.0	0.0	(0.4)	(0.4)
Currency effect	0.0	0.1	0.2	0.3
December 31, 2008	0.0	5.8	18.8	24.6
Net book value as of December 31, 2008	1.4	12.6	6.2	20.2
2007				
Cost				
January 1, 2007	1.4	17.6	18.7	37.7
Additions	0.0	0.3	3.7	4.0
Disposals	0.0	0.0	(0.3)	(0.3)
Currency effect	0.0	(0.1)	(0.2)	(0.3)
December 31, 2007	1.4	17.8	21.9	41.1
Accumulated depreciation				
January 1, 2007	0.0	3.9	15.8	19.7
Additions	0.0	0.9	1.7	2.6
Disposals	0.0	0.0	(0.3)	(0.3)
Currency effect	0.0	0.0	(0.2)	(0.2)
December 31, 2007	0.0	4.8	17.0	21.8
Net book value as of December 31, 2007	1.4	13.0	4.9	19.3

The insurance value of tangible assets amounts to CHF 105.8 million as of December 31, 2008.

3 Intangible assets

The intangible assets as of December 31, 2008 and 2007 consist mainly of internal use software.

In CHF million	2008	2007
Cost		
January 1	4.1	1.6
Additions	1.4	2.5
Disposals	0.0	0.0
Currency effect	0.0	0.0
December 31	5.5	4.1
Accumulated amortization		
January 1	1.5	1.4
Additions	1.2	0.1
Disposals	0.0	0.0
Currency effect	0.0	0.0
December 31	2.7	1.5
Net book value as of December 31	2.8	2.6

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

	Amount in CHF million
2009	1.3
2010	1.2
2011	0.2
2012	0.0
2013	0.0
Thereafter	0.1
Total	2.8

4 Segment and Geographic Information

The Company operates in one segment, which is the discovery, development and commercialization of pharmaceutical products. The CEO of the Company reviews the profit and loss of the Company on an aggregated basis 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	2008	2007
Switzerland	16.7	16.0
China	2.7	2.6
Other	0.8	0.7
Total	20.2	19.3

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

In CHF million	2008	2007
Switzerland	8.5	6.7
Other	3.3	1.2
Total	11.8	7.9

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

5 Accounts Receivable

The accounts receivable result primarily from product sales as of December 31, 2008. The Company recorded a valuation allowance of CHF 0.0 million as of December 31, 2008. No allowance for doubtful accounts was recorded as of December 31, 2007.

6 Short-Term Investments and Financial Instruments

Short-Term Investments

The short-term investments as of December 31, 2008 contain short-term time deposits with banks, all denominated in Swiss Francs, in the amount of CHF 215.0 million (December 31, 2007: CHF 255.0 million).

Fair Values of Financial Instruments

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

7 Cash and Cash Equivalents

Cash and cash equivalents consisted of the following components:

In CHF million	2008	2007
Cash	78.6	10.5
Short-term time deposits	–	159.3
Total	78.6	169.8

8 Inventories

The following table shows the components of inventories as of December 31, 2008:

In CHF million	2008
Semi-finished products	9.8
Finished products	0.1
Inventory provisions	(9.8)
Total	0.1

The Company incurred manufacturing costs of CHF 0.0 million in 2008 (2007: CHF 11.4 million) related to pharmaceutical material, which was produced prior to obtaining regulatory approval for the respective product. As a consequence, an inventory provision for the full amount of such inventories was recognized and the related expenses were recorded as research and development expenses in the respective periods. The Company intends to use such material for commercialization as regulatory approval was obtained in 2008.

9 Licensing Agreement

In February 2005, Basilea Pharmaceutica Ltd. ("Basilea") entered into a licensing, development and co-promotion agreement with Cilag GmbH International, Zug, Switzerland ("Licensee"), a subsidiary of Johnson & Johnson, under which the Company grants the Licensee an exclusive worldwide license to develop and commercialize ZEFTERA™/Zevtera™. In 2006, the Company exercised its option to co-promote ZEFTERA™/Zevtera™ in major market countries.

Under this agreement, the Company is eligible for a non-refundable upfront payment and non-refundable milestone payments based on the achievement of milestones related to development, regulatory filing, regulatory approval and commercialization of ZEFTERA™/Zevtera™. In addition, the Company is also eligible for royalty payments.

In 2007, the Company received further milestone payments in the amount of CHF 36.4 million related to the filings of the new drug applications in the United States and Europe. The non-refundable upfront and milestone payments received under this agreement were recognized as deferred revenue and are subsequently being recognized as revenue on a straight-line basis over the estimated remaining term of the agreement. The Company recognized revenue of CHF 8.1 million in 2008 related to these payments (2007: CHF 6.6 million) as contract revenue.

For the year ended December 31, 2008, the Company recognized contract revenue related to the reimbursement of costs in connection with its co-promotion activities for ZEFTERA™/Zevtera™ in the amount of CHF 0.1 million. No corresponding revenue was realized in 2007.

10 Accruals and Other Current Liabilities

Accruals and other current liabilities as of December 31, 2008 and 2007 consisted of the following:

In CHF million	2008	2007
Accrued R&D expenses	19.7	15.3
Accrued personnel and compensation costs	8.3	6.6
Other	5.3	3.0
Total accruals and other current liabilities	33.3	24.9

11 Income Taxes

The Company has tax loss carryforwards of CHF 601.8 million as of December 31, 2008 (December 31, 2007: CHF 469.5 million) of which CHF 263.6 million will expire within the next five years, CHF 335.9 million will expire between six and eight years, CHF 0.7 million will expire thereafter and CHF 1.6 million of the tax loss carryforwards do not expire. In 2008, CHF 0.5 million of tax loss carryforwards expired.

The significant components of net deferred taxes as of December 31, 2008 and 2007 are shown in the following table:

In CHF million	2008	2007
Deferred tax assets:		
Net benefit from tax loss carryforwards	147.7	117.1
Stock-based compensation cost	11.1	–
Other, net	0.7	(1.9)
Valuation allowance	(159.5)	(115.2)
Net deferred taxes	0.0	0.0

The Company recorded a valuation allowance in 2008 and 2007 to reduce the net deferred taxes to zero in each year, as there is not sufficient positive evidence related to the realizability of the deferred tax assets.

The effective tax rate was zero for the years ended December 31, 2008 and 2007, and the Company did not pay any income taxes in 2008 and 2007. The expected tax rate for 2008 was 25% (2007: 26%). The following table shows the reconciliation between expected and effective tax rate:

In percent	2008	2007
Expected tax rate	25	26
Effect of net permanent differences ¹	1	(2)
Valuation allowance on deferred tax assets	(26)	(24)
Effective tax rate	0	0

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 2007.

The Company adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of FIN 48, the Company has not recognized any unrecognized tax benefits as of December 31, 2008 and December 31, 2007. The Company did not incur any interest or penalties in connection with income taxes in the years 2008 and 2007.

12 Stock-Based Compensation

Stock Options

The Company has established a stock option plan effective on December 13, 2000, to provide incentives to directors, executives, and 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 2.2 million remains available as of December 31, 2008. CHF 1.7 million of this remaining available conditional capital is reserved for stock options, which are granted and outstanding as of December 31, 2008.

Each stock option entitles the participant to the purchase of one registered share at the strike price pursuant to the rules 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, 2008, which represent the requisite service periods, range from one to four years with contractual terms of the stock options of ten years. The stock option plan foresees accelerated vesting if there is a change of control as defined by the stock option plan.

The following table summarizes the activity under the stock option plan mentioned above:

	Weighted average exercise price (in CHF)	Number of options
Balance at December 31, 2006	110.64	1 499 949
Options granted	228.00	315 349
Options forfeited	154.33	(14 617)
Options exercised	63.64	(378 172)
Options expired	60.00	(720)
Balance at December 31, 2007	148.75	1 421 789
Options granted	104.90	294 297
Options forfeited	179.06	(2 779)
Options exercised	65.65	(27 725)
Options expired	–	–
Balance at December 31, 2008	149.67	1 685 582

The following table provides information on the stock options outstanding and the stock options exercisable as of December 31, 2008:

	Options exercisable plus options expected to vest ¹	Options exercisable
Number of options	1 671 282	923 432
Weighted average exercise price, in CHF	142.27	122.97
Weighted average remaining contractual life, in years	7.6	6.5

¹ Number of options considers expected forfeitures.

Based on (a) the stock options exercisable as of December 31, 2008, including stock options expected to vest in the future and (b) the stock options exercisable as of December 31, 2007, the aggregate intrinsic values of such number of options were CHF 51.8 million and CHF 38.4 million, respectively. The exercise prices of the options granted in 2008 and 2007 equalled the market price of the shares at the respective grant date.

The weighted average grant-date fair values of options granted in 2008 and 2007 were CHF 32.30 per option and CHF 59.80 per option respectively. The total aggregate intrinsic value of stock options exercised during 2008 was CHF 2.7 million (2007: CHF 70.0 million). The total grant date fair value of the stock options vested in 2008 was CHF 13.1 million (2007: CHF 9.7 million).

The fair value of the stock options granted in 2008 and 2007 was determined at the grant date using a binomial model. The weighted average assumptions used for these determinations are outlined in the table below:

	2008	2007
Risk-free interest rate	2.5%	3.3%
Expected term of stock options	5 years	4 years
Expected volatility	42%	34%
Expected dividend	–	–

The expected volatility was determined based on the historic volatility of the Company's share price. The expected term of stock options granted was determined based on managements' 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, 2008 related to stock options amounts to CHF 23.3 million and is expected to be recognized over a weighted average period of 2.2 years.

Stock-Based Cash Bonus Program

The Company implemented a cash bonus program in 2007 for the employees of one of its subsidiaries, under which the bonus depends on the development of the Company's share price. The bonus program includes a vesting period of three years. As of December 31, 2008, the Company recorded a liability of CHF 0.0 million in its consolidated balance sheet related to this cash bonus program in accruals and other current liabilities.

The Company recorded total stock-based compensation expenses of CHF 15.9 million in 2008 related to its stock-based compensation award programs (2007: CHF 13.7 million), of which CHF 8.4 million was recorded in research & development expenses (2007: CHF 8.0 Mio.) and CHF 7.5 million as part of selling, general & administrative expenses (2007: CHF 5.7 Mio.) in the statement of operations.

13 Shareholders' Equity

As of December 31, 2008, Basilea had 9,571,403 registered shares (Namenaktien) issued and outstanding with a par value of CHF 1 per share. As of December 31, 2007, Basilea had 9,543,678 registered shares with a par value of CHF 1 per share issued and outstanding respectively.

In March 2007, Basilea increased its share capital by an amount of CHF 1,380,000 through issuance of 1,380,000 registered shares with a nominal value of CHF 1 per share through a secondary offering. Basilea realized net proceeds of approximately CHF 310.1 million through this capital increase.

In 2008, 27,725 stock options were exercised, using conditional capital, which resulted in the issuance of 27,725 registered shares with a par value of CHF 1 per share. In 2007, 378,172 stock options were exercised resulting in the issuance of 378,172 registered shares with a par value of CHF 1 per share.

Basilea had a total approved conditional capital of CHF 2,828,738 as of December 31, 2008 for the issuance of a maximum of 2,828,738 registered shares with a nominal value of CHF 1 per share. This conditional capital contained CHF 2,188,738 (2,188,738 registered shares with a nominal value of CHF 1 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a nominal value of CHF 1 each, available for the exercise of option or conversion rights granted with new option or convertible bonds.

The Company is authorized, through March 2009, to increase its share capital by a maximum of CHF 660,000 by issuing a maximum of 660,000 registered shares with a par value of CHF 1 per share.

In the ordinary shareholders' meeting on March 19, 2008, the shareholders of the Company approved the release of reserves in the amount of CHF 119,618,811 to offset the accumulated loss for Swiss statutory purposes.

The accumulated other comprehensive income/loss as of December 31, 2008 and 2007 consisted of the following components:

In CHF million	Foreign currency items	Gain/(loss) from defined benefit plan	Total
December 31, 2006	(0.9)	(1.2)	(2.1)
Change	(0.3)	2.4	2.1
December 31, 2007	(1.2)	1.2	0.0
Change	(0.1)	(9.8)	(9.9)
December 31, 2008	(1.3)	(8.6)	(9.9)

14 Gain/Loss per Share

In 2008 and 2007, there was no difference between basic and diluted loss per share. The weighted average number of shares outstanding and the loss per share for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Net loss in CHF million	(143.5)	(126.8)
Weighted average number of shares outstanding, basic and diluted	9 555 549	9 076 496
Basic and diluted loss per share in CHF	(15.02)	(13.97)

The computation of the dilutive loss per share for 2008 excludes 166,829 incremental shares (2007: 570,754 incremental shares) related to potential exercises of stock options, as the effect would have been anti-dilutive.

15 Pension Plan

The Company maintains a pension plan, which covers the employees of Basilea Pharmaceutica International Ltd. This pension plan qualifies as a defined benefit plan in accordance with US GAAP. Both the company and the participants provide monthly contributions to the pension plan, which are based on the covered salary. These contributions are credited to employees' accounts. In addition, interest is credited to the employees' accounts at the rate provided in the plan. The pension plan provides for retirement benefits as well as benefits on death or long-term disability.

The following table provides information on the pension plan for the years 2008 and 2007. The measurement date for the pension plan is December 31 for 2008 and September 30 for 2007. As a result of the change in measurement date in 2008 required by SFAS No.158, the movements for 2008 in the table below represent a 15-months period. Except for losses, three-fifteenth of the movements were recorded in retained earnings (CHF 0.3 million).

In CHF million	2008	2007
Service cost	2.8	2.3
Interest cost	1.3	0.8
Expected return on plan assets	(1.8)	(1.3)
Gross benefit expense	2.3	1.8
Participant contributions	(1.1)	(0.7)
Net periodic pension cost	1.2	1.1
Employer contributions	(2.6)	(1.7)
Movement of prepaid pension asset/ accrued pension liability before losses	(1.4)	(0.6)
Actuarial losses	3.0	(2.2)
Difference between actual and expected return on plan assets	6.7	(0.1)
Movement of prepaid pension asset/ accrued pension liability	8.3	(2.9)

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

In CHF million	2008	2007
Benefit obligation, beginning of period	28.5	27.5
Service cost	2.8	2.3
Interest cost	1.3	0.8
Transfers-in and -out, net	2.0	0.1
Actuarial loss/(gain)	3.0	(2.2)
Benefit obligation, end of period	37.6	28.5
Plan assets, beginning of period	34.0	30.1
Actual return on plan assets	(4.9)	1.4
Employer contributions	2.6	1.7
Participant contributions	1.1	0.7
Transfers-in and -out, net	2.0	0.1
Plan assets, end of period	34.8	34.0
(Accrued pension liability)/Prepaid pension asset	(2.8)	5.5

As of December 31, 2008, the Company recorded an accrued pension liability of CHF 2.8 million in other non-current liabilities. The Company recorded a prepaid pension asset of CHF 5.5 million in other non-current assets in the consolidated balance sheet as of December 31, 2007. The pension assets are measured at fair value. For the vast majority of pension assets, quoted market prices in active markets were available to determine fair value as of December 31, 2008.

As the Company adopted SFAS No. 158, actuarial gains/losses and differences between expected and actual returns on plan assets are recorded in other comprehensive income/loss. Such gains/losses and differences are amortized to the consolidated statement of operations to the extent that they exceed 10% of the greater of projected benefit obligations or pension assets. As of December 31, 2008, the accumulated other comprehensive income/loss includes an amount of CHF 8.6 million representing a pension-related net loss that has not yet been recognized as a component of net periodic pension cost (December 31, 2007: pension-related net gain of CHF 1.2 million). As such loss exceeds the specified levels as indicated above, the Company expects that CHF 0.5 million will be reclassified from accumulated other comprehensive income/loss and recognized as a component of net periodic benefit cost in 2009.

The following table shows the pension-related net gains or losses in accumulated other comprehensive income/loss that have not yet been recognized as components of net periodic benefit cost:

	2008	2007
Beginning of period	1.2	(1.2)
Gain/(loss) during the period	(9.8)	2.4
End of period	(8.6)	1.2

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

	2008	2007
Discount rate	3.0%	3.5%
Rate of increase in compensation level	2.0%	2.0%
Expected long-term rate of return on plan assets	4.0%	4.0%

The assumption of the expected long-term rate of return on plan assets was based on the target asset allocation and 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, 2008 and 2007 amounts to CHF 36.0 million and CHF 27.2 million respectively.

The investment policy for the plan assets of the pension plan on a long-term basis is to generate sufficient returns to cover the obligations of the Company's plan as they become payable. Factors considered in connection with this policy include effective risk management and liquidity needs.

The allocation of the plan assets as of the respective measurement dates in 2008 and 2007 were as follows:

	2008	2007	Target allocation
Cash and cash equivalents	27%	10%	5%
Equity securities	14%	29%	30%
Debt securities	49%	52%	60%
Other	10%	9%	5%
Total	100%	100%	100%

The expected amount of employer contributions to the Company's defined benefit pension plan in 2009 is CHF 2.4 million.

While the Company does not expect to make any retirement benefit payments before 2012, 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
2009	2.2
2010	2.2
2011	2.5
2012	2.3
2013	2.5
2014-2018	13.9

In addition to the defined benefit plan described above, the Company recognized CHF 0.6 million of expenses related to defined contribution plans of Basilea's subsidiaries in 2008 (2007: CHF 0.1 million).

16 Lease Commitments

The Company entered into operating lease contracts, mainly for office space. The leases expire between 2009 and 2013. The aggregate minimum operating lease payments are expensed on a straight-line basis over the term of the related lease. The total rent expenses under operating leases were CHF 1.8 million and CHF 0.2 million for the years ended December 31, 2008 and 2007, respectively.

The future minimum payments as of December 31, 2008 for operating leases with initial or remaining non-cancelable terms in excess of one year are as follows:

	Amount in CHF million
2009	1.7
2010	1.6
2011	1.3
2012	0.7
2013	0.1
Thereafter	–
Total	5.4

17 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 at the time of placing the respective investment. As of December 31, 2008, the short-term investments were invested with 3 different banks. The highest total amount invested in short-term investments with one bank was CHF 85.0 million as of December 31, 2008 (December 31, 2007: CHF 90.0 million).

18 Related Party Transactions

The Company entered into an agreement with F. Hoffmann-La Roche Ltd. ("Roche") related to the manufacturing of commercial material for one of the Company's compounds.

For the year ended December 31, 2008, the Company purchased materials and services from Roche and Roche's subsidiaries, in the amount of CHF 0.3 million (CHF 9.0 million for the year ended December 31, 2007).

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, 2008 and 2007.

In 2008, the Company paid fees to one of its board members in the amount of CHF 0.1 million (2007: CHF 0.0 million) for consulting services. For further information related to compensation to members of the Board of Directors and executive management, please refer to the financial statements of Basilea Pharmaceutica Ltd.

19 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 and reflect normal business operations and will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

As of December 31, 2008, there are no significant contingencies.

20 Risk assessment

The Company runs a centralized risk management system, based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) Framework, which includes risks from all business functions. All identified risks are quantified (according to their realization probability and impact) and located on a risk schedule. The major changes to the Company's risk profile are discussed in the Audit Committee annually.

The permanent observation and control of the risks is a management objective. For identified risks, which arise from the accounting and financial reporting, a risk assessment is performed. Throughout the internal control system framework on financial reporting, relevant control measures are defined, which reduce the financial risk. The Audit Committee reviewed the Company's internal control system over financial reporting as of December 31, 2008. The Board of Directors concluded, based on this review, that an appropriate internal control system related to financial reporting of the Company is in place as of December 31, 2008.

REPORT OF THE STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS



Report of the Statutory Auditors on the financial statements to the General Meeting of Basilea Pharmaceutica Ltd., Basel, Switzerland

As Statutory Auditors, 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, 2008, included on pages 70 to 80.

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, 2008 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

Thomas Brüderlin
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, January 26, 2009

FINANCIAL STATEMENTS OF BASILEA PHARMACEUTICA LTD.

Basilea Pharmaceutica Ltd.

Balance Sheets as of December 31, 2008 and 2007 (in CHF)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	19 281 838	165 194 195
Short-term investments	–	255 000 000
Accounts receivable		
Third	–	349 243
Affiliates	1 171 557	630 170
Other receivables	58 340	2 630 058
Accrued interest	–	4 079 011
Other current assets	–	1 601 118
Total current assets	20 511 735	429 483 795
Non-current assets		
Tangible assets, net	–	16 041 988
Intangible assets, net	–	2 525 365
Investment in subsidiaries, net	330 548 941	6 787 818
Capital increase costs, net	18 020	15 753 053
Total non-current assets	330 566 961	41 108 224
TOTAL ASSETS	351 078 696	470 592 019
LIABILITIES		
Current liabilities		
Accounts payable	–	1 742 320
Deferred revenue	–	8 251 787
Accruals and other current liabilities	18 020	22 493 703
Total current liabilities	18 020	32 487 810
Non-current liabilities		
Deferred revenue, less current portion	–	90 376 794
Total non-current liabilities	–	90 376 794
Total liabilities	18 020	122 864 604
SHAREHOLDERS' EQUITY		
Share capital ¹	9 571 403	9 543 678
Legal reserve	341 730 215	366 609 751
Free reserve	–	91 192 797
Loss carried forward	–	–
Net loss	(240 942)	(119 618 811)
Total shareholders' equity	351 060 676	347 727 415
TOTAL LIABILITIES AND EQUITY	351 078 696	470 592 019

¹ As of December 31, 2008, 9,571,403 shares were issued and outstanding with a par value of CHF 1 per share.
As of December 31, 2007, 9,543,678 shares were issued and outstanding with a par value of CHF 1 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, 2008 and 2007 (in CHF)

	2008	2007
Revenues	–	7 898 447
Other income	–	316 207
Total operating income	–	8 214 654
Materials, fees and grants	–	(82 640 025)
Personnel expenses	–	(27 541 978)
Depreciation and amortization	–	(8 924 544)
Other operating expenses	(406 594)	(18 336 982)
Total operating expenses	(406 594)	(137 443 529)
Operating loss	(406 594)	(129 228 875)
Interest income	166 685	9 291 904
Other financial income/expenses, net	(1 033)	318 160
Loss before taxes	(240 942)	(119 618 811)
Income taxes	–	–
Net loss	(240 942)	(119 618 811)

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

Basilea Pharmaceutica Ltd.

Notes to the Financial Statements as of December 31, 2008

1 History

Basilea Pharmaceutica Ltd. ("Basilea") was founded on October 17, 2000.

2 Holding Structure

Basilea implemented a holding structure in 2008, which was effective as of January 1, 2008.

Basilea Pharmaceutica Ltd. transferred its operational business activities, including all assets and liabilities (except for investments in subsidiaries and cash in the amount of CHF 20.0 million) to its new subsidiary, Basilea Pharmaceutica International Ltd., Basel, Switzerland. In return for the transfer of assets and liabilities, Basilea Pharmaceutica Ltd. obtained 100% of the shares of Basilea Pharmaceutica International Ltd. Therefore, numbers for the years 2008 and 2007 are not comparable.

3 Risk Assessment

Basilea runs a centralized risk management system, based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) Framework, which includes risks from all business functions. All identified risks are quantified (according to their realization probability and impact) and located on a risk schedule. The major changes to the Company's risk profile are discussed in the Audit Committee annually.

The permanent observation and control of the risks is a management objective. For identified risks, which arise from the accounting and financial reporting, a risk assessment is performed. Throughout the Internal Control System framework on financial reporting, relevant control measures are defined, which reduce the financial risk. The Audit Committee reviewed Basilea's internal control system over financial reporting as of December 31, 2008. The Board of Directors concluded, based on this review, that an appropriate internal control system related to financial reporting of Basilea is in place as of December 31, 2008.

4 Fire Insurance Value

The fire insurance value of tangible assets amounted to CHF 0.0 million as of December 31, 2008 (December 31, 2007: CHF 88.9 million).

5 Liabilities due to Pension Fund

As of December 31, 2008 and 2007, no pension fund liabilities were outstanding.

6 Pledges

As of December 31, 2008 and 2007, there were no assets pledged to secure liabilities.

7 Investments

Company	Location	Ownership interest	Share capital	Purpose
Basilea Pharmaceutica International Ltd.	Switzerland, Basle	100%	CHF 10 000 000	Research, Development, Manufacturing, Marketing, Distribution
Basilea Pharmaceuticals Inc.	U.S., Andover (MA)	100%	USD 1.70	Distribution
Basilea Medical Ltd.	UK, Guildford	100%	GBP 200 000	Marketing authorization holder (EU), regulatory services
Basilea Pharmaceuticals Ltd.	UK, Guildford	100%	GBP 700 000	Distribution
Basilea Pharmaceutica Deutschland GmbH	Germany, Munich	100%	EUR 25 000	Distribution
Basilea Pharmaceutica Iberia S.L.	Spain, Madrid	100%	EUR 10 002	Distribution
Basilea Pharma SAS	France, Paris	100%	EUR 500 000	Distribution
Basilea Pharmaceutica S.r.l.	Italy, Milan	100%	EUR 10 000	Distribution
Basilea Pharmaceuticals Corp.	Canada, Toronto	100%	CAD 500 000	Distribution
Basilea Pharmaceuticals A/S	Denmark, Copenhagen	100%	DKK 3 050 000	Distribution
BPh Investitionen AG	Switzerland, Baar	100%	CHF 131 950	Holding company

In addition to the direct investments, Basilea indirectly holds 100% of the shares of Basilea Labs Inc., Andover, U.S., which is engaged in sales activities, as well as 100% of Basilea Pharmaceutica China Ltd., Haimen, China, which performs research and development activities.

8 Share Capital, Authorized Capital and Conditional Capital

As of December 31, 2008, Basilea had 9,571,403 registered shares (Namenaktien) issued and outstanding with a par value of CHF 1 per share. As of December 31, 2007, Basilea had 9,543,678 registered shares with a par value of CHF 1 per share issued and outstanding respectively.

In March 2007, Basilea increased its share capital by an amount of CHF 1,380,000 through issuance of 1,380,000 registered shares with a nominal value of CHF 1 per share through a secondary offering. Basilea realized net proceeds of approximately CHF 310.1 million through this capital increase.

In 2008, 27,725 stock options were exercised, using conditional capital, which resulted in the issuance of 27,725 registered shares with a par value of CHF 1 per share. In 2007, 378,172 stock options were exercised resulting in the issuance of 378,172 registered shares with a par value of CHF 1 per share.

Basilea had a total approved conditional capital of CHF 2,828,738 as of December 31, 2008 for the issuance of a maximum of 2,828,738 registered shares with a par value of CHF 1 per share. This conditional capital contained CHF 2,188,738 (2,188,738 registered shares with a par value of CHF 1 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and 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 each, available for the exercise of option or conversion rights granted with new option or convertible bonds.

Furthermore, Basilea is authorized, through March 2009, to increase its share capital by a maximum of CHF 660,000 by issuing a maximum of 660,000 registered shares with a par value of CHF 1 per share.

In the ordinary shareholders' meeting on March 19, 2008, the shareholders of Basilea approved the release of free reserves in the amount of CHF 91,192,797 and the release of general reserves to free reserves in the amount of CHF 28,426,014, to offset the accumulated loss of CHF 119,618,811 with free reserves for Swiss statutory purposes.

9 Treasury Shares

In 2008 and 2007, Basilea did not purchase or sell any treasury shares and consequently did not hold any treasury shares as of December 31, 2008 and 2007.

10 Guarantees

During 2007, the Company granted guarantees for certain of its subsidiaries in connection with contracts that the subsidiaries entered into in the normal course of business. These guarantees were transferred to Basilea Pharmaceutica International Ltd. in 2008. There are no significant contingencies as a result of these guarantees as of December 31, 2008 and 2007.

11 Compensation and Shareholdings

The total compensation of the members of the Board of Directors in 2008 is outlined below:

In CHF	Cash compensation fix	Cash compensation variable	Stock options ¹	Other fringe benefits ²	Total
Mr. Werner Henrich, Chairman	188 500	–	110 143	4 471	303 114
Dr. Andreas Wicki, Vice-Chairman	55 000	–	73 644	3 328	131 972
Prof. Peter van Brummelen, Director	55 000	–	73 644	4 140	132 784
Dr. Walter Fuhrer, Director	55 000	–	73 644	4 668	133 312
Dr. Gottlieb Keller ³	16 250	–	18 411	983	35 644
Prof. Daniel Lew, Director	55 000	–	73 644	22 865	151 509
Mr. Claude Schreiner, Director	60 000	–	73 644	2 182	135 826
Mr. Steven D. Skolsky, Director ⁴	48 750	–	80 750	2 949	132 449
Dr. Anthony Man, Director and Chief Executive Officer	511 258	199 521	759 050	113 209	1 583 038
Mr. Ronald Scott, Director and Chief Financial Officer	404 242	206 276	478 040	97 724	1 186 282
Total	1 449 000	405 797	1 814 614	256 519	3 925 930

¹ Based on the grant-date fair value of stock options granted in 2008 using a binomial valuation model.

² Includes employers' contributions to pension plans, social security, life insurances etc.

³ Dr. Gottlieb Keller was a director until March 19, 2008.

⁴ Steven D. Skolsky is a director since March 19, 2008.

In 2007, the total compensation of the members of the Board of Directors amounted to:

In CHF	Cash compensation fix	Cash compensation variable	Stock options ¹	Other fringe benefits ²	Total
Mr. Werner Henrich, Chairman	115 450	–	224 250	5 294	344 994
Dr. Andreas Wicki, Vice-Chairman	55 000	–	149 500	3 328	207 828
Prof. Peter van Brummelen, Director	55 000	–	149 500	3 328	207 828
Mr. Peter Friedli ³	17 500	–	37 375	55 017	109 892
Dr. Walter Fuhrer, Director	55 000	–	149 500	11 474	215 974
Dr. Gottlieb Keller, Director	50 000	–	149 500	3 025	202 525
Prof. Daniel Lew, Director	55 000	–	149 500	3 328	207 828
Mr. Claude Schreiner, Director	69 351	–	149 500	2 535	221 386
Dr. Anthony Man, Director and Chief Executive Officer	482 846	323 338	1 614 600	106 432	2 527 216
Mr. Ronald Scott, Director and Chief Financial Officer	348 566	153 602	1 136 200	114 539	1 752 907
Total	1 303 713	476 940	3 909 425	308 300	5 998 378

¹ Based on the grant-date fair value of stock options granted in 2007 using a binomial valuation model.

² Includes employers' contributions to pension plans, social security, life insurances etc.

³ Peter Friedli was a director until March 7, 2007.

In addition to the compensation as Chairman of the Board of Directors, Mr. Henrich acted as consultant to Basilea and received a total compensation of CHF 106,000 for his consulting services in 2008 (2007: CHF 27,950). Mr. Schreiner did not provide any consulting services to Basilea in 2008, while he obtained a total compensation of CHF 9,351 in 2007 for his consulting services. These compensations are included in the cash compensations as presented in the tables above.

The total compensation and the highest individual compensation of the members of executive management in 2008 are outlined below:

In CHF	Cash compensation fix	Cash compensation variable	Stock options ¹	Other fringe benefits ²	Total
Chief Executive Officer	511 258	199 521	759 050	113 209	1 583 038
Total management³	2 370 568	1 085 129	2 729 350	570 595	6 755 642

¹ Based on the grant-date fair value of stock options granted in 2008 using a binomial valuation model.

² Includes employers' contributions to pension plans, social security, life insurances etc.

³ Includes the total compensation of the current members of management for the year 2008 as well as the total compensation of a member of management who moved to a non-management position in 2008.

In 2007, the total compensation and the highest individual compensation of the members of executive management amounted to:

In CHF	Cash compensation fix	Cash compensation variable	Stock options ¹	Other fringe benefits ²	Total
Chief Executive Officer	482 846	323 338	1 614 600	106 432	2 527 216
Total current management ³	1 995 892	1 417 540	4 903 600	739 387	9 056 419
Total management⁴	3 244 578	1 784 189	7 385 300	1 127 483	13 541 550

¹ Based on the grant-date fair value of stock options granted in 2007 using a binomial valuation model.

² Includes employers' contributions to pension plans, social security, life insurances etc.

³ These amounts do not include the compensation for the six management members who were released from the management committee in December 2007 as a result of the reorganization of the management structure. These amounts include the compensations of executive management members who serve on the Board of Directors, which are also included in the table above related to board member compensation.

⁴ These amounts include the compensation for all individuals who were members of the management committee in 2007, including the six members who were released from the management committee in December 2007.

In 2008, no severance payments were made by the Company. In 2007, the total compensation to current management and the total compensation to management, as presented in the table above, each include a severance payment of CHF 400,000 to a former member of management.

The Company has not granted any loans or guarantees to members of the Board of Directors or executive management in 2008 and 2007.

As of December 31, 2008, the shareholdings in Basilea of members of the Board of Directors and executive management are outlined below:

	Number of shares
Mr. Werner Henrich, Chairman	17 600
Dr. Andreas Wicki, Vice-Chairman	–
Prof. Peter van Brummelen, Director	600
Dr. Walter Fuhrer, Director	840
Prof. Daniel Lew, Director	2 382
Mr. Claude Schreiner, Director	40
Mr. Steven D. Skolsky, Director	–
Dr. Anthony Man, Director and Chief Executive Officer	2 530
Mr. Ronald Scott, Director and Chief Financial Officer	7 750
Dr. Dieter Götte, Chief Medical Officer	–
Prof. Jutta Heim, Chief Scientific Officer	–
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	–
Mr. Hans Christian Rohde, Chief Commercial Officer	–

As of December 31, 2007, the shareholdings in Basilea of members of the Board of Directors and executive management amounted to:

	Number of shares
Mr. Werner Henrich, Chairman	17 600
Dr. Andreas Wicki, Vice-Chairman	–
Prof. Peter van Brummelen, Director	600
Dr. Walter Fuhrer, Director	240
Dr. Gottlieb Keller, Director	1 000
Prof. Daniel Lew, Director	7
Mr. Claude Schreiner, Director	40
Dr. Anthony Man, Director and Chief Executive Officer	2 330
Mr. Ronald Scott, Director and Chief Financial Officer	7 750
Prof. Jutta Heim, Chief Scientific Officer	–
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	–
Dr. Rienk Pypstra, Chief Development Officer	–
Mr. Hans Christian Rohde, Chief Commercial Officer	–

The following table shows the holdings of stock options in Basilea of members of the Board of Directors and executive management as of December 31, 2008:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Mr. Werner Henrich, Chairman	20 876	9 259	30 135
Dr. Andreas Wicki, Vice-Chairman	8 101	6 179	14 280
Prof. Peter van Brummelen, Director	7 526	6 179	13 705
Dr. Walter Fuhrer, Director	7 151	6 179	13 330
Prof. Daniel Lew, Director	4 901	6 179	11 080
Mr. Claude Schreiner, Director	625	4 155	4 780
Mr. Steven D. Skolsky, Director	–	2 500	2 500
Dr. Anthony Man, Director and Chief Executive Officer	93 725	62 175	155 900
Mr. Ronald Scott, Director and Chief Financial Officer	68 950	42 050	111 000
Dr. Dieter Götte, Chief Medical Officer	–	7 000	7 000
Prof. Jutta Heim, Chief Scientific Officer	35 500	29 350	64 850
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	22 550	30 175	52 725
Mr. Hans Christian Rohde, Chief Commercial Officer	2 000	20 800	22 800

As of December 31, 2007, the holdings of stock options in Basilea of members of the Board of Directors and executive management amounted to:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Mr. Werner Henrich, Chairman	16 732	9 993	26 725
Dr. Andreas Wicki, Vice-Chairman	5 338	6 662	12 000
Prof. Peter van Brummelen, Director	5 138	6 662	11 800
Dr. Walter Fuhrer, Director	4 988	6 662	11 650
Dr. Gottlieb Keller, Director	5 888	6 662	12 550
Prof. Daniel Lew, Director	5 888	6 662	12 550
Mr. Claude Schreiner, Director	–	2 500	2 500
Dr. Anthony Man, Director and Chief Executive Officer	68 125	64 275	132 400
Mr. Ronald Scott, Director and Chief Financial Officer	50 875	45 325	96 200
Prof. Jutta Heim, Chief Scientific Officer	20 425	34 825	55 250
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	11 900	27 025	38 925
Dr. Rienk Pypstra, Chief Development Officer	16 555	24 119	40 674
Mr. Hans Christian Rohde, Chief Commercial Officer	–	8 000	8 000

The indications above for Dr. Keller related to share and option holdings do not take into account the shares or options held by the significant shareholder Roche Finance Ltd. For information on significant shareholders, please refer to footnote 12 "Significant Shareholders".

12 Significant Shareholders

According to the information available to Basilea, the following shareholders held a significant percentage of shares of Basilea as of December 31, 2008:

	Percentage of outstanding shares held
Chase Nominees Ltd.	18.0 %
Roche Finance Ltd.	6.6 %
HBM BioVentures (Cayman) Ltd.	5.0 %

The ownership percentages in the table above are based on the 9,571,403 shares outstanding as of December 31, 2008.

Proposal of the Board of Directors for the Appropriation of Loss Carried Forward

	2008 Proposed by the Board of Directors
Loss carried forward	0
Net loss of the year	(240 942)
Subtotal	(240 942)
Release from legal reserve	240 942
Loss carried forward	0

The Board of Directors proposes a release of CHF 321.7 million from legal reserve to free reserve and to offset an amount of CHF 0.2 million from free reserve with the accumulated loss.

CONTACT INFORMATION

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Annual General Meeting

The Annual General Meeting of Shareholders for the financial year 2008 will take place on April 29, 2009, in Basel, Switzerland.

Basilea Pharmaceutica's Annual Report 2008 consists of the Business Review, the Corporate Governance section and the Financial Report. The document is published in both English and German. In case of discrepancies the English version prevails.

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