

Annual Report 2007



Countdown...

**Two
Potential Products
Preparing for Launch**

Basilea in Brief

Company

Basilea Pharmaceutica Ltd. is a biopharmaceutical company headquartered in Basel, Switzerland, listed on the SWX Swiss Exchange (SWX:BSLN). Our focus is on the discovery, development and commercialization of innovative medicines to satisfy high medical and patient needs in the hospital and specialty pharmaceutical setting. The Company has a fully integrated R&D organization and is currently building its sales and marketing organization in the U.S., Canada and major European markets. Basilea employs more than 250 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 highly competitive product pipeline comprises two drug candidates in pre-registration, one in clinical phase III as well as substantial innovative early-stage programs.

Products

The three high-potential products in late-stage development are ceftobiprole, an anti-MRSA broad-spectrum cephalosporin antibiotic, which is developed in collaboration with Johnson & Johnson; isavuconazole, a novel broad-spectrum antifungal for the treatment of severe invasive fungal infections; and alitretinoin, an oral retinoid for the treatment of patients with chronic hand eczema who do not respond to topical steroids.

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

Table of Contents

2	2007 Achievements
4	Letter from the Chairman of the Board and the Chief Executive Officer
	Drug Candidate Portfolio
6	Ceftobiprole
8	Alitretinoin
10	Isavuconazole
12	Early-stage Projects
14	Basilea Subsidiaries
16	Corporate Governance
	Financial Report
36	Financial Review
41	Report of the Group of Auditors
42	Consolidated Financial Statements
66	Report of the Statutory Auditors
67	Financial Statements of Basilea Pharmaceutica Ltd.
75	Contact Information

2007 Achievements

January 10, **Ceftobiprole**

Positive results of second phase III study

Top-line results of a second pivotal phase III trial in complicated skin and skin structure infections (cSSSI) demonstrated that ceftobiprole monotherapy was as effective as standard two drug combination therapy covering Gram-positive, including methicillin-resistant *Staphylococcus aureus* (MRSA) infections, Gram-negative infections and difficult-to-treat diabetic foot infections.

February 19, **Alitretinoin**

Positive results of phase III study

Results of the pivotal phase III study demonstrated that alitretinoin was highly effective in treating patients suffering from severe refractory chronic hand eczema (CHE).

April 25, **Alitretinoin**

Positive results of second phase III study

Results of the second pivotal phase III study showed that patients suffering from severe CHE with its relapsing nature benefited from re-treatment after successful initial response to alitretinoin. In addition, patients with an initial incomplete response benefited from an extended treatment period.

May 18, **Ceftobiprole**

US Regulatory filing

A New Drug Application (NDA) for ceftobiprole was submitted to the U.S. Food and Drug Administration (FDA) for the proposed treatment of cSSSI including diabetic foot infections.

May 30, **Ceftobiprole**

Accelerated assessment by Swissmedic

The Swiss health authority Swissmedic granted ceftobiprole an accelerated assessment of the planned market authorization application.

June 18, **Ceftobiprole**

Regulatory filing with European health authorities

A Marketing Authorization Application (MAA) was submitted to the European Medicines Agency (EMA) for the proposed treatment of complicated skin and soft tissue infections (cSSTI) including diabetic foot infections.

July 17, **Ceftobiprole**

Regulatory filing to Canadian health authorities

A New Drug Submission (NDS) for ceftobiprole was filed with the Therapeutic Products Directorate (TPD) of Health Canada for the proposed treatment of cSSSI including diabetic foot infections.

August 23, **Ceftobiprole**

Regulatory filing to Swiss health authorities

A market authorization application for ceftobiprole was submitted to Swissmedic for the proposed treatment of cSSTI including diabetic foot infections.

September 11, **Alitretinoin**

Regulatory filing to EU health authorities

Marketing authorization applications were filed in the EU for alitretinoin for the treatment of severe refractory chronic hand eczema (CHE).

September 14, **Ceftobiprole**

Positive results of first phase III study in pneumonia

Top-line results of phase III trial in community-acquired pneumonia (CAP) requiring hospitalization showed that ceftobiprole monotherapy was as effective as the standard combination therapy covering Gram-positive, including methicillin-resistant *Staphylococcus aureus* (MRSA) infections, and Gram-negative infections.

September 28, **Alitretinoin**

Regulatory filing to Swiss health authorities

Marketing authorization application for alitretinoin was submitted to Swissmedic for the treatment of severe refractory chronic hand eczema (CHE).

October 9, **Ceftobiprole**

Positive results of second phase III study in pneumonia

Top-line results of phase III trial in hospital-acquired pneumonia (HAP) showed that ceftobiprole monotherapy was as effective as the standard combination therapy covering Gram-positive, including methicillin-resistant *Staphylococcus aureus* (MRSA) infections, and Gram-negative infections.

December 21, **Alitretinoin**

Regulatory filing to Canadian health authorities

A New Drug Submission (NDS) for alitretinoin was filed with the Therapeutic Products Directorate (TPD) of Health Canada for the treatment of severe refractory hand eczema (CHE).

Balanced Late-stage Product Portfolio

Three late-stage clinical programs allow Basilea to create critical mass for a commercialization organization and future growth. Basilea has multiple assets to build long-term growth through portfolio synergies in addition to innovative pre-clinical programs progressing to the clinic.

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

Letter from the Chairman of the Board and the Chief Executive Officer



Werner Henrich

Chairman of the Board

Dr. Anthony Man

Chief Executive Officer

Dear Shareholders,

This year was remarkable for the number of high impact company milestones achieved that signal our transition from a pure research & development organization to a fully integrated biopharmaceutical company. Our successes in 2007 bring us much closer to making our innovative drugs available to patients and health care providers alike.

Completion of pivotal phase III clinical trial programs in 2007 enabled two of Basilea's portfolio compounds to move forward into regulatory review in the USA, Europe, Switzerland and Canada. We anticipate completing the review process in several countries during 2008 putting us firmly on the path of product commercialization.

Positive results from three phase III trials with ceftobiprole, our novel hospital antibiotic, were announced in 2007. In May, we and our collaboration partner Johnson & Johnson filed the first registration dossier for the treatment of complicated skin infections with the U.S. (FDA) and then with the European health authorities (EMA) in June. Regulatory filings were additionally made in Canada and Switzerland where an accelerated assessment was granted. The clinical trial data from patients with serious community and hospital-acquired pneumonia will also be filed with regulatory authorities as potential additional indications.

Alitretinoin, our second late stage portfolio molecule, was also highly successful in clinical studies. Patients with chronic hand eczema who do not respond to topical steroid treatment have significant work or social disabilities and no approved treatments. We are developing alitretinoin specifically for these patients and have completed three phase III studies that all confirmed the efficacy and safety profile of alitretinoin in these patients. Regulatory submissions were filed in Europe, Switzerland and Canada and a clinical program is planned for the US in 2008.

Basilea's continued R&D innovation, with new programs against resistant Gram-negative bacteria and oncology, received international recognition at key scientific congresses. These programs address high medical need and represent significant future business opportunities. As ever, our research efforts receive solid support from our research center in China.

Our 2007 financial results reflect a sound cash position, judicious investment in key value driving activities and tight cost control. Additional capital raised in March 2007 is funding ongoing R&D programs, production of

commercial product supplies and the essential commercial infrastructure to support successful product launches over the next few years.

Our achievements of 2007 have provided a solid springboard for commercializing products and as a result we have been successful in attracting talented and experienced individuals to build our international commercial organization. Assuming timely completion of several regulatory reviews on both ceftobiprole and alitretinoin, we anticipate marketing authorizations and potential product launches to begin in 2008.

We would like to thank our stakeholders for all their contributions in 2007 in bringing our innovative drugs closer to the market and look forward to a challenging year as we build a hospital and specialty biopharmaceutical business.



Werner Henrich
Chairman of the Board



Dr. Anthony Man
Chief Executive Officer

Drug Candidate Portfolio

Ceftobiprole

Ceftobiprole belongs to a well accepted class of antibacterial agents known as cephalosporins that are used to treat serious life-threatening infections caused by Gram-negative and Gram-positive bacteria. Ceftobiprole is an investigational drug at pre-registration stage for potential first line empiric use to treat the increasing number of patients with severe methicillin-resistant *Staphylococcus aureus* (MRSA) infections.

Key Achievements in 2007

Positive Phase III Data Reported for Ceftobiprole in the Treatment of Severe Skin Infections and Severe Pneumonia in the Hospital Setting...

Three pivotal phase III clinical studies were completed in 2007 demonstrating positive non-inferiority results as compared to standard treatment. These data provide the basis for initial regulatory filings for complicated severe skin and soft tissue infections (cSSSI) and planned follow-on filings for pneumonia including both, hospital-acquired pneumonia (HAP) and community-acquired pneumonia (CAP) requiring hospitalization. Pneumonia and severe skin infections account for a significant proportion of bacterial infections treated in hospitals.

The second phase III study for severe skin infections including diabetic foot infections was reported early 2007 and demonstrated clinical cure rates of 91% for ceftobiprole versus 90% for a two-drug combination therapy of ceftazidime plus vancomycin. Response rates for confirmed MRSA infections were 90% versus 86%. In addition, response rates in diabetic patients with difficult-to-treat foot infections were 86% for ceftobiprole compared to 82% for the two-drug combination therapy.

The Phase III CAP study of patients requiring hospitalization met the primary endpoint of non-inferiority versus the study comparators. The clinical cure rate was 86% for ceftobiprole and 87% for the drug comparator arm of ceftriaxone with or without with linezolid.

The HAP phase III study compared clinical outcomes following the treatment with either ceftobiprole monotherapy or combination therapy of ceftazidime plus linezolid and met the primary endpoint of non-inferiority versus combination therapy. Overall, 69% of patients were cured with ceftobiprole compared to 72% of patients treated with combination therapy. The HAP study also allowed inclusion of ventilator-associated pneumonia (VAP) patients. Cure rates in the smaller VAP patient subset were lower for ceftobiprole treated patients and non-inferiority was not established in these patients.

...and International Regulatory Filings

The first regulatory dossiers for ceftobiprole were submitted and accepted for review by the regulatory authorities in the US,

Canada, the EU and in Switzerland, the latter under an accelerated review process. Regulatory filings for ceftobiprole for the treatment of pneumonias are planned as subsequent additional indications.

In preparation of the potential launch of ceftobiprole, supply has been prepared by Basilea's partner Johnson & Johnson. Basilea experts continued to provide their extensive know-how in drug analytics and state-of-the-art technology.

Ceftobiprole's Competitive Profile

Clinical data demonstrate that ceftobiprole, as a single agent, may be as effective as commonly used combination therapy in treating a range of today's serious Gram-negative and Gram-positive infections with excellent activity against methicillin-resistant *Staphylococcus aureus* (MRSA) and penicillin-resistant *Streptococcus pneumoniae* (PRSP). Ceftobiprole is expected to have a good safety profile and a low potential to select for resistance.

Commercial Potential

The completed phase III program in severe skin infections and pneumonias address major segments of the hospital antibiotic market with a growing medical need for effective anti-MRSA drugs. Up to 60% of skin infections seen in emergency rooms across the U.S. are due to MRSA. A recent survey of a large U.S. database indicates that of all hospitalized patients with pneumonia approximately 70% had community-acquired and/or healthcare-associated pneumonia. HAP and VAP accounted for a roughly 20% and 10%, respectively, of the population and MRSA was present in 9% to 25% of cases of pneumonia. Ceftobiprole's key features that include MRSA activity may allow physicians to use it as the first treatment when MRSA is proven or suspected.

		Research	Development Phase 0	I	II	III	Pre-registration	Market
Antibacterials	Ceftobiprole Broad-spectrum-anti-MRSA							

Ceftobiprole

“Cephalosporin antibiotics play a central role in the empirical treatment of bacterial infections in the hospital but have lacked MRSA coverage. With increasing prevalence of MRSA, there is a growing medical need for new drugs. The novel cephalosporin ceftobiprole can prolong the usefulness of this important drug class.”

Joseph S. Solomkin, M.D.
 Professor of Surgery
 Director of Research, Division of Trauma and Critical Care
 University of Cincinnati, USA



Alitretinoin

Chronic Hand Eczema results in significant patient disability and has profound occupational, medical and social consequences. Alitretinoin is the first drug candidate to be developed specifically for patients whose chronic hand eczema is refractory to topical treatments, including high-potency steroids.

Key Achievements in 2007

Positive Phase III Results in The Largest Therapeutic Trials Ever Performed in Chronic Hand Eczema...

This year we reported positive results from two phase III trials. Our BACH trial (Benefit of Alitretinoin in Chronic Hand eczema) successfully met its primary objective demonstrating that alitretinoin was effective in patients suffering from severe and refractory chronic hand eczema (CHE), as determined by the stringent endpoint of clear and almost clear hands. This randomized double-blind phase III pivotal study, the largest therapeutic trial ever performed in CHE, showed a response rate of 48% in the 30mg and of 28% in the 10mg alitretinoin group, while the placebo response was 17%.

The second pivotal re-treatment trial demonstrated that patients responsive to initial treatment with alitretinoin can also benefit from additional treatment courses after eventual disease recurrence and that patients with initially partial response benefited from an extended treatment period. Response rates following re-treatment were 80% for the alitretinoin 30mg group and 48% for the 10mg group demonstrating that alitretinoin can effectively treat the disease in a subsequent treatment cycle. The same study included a second patient group who had either no or an incomplete response following on initial six months treatment, and who received an extended treatment of alitretinoin for up to an additional six months. Forty-seven percent (47%) of these patients also met the clinical end point and achieved a full clinical response.

In all clinical studies to date alitretinoin was generally well tolerated. The most frequent adverse events were headache and blood lipid elevation. These were dose-dependent and reversible. Alitretinoin is a teratogen. Pregnancy prevention measures were therefore in place for all women of child-bearing potential who received alitretinoin in clinical trials. The post-treatment contraceptive period was four weeks as alitretinoin levels return to endogenous levels within days after discontinuation of therapy.

The data of the two pivotal trials including almost 2000 patients and healthy volunteers treated with alitretinoin formed the basis of a Marketing Authorization Application (MAA) submitted under the decentralized procedure to various EU member states and was filed with the Swiss and the Canadian health authorities.

Basilea completed a consultation meeting with the US health authority (FDA) to determine the additional requirements for a New Drug Application and in-line with expectations, plans to conduct a clinical program to confirm the relevance of the existing data in US populations.

...and Regulatory Filings for Alitretinoin in Europe and Canada

The commercial supply chain, warehousing and distribution logistics were established to support the potential launch in Europe, Switzerland and Canada. Commercial supplies were manufactured including validation campaigns for the active pharmaceutical ingredient and the bulk capsules.

Alitretinoin's Competitive Profile

In a number of countries hand eczema is the most frequently reported occupational disease with high socio-economic costs to the healthcare and social system. Alitretinoin is the first pharmaceutical product to be developed specifically for patients whose chronic hand eczema (CHE) is refractory to topical treatments, including high-potency steroids. In clinical trials with alitretinoin, a significant proportion of patients who suffered from moderate and severe hand eczema for many years had disease clearance following a treatment period of between three and twelve months. The short drug elimination period may enable pregnancy prevention measures, which are necessary during therapy, to be discontinued one month after the end of therapy.

Commercial Potential

Severe refractory chronic hand eczema (CHE) is a relapsing disorder for which no approved treatment currently exists. This debilitating disease prevents patients from using their hands normally and requires frequent treatment interventions over time. Hand eczema is a common skin disease and is often chronic and relapsing. It is estimated to affect up to 10% of the general population. The more severe, chronic form of the condition is thought to affect up to 7% of these patients, many of whom do not respond, or no longer respond to topical corticosteroids. Basilea estimates there are at least one million patients in Europe and North America with refractory severe CHE for which currently no approved, effective pharmaceutical treatment is available. The social impact and economic burden related to severe chronic hand eczema are significant in the US and Europe. On basis of the positive clinical results reported to-date, alitretinoin has the potential to become the first product available to treat patients who suffer from severe CHE refractory to topical corticosteroids.

		Research	Development Phase 0	I	II	III	Pre-registration	Market
Dermatology	Alitretinoin Chronic Hand Eczema							

Alitretinoin

“In two clinical phase III trials, alitretinoin was found to be effective in treating severe chronic hand eczema in patients failing on topical treatments. Patients responsive to initial treatment with alitretinoin can also benefit from additional treatment courses after eventual disease recurrence.”

Thomas L. Diepgen, M.D.
 Professor of Clinical Social Medicine
 Ruprecht-Karls University, Heidelberg, Germany



Isavuconazole

Our second anti-infective, isavuconazole, is an investigational antifungal drug that is positioned to address the limited treatment options and high mortality associated with severe invasive fungal infections in immunocompromised patients. Isavuconazole has the potential to become the best-in-class azole for invasive fungal infections with its extended spectrum of efficacy. It is available as an intravenous injectable form that can be given to patients with normal as well as impaired renal function. Its oral form is highly bioavailable, allowing convenient switching from intravenous to oral applications, and is suitable for daily or less frequent dosing.

Key Achievements in 2007

State-of-the-art Phase III Program Ongoing...

Isavuconazole, as both the intravenous and oral dose form, is currently in phase III clinical development for the treatment of severe invasive fungal infections where mortality rates are high despite existing therapies. Our front-line treatment trial for invasive aspergillosis versus voriconazole, the current leading broad-spectrum azole, will be the first double-blind registration study in this setting. In our candidemia trial we test the drug as front line therapy in patients with candida infections against caspofungin, the current leading treatment for invasive candida infections. We expect these studies to take two to three years to complete.

The ongoing phase III program will be complemented with an additional study for the treatment of aspergillosis in renally impaired patients and for the treatment of rare yeast and mold infections in patients who require salvage therapy.

Isavuconazole's Competitive Profile

The FDA has granted fast track status to isavuconazole due to its unique profile. Isavuconazole has both, a broader anti-fungal spectrum and a more reliable absorption compared to the current generation of azoles, and therefore has the potential to become the best-in-class azole. Patients may be given either injectable or oral dosage forms and isavuconazole offers the convenience of once-daily or even once-weekly dosing. Within the azole class, isavuconazole has demonstrated a good clinical safety profile to date and a lower potential for drug-drug interactions. The injectable form, unlike for the leading azoles, can potentially be given to patients with poor kidney function.

Commercial Potential

Basilea's second anti-infective product for the hospital market, isavuconazole, fully complements our antibiotic ceftobiprole. Both products address significant challenges of severe hospital infections in the areas of cancer, transplantation and AIDS with their associated high mortality rates. Isavuconazole will target seriously ill patients who typically incur high daily hospital treatment costs.

...to Address Key Limitations of Current Antifungal Therapies

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 underlying co-morbidities and concomitant medications, 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 in a wide patient population.

		Research	Development Phase 0	I	II	III	Pre-registration	Market
Antifungals	Isavuconazole Broad-spectrum-Triazole							

Isavuconazole

“The ongoing randomized double-blind isavuconazole phase III studies will expand our knowledge on the available primary treatments for candidemia and invasive aspergillosis. Isavuconazole has the potential to become a valuable member of our antifungal armamentarium if shown to be effective and well tolerated.”

Kieren A. Marr, M.D.
Adjunct Professor of Medicine
Oregon Health and Science University, Portland, USA

Early-stage Projects

Combating Resistance

The rapid and global emergence of pathogenic bacteria resistant to current antibiotic therapy as well as the frequent development of resistant tumors upon chemotherapy of cancer patients are both alarming developments which lead to high mortality/morbidity of patients as well as pose an enormous financial burden on health-care systems. Basilea's research group focuses its discovery efforts on these areas of drug-resistance, thereby supporting the company's long-term vision of building a strong and sustainable business in fields of high medical need. In the area of anti-infectives, Basilea research is working on new antibiotic therapies against particularly dangerous resistant bacteria as well as on application routes allowing different treatment modalities. In oncology, approaches focus on novel structural classes with no cross-resistance to existing drugs as well as on inhibitors of oncogenic mutant proteins.

Antibiotics Targeting Resistant Gram-negative Bacteria

There is a significant and growing market opportunity for anti-infective therapy of multi-resistant Gram-negative pathogens. Infections by Gram-negative bacteria cause approximately half of the hospital acquired infections in the U.S. and Europe and can be associated with high

mortality. The death rates associated with these infections range from 25% to 60% in certain infections, such as ventilator-associated pneumonia. The incidence of antibiotic-resistant Gram-negative bacteria has risen substantially in the last five-year period across many geographic regions and this has been linked to higher mortality, prolonged periods of hospitalization and increased health-care costs. Four Gram-negative bacteria (*Escherichia coli*, *Klebsiella pneumoniae*, *Pseudomonas aeruginosa* and *Acinetobacter baumannii*) have been highlighted by the Infectious Disease Society of America (IDSA) because of the particularly high rapid rise of resistance, which is making these organisms more difficult to treat. The most common illnesses caused by such Gram-negative pathogens are complicated urinary tract infections, intra-abdominal infections and pneumonia. Basilea is responding to the increased concern among clinicians over the threat posed by Gram-negative bacteria by making significant efforts to bring forward novel drugs for empiric use against serious Gram-negative infections. Basilea has filed a number of patents in this key research area during the last twelve months covering its two most advanced antibiotic research programs with activity against a broad range of Gram-negative bacteria. The most advanced pre-clinical development candidate, BAL30376, is uniquely active *in vitro* against multi-resistant strains of *P. aeruginosa* and *A. baumannii*, as well as *K. pneumoniae*.



Antibiotics Targeting Resistant Gram-positive Bacteria

Basilea is currently testing a novel series of antifolates with potent *in vitro* activity against various staphylococci with different resistance characteristics. These include methicillin-resistant *Staphylococcus aureus* (MRSA), Vancomycin-intermediate *Staphylococcus aureus* (VISA), trimethoprim-resistant coagulase-negative staphylococci resistance as well as vancomycin-resistant strains of enterococci. The compounds have shown intravenous and oral efficacy in animal models of infection.

Macrolide Antibiotics: Antibacterials and Anti-Inflammatories

Macrolide antibiotics form a well-known class of drugs and their use over many decades provides a clear understanding of their safety and efficacy. Basilea has discovered a number of novel molecules possessing both antibacterial and anti-inflammatory activity. Out of this series a class of compounds has been identified which shows excellent activity against sensitive and antibiotic-resistant bacteria associated with acne. The most advanced member of this class, BAL19403, has successfully completed initial proof-of-concept testing as a topical formulation for moderate inflammatory acne.

Drug Resistance: Beyond Microbes to Cancer

Basilea's current pipeline of antibiotic and antifungal development products target severely ill, often immunocompromised patients including cancer patients who are at risk of bacterial or fungal infection because of their weakened immune system. Aligning with our focus on hospital/specialty products and patients with high medical needs, Basilea has identified novel proprietary compound classes that exhibit potent *in vitro* and *in vivo* activity against a broad panel of tumor cell lines.

Drug resistance is not only a problem in the field of anti-infectives, but is also frequently encountered in oncology. In many cases, this resistance is due to cellular transporters that remove drugs from cancer cells, thus rendering them ineffective. Basilea's cell death inducer BAL27862 is a novel tubulin-interacting agent with a unique mode of action that overcomes P-glycoprotein pump-related resistance. Its activity against a broad panel of tumor types and the potential for intravenous and oral administration make BAL27862 a promising pre-clinical candidate for the treatment of cancer patients no longer responding to prior chemotherapy.



Basilea Subsidiaries

Basilea Pharmaceutica China Ltd.

Basilea Pharmaceutica China Ltd. (hereafter "Basilea China") is a wholly owned subsidiary of Basilea Pharmaceutica Ltd. Basilea China closely collaborates with the chemistry and analytics groups in Basel. Basilea China focuses on organic chemistry and analytics to support drug discovery research, drug supply chain activities, and clinical development programs.

At year-end, Basilea China employed 88 people including 68 professional chemists. Basilea China is the first drug research company in China entirely funded by foreign investment, and one of the first foreign invested research institutes authorized by the Government of the Jiangsu Province. In recognition of its sustaining operational excellence Basilea China was again awarded the Chinese High-Tech Enterprise status in 2006 and was granted the "A" class of safety operation by the local government in 2007.



The high quality of operations at Basilea China was confirmed by successfully passing again the British Standards Institute (BSI) ISO9001 audit in 2007.

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

Worldwide Subsidiaries

Basilea established additional subsidiaries in Canada, Denmark, France, Germany, Italy, Spain, the United Kingdom and the United States of America to potentially commercialize its late-stage development products ceftobiprole, alitreinoin and isavuconazole. Pending regulatory approval, the initial launches of ceftobiprole and alitreinoin are anticipated in 2008. Ceftobiprole is planned for introduction initially into the US, Switzerland and European countries, and alitreinoin initially into selected EU countries and Switzerland followed later by Canada.



Corporate Governance

Group Structure and Shareholders

Group Structure

The Basilea group is composed of its parent company, Basilea Pharmaceutica Ltd. ("Basilea"), BPh Investitionien 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 focussing on the future distribution of pharmaceutical products (collectively the "Company").

The operating activities of the Company are focused on research, development and commercial operations of pharmaceutical products. Currently, there are no sales activities in the Company. The Company's operating activities are directed by and primarily located within Basilea, with supporting activities carried out by Basilea China, as further described.

Basilea is operationally organized along core activities with a development function, headed by the Chief Development Officer, a research function, headed by the Chief Scientific Officer, commercial operations, headed by the Chief Commercial Officer, Finance and Business Development, headed by the Chief Financial 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'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 SWX Swiss Exchange on March 25, 2004, under the Swiss security number (Valorennummer) 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, 2007, the market capitalization of Basilea amounted to CHF 2,104,380,999 (9,543,678 registered shares at CHF 1 per share). None of its shares are held by the Company.

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, 2007. Basilea China is located in the Haimen Municipal Economic 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, 2007, the Company engaged approximately 250 employees (full-time equivalents).

For information on the non-listed companies belonging to the Company, please refer to note 5 (Shareholders' Equity) 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, 2007.

Basilea received a notification of shareholdings pursuant to article 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading ("SESTA") on March 23, 2007, from Mr. Hranov Bühler, Goldhaldenstrasse 37, 8702 Zollikon, indicating that he has reduced its shareholdings in Basilea to less than 5%. The notification was published in the Swiss Official Gazette of Commerce ("Schweizerisches Handelsamtsblatt") on March 29, 2007. Basilea received a notification of shareholdings pursuant to article 20 SESTA on March 23, 2007, from Varuma AG, Aeschenvorstadt 55, 4051 Basel, indicating that it has reduced its shareholdings in Basilea to less than 5%. The notification was published in the Swiss Official Gazette of Commerce on March 30, 2007.

On April 19, 2007, Basilea received a notification of shareholdings pursuant to article 20 SESTA from HBM BioVentures (Cayman) Ltd., Centennial Towers, Third Floor, 2454 West Bay Road, Grand Cayman, Cayman Islands ("HBM"), a subsidiary of HBM BioVentures AG, Grabenstrasse 25, 6340 Baar, indicating that HBM has reduced its shareholdings in Basilea to less than 5%. The notification was published in the Swiss Official Gazette of Commerce on April 26, 2007.

Basilea received a notification of shareholdings pursuant to article 20 SESTA on June 21, 2007, from Deutsche Bank AG, Branch Zürich, Uraniastrasse 9, 8023 Zürich, that Deutsche Bank AG, Branch Zürich, Uraniastrasse 9, 8023 Zürich, Deutsche Bank AG, Branch London, Winchester House, 1 Great Winchester Street, London EC2N 2DB, Great Britain, DWS Investments Schweiz, Uraniastrasse 9, 8023 Zürich, Deutsche Asset Management Investmentgesellschaft mbH, Mainzer Landstrasse 178-190, 60327 Frankfurt am Main, Germany, und DWS Investments Italy SGR S.p.A., via M. Gloia 8, 20124 Milan, Italy, all group companies of Deutsche Bank AG, Frankfurt am Main, Germany, indicating that as of June 15, 2007, the group has a shareholding of 605,371 registered shares corresponding to 6.6% of the voting rights. The notification was published on June 28, 2007.

On July 11, 2007, HBM notified Basilea that its shareholdings in Basilea is 8.9% corresponding to 468,929 registered shares equal to 3.9% voting rights and 5.1% in call-warrants. The notification was published in the Swiss Official Gazette of Commerce on July 18, 2007.

Basilea received the following notification on July 19, 2007, from one of its shareholders in accordance with Article 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading: Fidelity International Limited, Kingswood Fields, Midfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, United Kingdom has notified Basilea on July 19, 2007, that Fidelity International Limited, principal address located at Pembroke Hall, 42 Crow Lane, Hamilton, Bermuda, and its direct and indirect subsidiaries, with securities held in managed accounts of clients, have increased their total shareholdings in Basilea to 5.1% as of July 5, 2007, and now hold 468,929 registered shares of Basilea Pharmaceutica Ltd. The notification was published in the Swiss Official Gazette of Commerce on July 25, 2007.

Basilea received a notification of shareholdings pursuant to article 15 and 20 SESTA on August 3, 2007, from Deutsche Bank AG, Branch Zürich, Uraniastrasse 9, 8023 Zürich, that in accordance with article 15 para. 5 of the Ordinance on Stock Exchange and Securities Trading the group is newly composed of Deutsche Bank AG, Branch Zürich, Uraniastrasse 9, 8023 Zürich, Deutsche Bank AG, Branch London, Winchester House, 1 Great Winchester Street, London EC2N 2DB, Great Britain, DWS Investments Schweiz, Uraniastrasse 9, 8023 Zürich, Deutsche Asset Management Investmentgesellschaft mbH, Mainzer Landstrasse 178-190, 60327 Frankfurt am Main, Germany, all group companies of Deutsche Bank AG, Frankfurt am Main, Germany, and that the group has a shareholding of total 8% corresponding to 704,382 registered shares equal to 7.7% voting rights and long calls/ covered warrants reflecting 23,445 registered shares or 0.3% voting rights. The notification was published on August 10, 2007.

Basilea received a notification of shareholdings pursuant to article 15 and 20 SESTA on August 30, 2007, from Deutsche Bank AG, Branch Zürich, Uraniastrasse 9, 8023 Zürich, that the group is newly composed of Deutsche Bank AG, Branch Zürich, Uraniastrasse 9, 8023 Zürich, Deutsche Bank AG, Branch London, Winchester House, 1 Great Winchester Street, London EC2N 2DB, Great Britain, Deutsche Bank AG Frankfurt am Main, Taunusanlage 12, 60325 Frankfurt am Main, DWS Investments Schweiz, Uraniastrasse 9, 8023 Zürich, Deutsche Asset Management Investmentgesellschaft mbH, Mainzer Landstrasse 178-190, 60327 Frankfurt am Main, Germany, all group companies of Deutsche Bank AG, Frankfurt am Main, Germany, and that as of August 30, 2007, the group has shareholdings of total 7.5% corresponding to 640,961 registered shares equal to 7% of voting rights and calls/covered warrants reflecting 43,617 registered shares or 0.5% voting rights. The notification was published on September 7, 2007.

On October 1, 2007, Deutsche Bank AG, Branch Zurich, Uraniastrasse 9, 8023 Zurich, notified Basilea that the group as described above has reduced its shareholdings below 5% voting rights. The notification was published on October 5, 2007.

Fidelity International Limited, Kingswood Fields, Midfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, United Kingdom has notified Basilea Pharmaceutica Ltd. on December 4, 2007, 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; have total shareholdings in Basilea Pharmaceutica Ltd. of 3.3% corresponding to 298,836 registered shares of Basilea Pharmaceutica Ltd. The shareholdings are held by FA DIVERSIFIED INTERNATIONAL, FA MID CAP II FD, SELECT PHARMACEUTICALS, VIP III MID CAP PORTFOLIO, managed by FMRCO and ING DIVERSIFIED MID CAP T2212, PYRAMIS SEL INTL SM CAP (T1056), METLIFE INTL STOCK T50432, SST BOA FL SLCT INTL SM T50818, managed by FMTC as well as CDP QUEBEC T55293, PYRAMIS SLCT INTL SM CP T55105 managed by PGALLC. The notification was published on December 12, 2007. Deutsche Bank AG, Frankfurt am Main, Zurich Branch, P.O. Box 7370, 8023 Zürich has noti-

fied Basilea Pharmaceutica Ltd. on December 7, 2007, that the shareholder group consisting of Deutsche Bank AG, Frankfurt, Theodor-Heuss-Allee 70, 60486 Frankfurt and, and Deutsche Asset Management Investmentgesellschaft mbH, Mainzer Landstrasse 178-190, 60327 Frankfurt, has purchase positions pursuant to Art. 10 para. 3 a SESTO-SFBC of 395,908 registered shares corresponding to 4.3% of voting rights as well as sale positions pursuant to Art. 10 para. 3 b SESTO-SFBC corresponding to 8.9% of voting rights. The sales positions consist of 150,000 share sale rights corresponding to 150,000 underlying shares or 1.6% of voting rights and 56,103,408 granted conversion or purchase rights corresponding to 669,754 underlying shares or 7.3% of voting rights. The notification was published on December 14, 2007.

On December 14, 2007, Roche Holding AG notified Basilea that it has reduced its shareholdings of 1,157,205 registered shares corresponding to 12.6% voting rights by 50,000 registered shares to new 1,107,205 registered shares corresponding to 12.1% voting rights. The notification was published in the Swiss Official Gazette of Commerce on December 27, 2007.

Basilea disclosed that as of December 14, 2007, it has sale positions of 1,443,596 granted share purchase rights consisting of 1,443,596 employee share option rights (according to the employee stock option plan of the company) which entitled to purchase 1,443,596 registered shares of Basilea at a ratio of 1:1. These 1,443,596 employee share option rights correspond to 15.8% of voting rights. The notification was published on December 28, 2007.

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 on December 20, 2007, that it holds purchase positions corresponding to 997,190 registered shares with 10.9% of voting rights. These purchase positions consists of 302,190 registered shares (3.3% of voting rights), 17,000,000 call options (corresponding to 2.3% of voting rights; BSLOD SW; ISIN: CH0028814660), 2,500,000 call options (corresponding to 0.6% of voting rights; BSLW SW; ISIN: CH0027968053), 22,600,000 call options (corresponding to 3.1% of voting rights; BSLDU SW; ISIN: CH0028814678) and 150,000 put options (corresponding to 1.6% of voting rights; DB-BSLN; OTC-traded). Issuer: Deutsche Bank; Underlying share:

Capital Structure and Shares

Registered shares of Basilea; ratio: 1:1; Strike Price: CHF 240; Expiry date: March 20, 2008; Type: European Style). The notification was published on January 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 on December 21, 2007, that it holds purchase positions of Basilea corresponding to 768,843 registered shares with 8.4% of voting rights. These purchase positions consist of 336,343 registered shares (corresponding to 3.7% of voting rights), 22,600,000 call options (corresponding to 3.1% of voting rights; BSLDU SW; ISIN: CH0028814678) and 150,000 put options (corresponding to 1.6% of voting rights; DB-BSLN; OTC-traded); Issuer: Deutsche Bank; Underlying share: Registered shares of Basilea; ratio: 1:1; Strike Price: CHF 240; Expiry date: March 20, 2008; Type: European Style). The notification was published on January 7, 2008.

Shareholder	Number of registered shares	Ownership percentage
Chase Nominees Ltd. London, United Kingdom (registered without voting rights)	1,746,364	18.3
Roche Finanz Ltd. Grenzacherstrasse 124 4070 Basel, Switzerland	1,007,205	11.1
Varuma AG Aeschenvorstadt 55 4051 Basel, Switzerland	407,351	4.3

The numbers of shares and ownership percentages in the table above reflect the situation as per December 31, 2007, taking into account changes in share capital caused by the capital increase and the exercise of options during 2007 and the indications on significant shareholdings reflected in note 10 to the Financial Statements pursuant to article 663c CO.

Cross-Shareholdings

No cross-shareholdings existed as of December 31, 2007.

Share Capital

The share capital of Basilea as of December 31, 2007, amounted to CHF 9,543,678, consisting of 9,543,678 registered shares with a par value of CHF 1 per share. The share capital is fully paid up. As of December 31, 2007, the Company did not hold any shares of Basilea.

Authorized Capital and Conditional Capital

As of December 31, 2007, total authorized capital amounts to CHF 660,000 and total conditional capital amounts to CHF 2,856,463.

On April 12, 2005, the ordinary shareholders' meeting approved authorized capital in the amount of CHF 540,000, valid until April 12, 2007, which was entered into the Commercial Register of Basel-Stadt on April 14, 2005. 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 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. 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 1,500,000 was reduced by the amount of 1,200,000 to 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 180,000 to 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.

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 2007, 378,172, in 2006, 349,004, and in 2005, 55,548 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 below).

Changes in Capital

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, in 2006, 349,004, registered shares and in 2005 55,548 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 2007, 2006, and 2005, including changes in reserves and retained earnings, please refer to the Consolidated Statement of changes in Shareholders' Equity as well as note 12 (Shareholders' Equity) to the Financial Statements, and note 6 (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 2006 and 2005 for information on changes in equity in 2006 and 2005.

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 share-

holders' meeting, but is still entitled to receive dividends and other rights of financial value. No exemptions were granted from the above restrictions in 2007.

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 11 "Stock-Based Compensation" to the consolidated Financial Statements included in this Annual Report.

As of December 31, 2007, 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
Dr. Gottlieb Keller	2003	2008
Prof. Peter van Brummelen	2003	2008
Dr. Walter Fuhrer	2003	2008
Prof. Daniel Lew	2003	2008
Mr. Claude Schreiner	2007	2010
Dr. Anthony Man	2004	2008
Mr. Ronald Scott	2004	2008

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

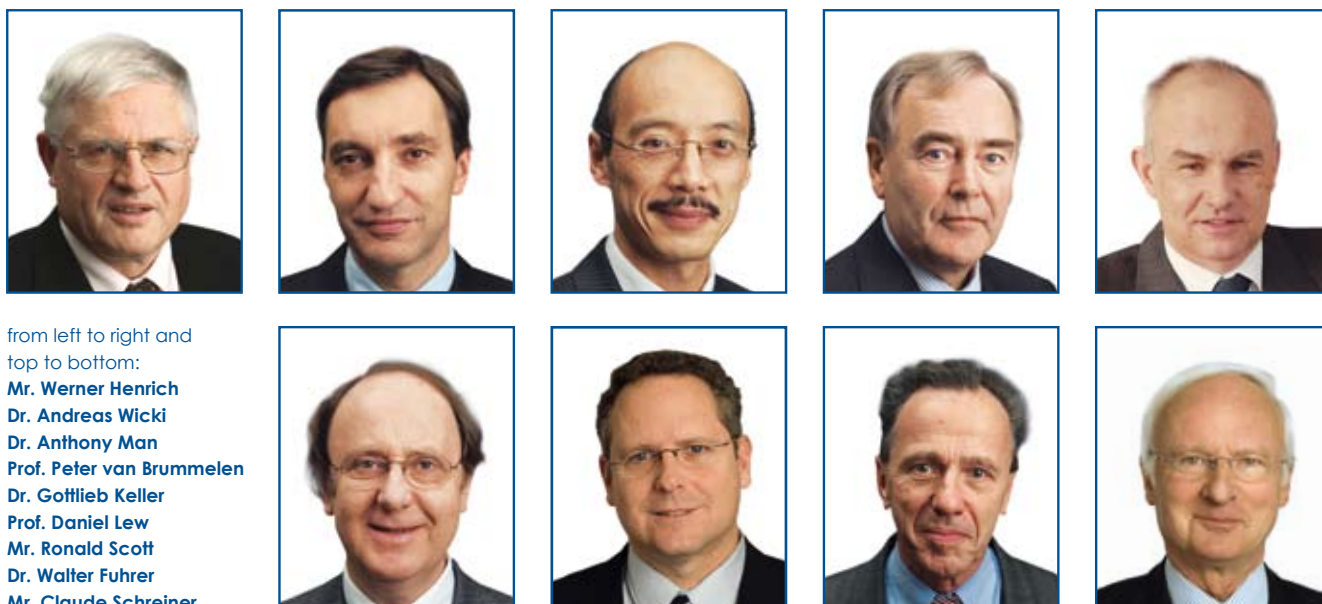
Werner Henrich, Chairman, was born 1943 and is a French citizen. He has an education as a chemist and European patent attorney. He worked for F. Hoffmann-La Roche Ltd. ("Roche") in Basel for more than 30 years. Mr. Henrich held various positions at Roche including Head of Global Intellectual Property 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 SWX 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 Bioxell S.p.A., Segrate, Italy, a company listed on the SWX Swiss Exchange, Diatos S.A., Paris, and IQ Corporation BV, The Netherlands. 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".

Gottlieb Keller was born in 1954 and is a Swiss citizen. He studied law and economics and received his Doctor of Law degree from the University Basel in 1980. He subsequently received his admission as attorney-at-law (1981) and as notary public in Basel (1984, not practicing). He started his professional career in 1984 at the Roche's Corporate Law Department. In 1989, Dr. Keller was named Head of Business Development and Pharma Marketing Services of Hoffmann-La Roche AG, Grenzach-



from left to right and
top to bottom:

Mr. Werner Henrich
Dr. Andreas Wicki
Dr. Anthony Man
Prof. Peter van Brummelen
Dr. Gottlieb Keller
Prof. Daniel Lew
Mr. Ronald Scott
Dr. Walter Fuhrer
Mr. Claude Schreiner

Whylen, Germany. In 1992, he was promoted to Assistant to the Chairman of the Board of Directors of Roche Holding Ltd. In 1996, he became Head of Human Resources at Hoffmann-La Roche AG, Grenzach-Whylen, and Chairman of the Executive Board of Roche Deutschland Holding GmbH, and was appointed Secretary to the Board of Directors of Roche Holding Ltd., and Corporate Compliance Officer of the Roche Group in 1999. In 2003, he was named Member of the Corporate Executive Committee of the Roche Group and Head of Corporate Services and Human Resources of Roche. Dr. Keller is President of the Board of Crocodil AG, and member of the Board of the International School of the Basel Region AG as well as Acting Committee Member of the VSUD (Verband Schweizerischer Unternehmen in Deutschland) and of the Chamber of Commerce Germany-Switzerland. In addition, Dr. Keller is a member of the Fritz Gerber Foundation for talented young people, member of the Board of Trustees of the Paul Sacher Foundation, Board member of SGCI Chemie Pharma Schweiz and of *economiesuisse*.

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 but he still holds various board memberships in affiliated companies of Roche Holding Ltd, Basel, in Europe.

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 in 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 2007.

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 and Mr. Schreiner acted as a consultant to Basilea in 2007.

There are contractual relationships existing between Basilea and Roche, represented by Dr. Keller. Basilea has entered into a manufacturing agreement in 2006 and has an agreement with respect to certain of its research molecules that allows Roche to opt-in on such compounds in exchange for milestone payments and potential future royalties. Basilea is currently not pursuing those research molecules for which Roche has opt-in rights.

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 17 "Related Party Transactions" to the 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 current composition of the Board of Directors, as shown above, does not fully reflect this requirement, but the Company aims at achieving the goal. 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

Werner Henrich and Andreas Wicki were re-elected as members of the Board of Directors, each for a term of three years, at the ordinary shareholders' meeting on March 7, 2007. Peter Friedli did not stand by for re-election and his term expired at the ordinary shareholder's meeting on March 7, 2007. Claude Schreiner was elected as a new member of the Board of Directors on March 7, 2007, 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 651a, 652g and 653g of the Swiss Code of Obligations.

Chairman of the Board of Directors

The Chairman of the Board calls, prepares, and chairs the meetings of the Board of Directors. The Chairman also chairs the 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 nonaudit 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 2007, 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 2006; the review of the half-year financial statements 2007; the review of the annual budget 2008; risk management and the scope of the external audit 2007. 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 2007 to report on the findings of the audit 2006 and the half-year review 2007. 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 and Claude Schreiner, 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 2007 each with a duration of one or more hours. The main topics at these meetings included the review of the 2006 achievements versus the planned corporate 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 2007, the Board of Directors held 8 meetings with an average duration of half to two-thirds day. Except for two meetings, all were held at the offices of Basilea and with two of them held by telephone conference. The overall attendance rate (in person or by phone) was 99%.

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 below.

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. Rienk Pypstra	2004	Chief Development 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. Rienk Pypstra

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.

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.

Rienk Pypstra, Chief Development Officer, is a Dutch citizen, and holds a Medical Degree and a MBA from the University of Leuven, Belgium. Following a period of medical practice, he worked in increasingly senior positions at Eli Lilly, SmithKline Beecham and GlaxoSmithKline in Brussels, London and Philadelphia. He has over 15 years of clinical development and medical governance experience with drug candidates, investigational drugs and marketed products. He joined Basilea in 2003 and has been Chief Development Officer since 2004.

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

The Management Committee was reduced from thirteen to six members in 2007. This change was made to strengthen the decision making process and to optimize the support for the commercialisation of the investigational drugs which are currently in the procedure of registration.

Dr. Cornelia Blaettchen, Head of Business Development & Licensing, Ulrich Eisenring, Corporate Counsel and Secretary to the Board, Heidi Hagenbuch, Head of Human Resources, Prof. Jeff Shen, General Manager of Basilea Pharmaceutica China Ltd., Dr. Dietrich Stüber, Head of Internal Services, Dr. Lutz Wevelsiep, Head of Regulatory Affairs and Dr. Barbara Zink, Head of Corporate Development will continue their line function responsibilities outside the framework of the Management Committee. Hans Christian Rohde was appointed as new member of the Management Committee in 2007. Nicolas Benedict, former Head of Commercial Strategy and Operations, left the Company in 2007. 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 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 obtain 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 9 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 2007.

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 22 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 2007, the deadline for registration in the share register in order to participate and to vote at the ordinary shareholders' meeting of March 7, 2007, was February 23, 2007, i.e. 13 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 March 19, 2008, has been determined to be March 7, 2008.

Basilea has not enacted any rules on the granting of exceptions in relation to these deadlines. No exceptions were granted in 2007, and the Board of Directors does not anticipate to grant any exceptions related to the shareholders' meeting on March 19, 2008.

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 26.

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 $\frac{1}{3}$ % 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-up 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. In case of a change of control over Basilea (defined as a change of control event triggering a mandatory public purchase offer according to applicable stock exchange provisions), 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 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 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 is Mr. Ralph R. Reinertsen.

Auditing Fees

In 2007, PricewaterhouseCoopers AG and its affiliates charged the Company auditing fees in the amount of CHF 138,210.

Additional Fees

In 2007 PricewaterhouseCoopers AG and its affiliates charged the Company auditing fees in the amount of CHF 125,485.

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 2007, the Audit Committee met with the auditors twice to discuss the scope and results of their year-end audit for 2006, the scope of the 2007 audit as well as the results of their review of the half-year financial statements per June 30, 2007.

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 Commercial Gazette.

The Annual Report, usually published no later than in April of the following year, and the Interim Report, usually published in 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.

Annual Reports may be in printed form to all registered shareholders upon their 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 SWX 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.

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 preparing for 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 and antifungal agents to fight drug resistance, and on the development of dermatology drugs.

The Company currently has two compounds in registration: ceftobiprole, a broad-spectrum, anti-MRSA cephalosporin antibiotic, which is developed in collaboration with Johnson & Johnson and alitretinoin, an oral retinoid for the treatment of patients with chronic hand eczema who do not respond to topical steroids. Isavuconazole, a novel broad-spectrum antifungal for the treatment of severe invasive fungal infections is in phase III clinical development.

In 2007, the Company invested CHF 115.7 million in research and development activities, mainly related to the preparations of the product registration filings for alitretinoin as well as conducting the phase III clinical trials for alitretinoin and isavuconazole. In addition, the research and development expenses in 2007 include an amount of CHF 11.4 million related to manufacturing of pharmaceutical material which may be used for commercialization of one of its compounds, subject to regulatory approval. General and administrative expenses amounted to CHF 29.0 million in 2007 and include expenses for the establishment of an international commercialization organization. The Company recognized revenues of CHF 7.9 million in 2007 (2006: CHF 7.2 million), of which CHF 6.6 million (2006: CHF 5.2 million) related to the release of deferred revenue in connection with upfront and milestone payments received from Johnson & Johnson for ceftobiprole.

The Company received additional milestone payments in 2007 in the amount of CHF 36.4 million related to the filings of the new drug applications for ceftobiprole 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 424.8 million as of December 31, 2007, compared to CHF 176.6 million at year-end 2006.

Results of Operations

The following table outlines the Company's consolidated results of operations for the fiscal years 2007 and 2006:

In CHF million	2007	2006
Revenues and other income	8.2	7.4
Research & development expenses	(115.7)	(82.8)
General & administrative expenses	(29.0)	(12.5)
Total operating expenses	(144.7)	(95.3)
Operating loss	(136.5)	(87.9)
Net financial income	9.7	2.8
Loss before taxes	(126.8)	(85.1)

Revenues

The revenues in 2007 are mainly associated with the upfront and milestone payments, which the Company received under the license agreement with Johnson & Johnson related to ceftobiprole. These upfront and milestone payments were recorded as deferred revenue and recognized as revenue on a straight-line basis over the remaining term of the agreement. In 2007, the Company recognized revenues of CHF 6.6 million (2006: CHF 5.2 million) related to these upfront and milestone payments. In addition, the Company recognized revenues in connection with services, which the Company provides to its partner Johnson & Johnson.

Research and Development

The research and development expenses amounted to CHF 115.7 million in 2007, representing 80% of the total operating expenses (2006: 87%).

The research and development expenses in 2007 were mainly incurred in connection with the preparations of the product registration filings for alitretinoin as well as conducting the phase III trials for alitretinoin and isavuconazole. In addition, the research and development expenses in 2007 include CHF 11.4 million related to manufacturing of pharmaceutical material which may be used for commercialization of one of its compounds, subject to regulatory approval. The research and development expenses in 2007 also included stock-based compensation expenses of CHF 8.0 million (2006: CHF 6.1 million), which increased as compared to 2006 mainly because of the increased fair value of stock options. Furthermore, expenses were incurred for the Company's research projects.

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.

General and Administrative Expenses

The general and administrative expenses amounted to CHF 29.0 million or approximately 20% (2006: 13%) of total operating expenses in 2007. The general and administrative expenses in 2007 included stock-based compensation expenses of CHF 5.7 million (2006: CHF 3.9 million), which increased compared to 2006 mainly because of the increased fair value of stock options.

General and administrative expenses mainly consist of expenses related to commercial strategy, corporate management, finance, human resources, business development, licensing and investor relations, including personnel expenses for these functions. The general and administrative expenses also include expenses related to the establishment of an international commercialization organization. In 2007, the Company incorporated subsidiaries in the U.S., Canada, United Kingdom, Germany, Italy, Spain, Denmark and France in this context.

Net Financial Income

Net financial income increased to CHF 9.7 million in 2007 compared to CHF 2.8 million in 2006. This change mainly resulted from an increase in available funds related to the net proceeds from the secondary offering of the Company in March 2007. In addition, Swiss Franc denominated interest rates increased further in 2007 compared to 2006.

Income Taxes

Due to the losses incurred to date, the Company has not paid any income taxes.

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 payments under its license agreement with Johnson & Johnson in the total amount of CHF 139.3 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 2007 and 2006 in connection with exercises of stock options in the amount of CHF 23.8 million and CHF 21.1 million, respectively.

The cash used by the Company in 2007 was primarily related to its operating activities, in particular the research and development programs as well as the establishment of an international commercialization organization. The cash and cash equivalents and short-term investments, available as of December 31, 2007, amount to CHF 424.8 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, 2007, CHF 255.0 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, 2007.

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

The upfront and milestone payments received under the license agreement for ceftobiprole 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.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123R related to accounting for stock-based compensation. As a result, stock options are measured based on the grant-date fair value of the award. The Company recorded total expenses related to stock-based compensation of CHF 13.7 million in 2007 (2006: CHF 10.0 million).

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, 2007.

Report of the Group Auditors



Report of the Group Auditors to the General Meeting of
Basilea Pharmaceutica Ltd., Basel, Switzerland

As Group Auditors of Basilea Pharmaceutica Ltd. and its subsidiaries, we have audited the accompanying consolidated balance sheets as of December 31, 2007 and 2006, the related consolidated statements of operations, cash flows and changes in shareholders' equity and the accompanying notes for the years then ended, included on pages 42 to 65. These consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America, as described in Note 1.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

We conducted our audits of these consolidated financial statements in accordance with Swiss Auditing Standards and with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Basilea Pharmaceutica Ltd. and its subsidiaries at December 31, 2007 and 2006 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, and comply with relevant Swiss law.

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

PricewaterhouseCoopers AG

Ralph R. Reinertsen
Auditor in charge

Raphael H. Rutishauser

Basel, January 31, 2008

Consolidated Financial Statements

Basilea Pharmaceutica Ltd. and subsidiaries Consolidated Balance Sheets as of December 31, 2007 and 2006 (in CHF)

	Footnote reference	2007	2006
ASSETS			
Current assets			
Cash and cash equivalents	7	1 69 819 448	36 593 700
Short-term investments	6	255 000 000	140 000 000
Accounts receivable	5	349 243	184 222
Other receivables		2 995 976	1 013 845
Accrued interest		4 079 011	1 435 663
Other current assets		1 699 184	3 026 298
Total current assets		433 942 862	182 253 728
Non-current assets			
Property, plant and equipment, net	2	19 269 451	18 037 602
Intangible assets, net	3	2 557 486	172 416
Other non-current assets	14	5 679 214	2 623 998
Total non-current assets		27 506 151	20 834 016
TOTAL ASSETS		461 449 013	203 087 744
LIABILITIES			
Current liabilities			
Accounts payable		2 829 006	1 948 401
Deferred revenue	8	8 251 787	5 730 883
Accruals and other current liabilities	9	24 870 311	19 675 771
Total current liabilities		35 951 104	27 355 055
Non-current liabilities			
Deferred revenue, less current portion	8	90 376 794	63 423 158
Other non-current liabilities		16 249	-
Total non-current liabilities		90 393 043	63 423 158
Total liabilities		126 344 147	90 778 213
Commitments and contingencies	18		
SHAREHOLDERS' EQUITY			
Share capital ¹	12	9 543 678	7 785 506
Additional paid-in capital		802 509 264	456 690 649
Accumulated other comprehensive loss		(43 907)	(2 081 997)
Accumulated deficit:			
Loss carried forward		(350 084 627)	(264 934 938)
Net loss for the year		(126 819 542)	(85 149 689)
Total shareholders' equity		335 104 866	112 309 531
TOTAL LIABILITIES AND EQUITY		461 449 013	203 087 744

¹As of December 31, 2007, 9,543,678 shares issued and outstanding with a par value of CHF 1 per share.
As of December 31, 2006, 7,785,506 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, 2007 and 2006 (in CHF)

	2007	2006
Revenues	7 898 447	7 183 782
Other income	313 163	213 702
Total operating income	8 211 610	7 397 484
Research & development expenses	(115 694 820)	(82 800 628)
General & administrative expenses	(28 986 020)	(12 527 470)
Total operating expenses	(144 680 840)	(95 328 098)
Operating loss	(136 469 230)	(87 930 614)
Interest income	9 325 587	2 727 670
Other financial income/expenses, net	324 101	53 255
Loss before taxes	(126 819 542)	(85 149 689)
Income taxes	-	-
Net loss	(126 819 542)	(85 149 689)
Loss per share	2007	2006
Basic and diluted loss per share, in CHF	(13.97)	(11.11)

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, 2007 and 2006 (in CHF)

	2007	2006
Cash flow from operating activities		
Net loss	(126 819 542)	(85 149 689)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	2 704 393	2 965 226
Gain on disposal of assets, net	(13 444)	(36 231)
Stock-based compensation	13 659 163	9 990 835
Change in operating assets/liabilities		
- Accounts receivable	(165 021)	253 508
- Other receivables	(1 990 163)	(484 624)
- Accrued interest	(2 643 348)	(486 382)
- Other current assets	1 321 948	(2 252 855)
- Other non-current assets	(699 847)	(383 613)
- Accounts payable	908 324	1 103 303
- Deferred revenue	29 474 540	(5 059 137)
- Accruals and other current liabilities	5 275 234	7 074 810
Net cash used for operating activities	(78 987 763)	(72 464 849)
Cash flow from investing activities		
Payments for financial investments	(500 000 000)	(215 000 000)
Maturities of financial investments	385 000 000	275 000 000
Proceeds from sale of assets	22 145	54 343
Investments in property, plant & equipment	(3 997 848)	(1 590 142)
Investments in intangible assets	(2 536 427)	(36 047)
Net cash used for/provided by investing activities	(121 512 130)	58 428 154
Cash flow from financing activities		
Net proceeds from capital increase	310 097 353	-
Net proceeds from exercise of stock options	23 829 611	21 071 884
Repayments of capital lease liabilities	(1 916)	-
Net cash provided by financing activities	333 925 048	21 071 884
Effect of exchange rate changes on cash and cash equivalents	(199 407)	(76 763)
Net change in cash and cash equivalents	133 225 748	6 958 426
Cash and cash equivalents, beginning of period	36 593 700	29 635 274
Cash and cash equivalents, end of period	169 819 448	36 593 700
Supplemental information		
Investments through capital lease	27 610	-
Cash paid for interest	-	-
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, 2007 and 2006
 (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, 2005	7 436 502	7 436 502	425 976 934	(264 934 938)	(609 252)	167 869 246
Currency translation adjustment	-	-	-	-	(271 745)	(271 745)
Net loss	-	-	-	(85 149 689)	-	(85 149 689)
Comprehensive income/loss	-	-	-	(85 149 689)	(271 745)	(85 421 434)
Exercise of stock options, net	349 004	349 004	20 722 880	-	-	21 071 884
Stock-based compensation, net	-	-	9 990 835	-	-	9 990 835
Adjustment to initially apply FASB Statement No. 158, net of tax	-	-	-	-	(1 201 000)	(1 201 000)
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	-	-	-	-	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

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 preparing for commercialization of innovative drugs for the treatment of bacterial infections, fungal infections 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.

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).

Reclassifications of prior period amounts have been made related to intangible assets and other income within the consolidated balance sheet, statement of operations and statement of cash flows to conform to the current period presentation.

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.

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 re-

ported amounts of revenues and expenses during the reporting period. These estimates are based on management's 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.

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. As of December 31, 2007, the Company had not capitalized any inventories. The Company recognized CHF 11.4 million as research and development expenses in 2007 related to manufacturing of pharmaceutical material which may be used for commercialization of one of its compounds, subject to regulatory approval. No corresponding expenses were recognized in 2006.

Property, Plant and Equipment

Property, plant and equipment is 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.

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.

Impairment of Long-Lived Assets

Whenever events or changes in circumstances indicate that the carrying amounts of long-lived assets held for use, including property, plant and equipment as well as intangible assets, may not be recoverable, the Company assesses such long-lived assets for impairment. An impairment loss is recognized where an impairment review indicates that the sum of future cash flows, on an undiscounted basis, expected to result from the use of the asset and its eventual disposition is less than the carrying amount of the asset. In this case, an impairment is recognized to the extent the carrying value of the asset exceeds its fair value.

Leases

Property, plant and equipment 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. 101, as amended by SAB No. 104, are met, which is when there is evidence of an arrangement, the price is fixed or determinable, collectibility is reasonably assured and the service has been rendered or delivery has occurred. 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. The Company records revenues net of any sales and value added taxes.

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 for research and development services provided by the Company is recorded as earned based on the performance requirements of the underlying contracts.

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 Statement of Financial Accounting Standards ("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. For the Company, this accounting pronouncement will become effective as of January 1, 2008. The Company currently does not expect that the adoption of SFAS No. 157 will significantly impact its financial position or results of operations.

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. With respect to the change in measurement date, the Company currently uses September 30 as the measurement date for its plan assets and obligations. The Company plans to adopt December 31 as the measurement date in the business year 2008 in accordance with SFAS No. 158. The Company does not expect that the change in measurement date will have a significant impact on its financial position or results of operations.

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 becomes effective from 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 currently does not intend to exercise this fair value option and consequently does not expect that this statement will 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 will adopt this accounting treatment prospectively for new contracts entered into beginning from January 1, 2008, the effective date of this issue.

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 Property, Plant and Equipment

In CHF million	Land/ Land use rights	Buildings	Equipment	Total
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
2006				
Cost				
January 1, 2006	1.4	17.6	17.8	36.8
Additions	0.0	0.1	1.5	1.6
Disposals	0.0	0.0	(0.3)	(0.3)
Currency effect	0.0	(0.1)	(0.3)	(0.4)
December 31, 2006	1.4	17.6	18.7	37.7
Accumulated depreciation				
January 1, 2006	0.0	3.0	14.3	17.3
Additions	0.0	0.9	2.0	2.9
Disposals	0.0	0.0	(0.3)	(0.3)
Currency effect	0.0	0.0	(0.2)	(0.2)
December 31, 2006	0.0	3.9	15.8	19.7
Net book value				
as of December 31, 2006	1.4	13.7	2.9	18.0

The insurance value of property, plant and equipment amounts to CHF 95.7 million as of December 31, 2007.

3 Intangible assets

The intangible assets as of December 31, 2007 and 2006 consist of internal use software.

In CHF million	2007	2006
Cost		
January 1	1.6	1.6
Additions	2.5	0.0
Currency effect	0.0	0.0
December 31	4.1	1.6
Accumulated amortization		
January 1	1.4	1.3
Additions	0.1	0.1
Currency effect	0.0	0.0
December 31	1.5	1.4
Net book value as of December 31	2.6	0.2

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

	Amount in CHF million
2008	0.9
2009	0.9
2010	0.8
2011	0.0
2012	0.0
Thereafter	0.0
Total	2.6

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	2007	2006
Switzerland	16.0	15.5
China	2.6	2.5
Other	0.7	-
Total	19.3	18.0

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

In CHF million	2007	2006
Switzerland	6.7	5.4
Other	1.2	1.8
Total	7.9	7.2

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

5 Accounts Receivable

The accounts receivable result primarily from contract research and development services provided by the Company. No allowance for doubtful accounts was recorded on receivables as of December 31, 2007 and 2006.

6 Short-term Investments and Financial Instruments

Short-term Investments

The short-term investments as of December 31, 2007 contain short-term time deposits with banks, all denominated in Swiss Francs, in the amount of CHF 255.0 million (December 31, 2006: CHF 140.0 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	2007	2006
Cash	10.5	1.9
Short-term time deposits	159.3	34.7
Total	169.8	36.6

8 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 the Company's antibiotic compound ceftobiprole (BAL5788). In 2006, the Company exercised its option to co-promote ceftobiprole 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 ceftobiprole. In addition, the Company is also eligible for royalty payments in the event of commercialization of ceftobiprole.

In 2007, the Company received further milestone payments in the amount of CHF 36.4 million related to filing 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 CHF 6.6 million as revenue in 2007 related to these payments (2006: CHF 5.2 million).

9 Accruals and Other Current Liabilities

Accruals and other current liabilities as of December 31, 2007 and 2006 consisted of the following:

In CHF million	2007	2006
Accrued R&D expenses	15.3	15.0
Accrued personnel and compensation costs	6.6	3.8
Other	3.0	0.9
Total accruals and other current liabilities	24.9	19.7

10 Income Taxes

The Company has tax loss carryforwards of CHF 469.5 million as of December 31, 2007 (December 31, 2006: CHF 342.9 million) of which CHF 215.9 million will expire within the next five years, CHF 249.9 million will expire between six and eight years and CHF 0.4 million will expire thereafter. CHF 3.3 million of the tax loss carryforwards do not expire.

The significant components of net deferred taxes as of December 31, 2007 and 2006 are shown in the following table:

In CHF million	2007	2006
Deferred tax assets:		
Net benefit from tax loss carryforwards	117.1	85.2
Other, net	(1.9)	0.1
Valuation allowance	(115.2)	(85.3)
Net deferred taxes	0.0	0.0

The Company recorded a valuation allowance in 2007 and 2006 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, 2007 and 2006, and the Company did not pay any income taxes in 2007 and 2006. The expected tax rate for 2007 was 26% (2006: 25%). The following table shows the reconciliation between expected and effective tax rate:

In percent	2007	2006
Expected tax rate	26	25
Effect of net permanent differences ¹	(2)	(2)
Valuation allowance on deferred tax assets	(24)	(23)
Effective tax rate	0	0

¹Items 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 2006.

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 January 1, 2007 and December 31, 2007. The Company did not incur any interest or penalties in connection with income taxes in the years 2007 and 2006.

11 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, 2007. CHF 1.4 million of this remaining available conditional capital is reserved for stock options, which are granted and outstanding as of December 31, 2007.

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, 2007, 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, 2005	80.74	1 539 021
Options granted	202.39	312 525
Options forfeited	106.25	(2 593)
Options exercised	60.98	(349 004)
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

The following table provides information on the stock options outstanding and the stock options exercisable as of December 31, 2007:

	Options exercisable plus options expected to vest ¹	Options exercisable
Number of options	1 407 221	643 097
Weighted average exercise price, in CHF	148.21	100.84
Weighted average remaining contractual life, in years	8.0	7.0

¹ Number of options considers expected forfeitures.

Based on (a) the stock options exercisable as of December 31, 2007, 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 104.0 million and CHF 77.0 million, respectively. The exercise prices of the options granted in 2007 and 2006 equalled the market price of the shares at the respective grant date.

The weighted average grant-date fair values of options granted in 2007 and 2006 were CHF 59.80 per option and CHF 56.81 per option respectively. The total aggregate intrinsic value of stock options exercised during 2007 was CHF 70.0 million (2006: CHF 41.6 million). The total grant-date fair value of the stock options vested in 2007 was CHF 9.7 million (2006: CHF 5.8 million).

The fair value of the stock options granted in 2007 and 2006 was determined at the grant date using a binomial model. The weighted average assumptions used for these determinations are outlined in the table below:

	2007	2006
Risk-free interest rate	3.3 %	2.6 %
Expected term of stock options	4 years	4 years
Expected volatility	34 %	38 %
Expected dividend	-	-

In 2007, the expected volatility was determined based on the historic volatility of the Company's share price. In 2006, the expected volatility was determined based on both the historic volatility of the Company's share price and the historic volatilities of comparable companies, as the Company's history of share prices was limited at that time. 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 management's best estimate of assumed future exercise patterns, considering the expected future development of the Company.

The unrecognized compensation cost as of December 31, 2007 related to stock options amounts to CHF 29.7 million and is expected to be recognized over a weighted average period of 2.4 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, 2007, 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 13.7 million in 2007 related to its stock-based compensation award programs (2006: CHF 10.0 million), of which CHF 8.0 million was recorded in research & development expenses (2006: CHF 6.1 million) and CHF 5.7 million as part of general & administrative expenses (2006: CHF 3.9 million) in the statement of operations.

12 Shareholders' Equity

As of December 31, 2007, Basilea had 9,543,678 registered shares (Namenaktien) issued and outstanding with a par value of CHF 1 per share. As of December 31, 2006, Basilea had 7,785,506 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 2007, 378,172 stock options were exercised, using conditional capital, which resulted in the issuance of 378,172 registered shares with a par value of CHF 1 per share. In 2006, 349,004 stock options were exercised resulting in the issuance of 349,004 registered shares with a par value of CHF 1 per share.

Basilea had a total approved conditional capital of CHF 2,856,463 as of December 31, 2007 for the issuance of a maximum of 2,856,463 registered shares with a nominal value of CHF 1 per share. This conditional capital contained CHF 2,216,463 (2,216,463 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 7, 2007, the shareholders of the Company approved the release of reserves in the amount of CHF 79,219,144 to offset the accumulated loss for Swiss statutory purposes.

The accumulated other comprehensive income/loss as of December 31, 2007 and 2006 consisted of the following components:

In CHF million	Foreign currency items	Gain/(loss) from defined benefit plan	Total
December 31, 2005	(0.6)	-	(0.6)
Change	(0.3)	(1.2)	(1.5)
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

13 Earnings/Loss per Share

In 2007 and 2006, 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, 2007 and 2006 were as follows:

	2007	2006
Net loss in CHF million	(126.8)	(85.1)
Weighted average number of shares outstanding, basic and diluted	9 076 496	7 662 832
Basic and diluted loss per share in CHF	(13.97)	(11.11)

The computation of the dilutive loss per share for 2007 excludes 570,754 incremental shares (2006: 576,497 incremental shares) related to potential exercises of 1,421,789 stock options (2006: 1,499,949 stock options), as the effect would have been anti-dilutive.

14 Pension Plan

The Company maintains a pension plan, which covers the employees of Basilea Pharmaceutica Ltd. The pension plan of Basilea qualifies as a defined benefit plan in accordance with US GAAP. Both Basilea 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 as of December 31, 2007 and 2006 and for the years then ended. The measurement date for Basilea's pension plan is September 30 of each year.

In CHF million	2007	2006
Service cost	2.3	2.2
Interest cost	0.8	0.7
Expected return on plan assets	(1.3)	(1.2)
Gross benefit expense	1.8	1.7
Participant contributions	(0.7)	(0.6)
Net periodic pension cost	1.1	1.1

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

In CHF million	2007	2006
Benefit obligation, beginning of period	27.5	24.2
Service cost	2.3	2.2
Interest cost	0.8	0.7
Transfers-in and -out, net	0.1	(0.1)
Actuarial loss/(gain)	(2.2)	0.5
Benefit obligation, end of period	28.5	27.5
Plan assets, beginning of period	30.1	26.4
Actual return on plan assets	1.4	1.7
Employer contributions	1.7	1.5
Participant contributions	0.7	0.6
Transfers-in and -out, net	0.1	(0.1)
Plan assets, end of period	34.0	30.1
Prepaid pension asset	5.5	2.6

The Company recorded a prepaid pension asset of CHF 5.5 million and CHF 2.6 million in other non-current assets in the consolidated balance sheet as of December 31, 2007 and 2006, respectively.

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, 2007, the accumulated other comprehensive income/loss includes an amount of CHF 1.2 million representing a pension-related net gain that has not yet been recognized as a component of net periodic pension cost (December 31, 2006: pension-related net loss of CHF 1.2 million). As such gain does not exceed specified levels as indicated above, the Company will not amortize this pension-related net gain as a component of net periodic pension cost in its consolidated statement of operations in 2008.

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:

	2007	2006
Beginning of period	(1.2)	0.0
Change	2.4	(1.2)
End of period	1.2	(1.2)

The Company does not expect that any plan assets will be returned to the Company in 2008.

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

	2007	2006
Discount rate	3.5 %	3.0 %
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, 2007 and 2006 amounts to CHF 27.2 million and CHF 26.2 million respectively.

The investment policy for the plan assets of Basilea's 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 2007 and 2006 were as follows:

	2007	2006	Target allocation
Cash and cash equivalents	10 %	6 %	5 %
Equity securities	29 %	29 %	30 %
Debt securities	52 %	59 %	60 %
Other	9 %	6 %	5 %
Total	100 %	100 %	100 %

The expected amount of employer contributions to the Company's defined benefit pension plan in 2008 is CHF 1.7 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 Company's pension plan resulting from hiring of employees are excluded from the amounts below.

	Amount in CHF million
2008	1.9
2009	1.9
2010	1.9
2011	1.9
2012	2.1
2013 - 2017	12.0

In addition to Basilea's defined benefit plan, the Company recognized CHF 0.1 million of expenses related to defined contribution plans of Basilea's subsidiaries in 2007 (2006: CHF 0.0 million).

15 Lease commitments

The Company entered into operating lease contracts, mainly for office space. The leases expire between 2008 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 0.2 million and CHF 0.0 million for the years ended December 31, 2007 and 2006, respectively.

The future minimum payments as of December 31, 2007 for operating leases with initial or remaining non-cancelable terms in excess of one year are as follows:

	Amount in CHF million
2008	0.8
2009	0.9
2010	0.9
2011	0.5
2012	0.1
Thereafter	0.0
Total	3.2

16 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, 2007, the short-term investments were invested with six different banks. The highest total amount invested in short-term investments with one bank was CHF 90.0 million as of December 31, 2007 (December 31, 2006: CHF 60.0 million).

17 Related Party Transactions

The Company has an agreement with F. Hoffmann-La Roche Ltd. ("Roche"), an affiliate of the Company's shareholder, Roche Finance Ltd., with respect to certain of its research molecules, that allows Roche to opt-in on such compounds in exchange for milestone payments and potential future royalties. The Company is currently not pursuing those research molecules for which Roche has opt-in rights.

In 2006, the Company entered into an agreement with Roche related to the manufacturing of commercial material for one of the Company's compounds.

For the year ended December 31, 2007, the Company purchased materials and services from Roche and Roche's subsidiaries, in the amount of CHF 9.0 million (CHF 0.1 million for the year ended December 31, 2006).

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, 2007 and 2006.

For information related to compensation to members of the Board of Directors and executive management, please refer to the financial statements of Basilea Pharmaceutica Ltd.

18 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. These commitments are not in excess of current market prices in all material respects and reflect normal business operations.

As of December 31, 2007, there are no significant contingencies.

Report of the Statutory Auditors



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

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) on pages 67 to 74 of Basilea Pharmaceutica Ltd. for the year ended December 31, 2007.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of loss carried forward comply with relevant Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Ralph R. Reinertsen
Auditor in charge

Raphael H. Rütishauser

Basel, January 31, 2008

Financial Statements of Basilea Pharmaceutica Ltd.

Basilea Pharmaceutica Ltd.
Balance Sheets as of December 31, 2007 and 2006 (in CHF)

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	165 194 195	35 422 135
Short-term investments	255 000 000	140 000 000
Accounts receivable		
- Third	349 243	184 222
- Affiliates	630 170	-
Other receivables	2 630 058	1 009 940
Accrued interest	4 079 011	1 435 663
Other current assets	1 601 118	3 015 607
Total current assets	429 483 795	181 067 567
Non-current assets		
Property, plant and equipment, net	16 041 988	15 497 347
Intangible assets, net	2 525 365	116 796
Investment in subsidiaries, net	6 787 818	6 564 777
Capital increase costs, net	15 753 053	6 094 453
Total non-current assets	41 108 224	28 273 373
TOTAL ASSETS	470 592 019	209 340 940
LIABILITIES		
Current liabilities		
Accounts payable	1 742 320	1 845 780
Deferred revenue	8 251 787	5 730 883
Accruals and other current liabilities	22 493 703	19 362 816
Total current liabilities	32 487 810	26 939 479
Non-current liabilities		
Deferred revenue, less current portion	90 376 794	63 423 158
Total non-current liabilities	90 376 794	63 423 158
Total liabilities	122 864 604	90 362 637
SHAREHOLDERS' EQUITY		
Share capital ¹	9 543 678	7 785 506
Legal reserve	366 609 751	190 411 941
Free reserve	91 192 797	-
Loss carried forward	-	-
Net loss	(119 618 811)	(79 219 144)
Total shareholders' equity	347 727 415	118 978 303
TOTAL LIABILITIES AND EQUITY	470 592 019	209 340 940

¹As of December 31, 2007, 9,543,678 shares were issued and outstanding with a par value of CHF 1 per share. As of December 31, 2006, 7,785,506 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, 2007 and 2006 (in CHF)

	2007	2006
Revenues	7 898 447	7 284 618
Other income	316 207	105 312
Total operating income	8 214 654	7 389 930
Materials, fees and grants	(82 640 025)	(54 094 675)
Personnel expenses	(27 541 978)	(21 302 743)
Depreciation and amortization	(8 924 544)	(3 285 600)
Other operating expenses	(18 336 982)	(10 704 488)
Total operating expenses	(137 443 529)	(89 387 506)
Operating loss	(129 228 875)	(81 997 576)
Interest income	9 291 904	2 718 730
Other financial income/expenses, net	318 160	59 702
Loss before taxes	(119 618 811)	(79 219 144)
Income taxes	-	-
Net loss	(119 618 811)	(79 219 144)

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

Basilea Pharmaceutica Ltd. Notes to the Financial Statements as of December 31, 2007

1 History

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

2 Fire Insurance Value

The fire insurance value of property, plant and equipment amounted to CHF 88.9 million as of December 31, 2007 (December 31, 2006: CHF 88.0 million).

3 Liabilities due to Pension Fund

As of December 31, 2007 and 2006, no liability was outstanding due to the pension fund of Basilea.

4 Total Pledges

As of December 31, 2007 and 2006, there were no assets pledged to secure liabilities.

5 Investments

Company	Location	Ownership		Purpose
		interest	Share capital	
Basilea Pharmaceuticals Inc.	USA, Andover (MA)	100 %	USD 30	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 Pharmaceuticals Iberia S.L.	Spain, Madrid	100 %	EUR 10,001	Distribution
Basilea Pharmaceuticals SAS	France, Paris	100 %	EUR 237,000	Distribution
Basilea Pharmaceuticals S.r.l.	Italy, Milan	100 %	EUR 10,000	Distribution
Basilea Pharmaceuticals Corp.	Canada, Toronto	100 %	CAD 100,000	Distribution
BPh Investitionen AG	Switzerland, Baar	100 %	CHF 131,950	Holding company
Basilea Pharmaceuticals A/S	Denmark, Copenhagen	100 %	DKK 2,300,000	Distribution

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.

6 Share Capital, Authorized Capital and Conditional Capital

As of December 31, 2007, Basilea had 9,543,678 registered shares (Namenaktien) issued and outstanding with a par value of CHF 1 per share. As of December 31, 2006, Basilea had 7,785,506 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 2007, 378,172 stock options were exercised, using conditional capital, which resulted in the issuance of 378,172 registered shares with a par value of CHF 1 per share. In 2006, 349,004 stock options were exercised resulting in the issuance of 349,004 registered shares with a par value of CHF 1 per share.

Basilea had a total approved conditional capital of CHF 2,856,463 as of December 31, 2007 for the issuance of a maximum of 2,856,463 registered shares with a par value of CHF 1 per share. This conditional capital contained CHF 2,216,463 (2,216,463 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 7, 2007, the shareholders of the Company approved the release of general reserves to free reserves in the amount of CHF 170,411,941 and to offset the accumulated loss of CHF 79,219,144 with free reserves for Swiss statutory purposes.

7 Treasury Shares

In 2007 and 2006, Basilea did not purchase or sell any treasury shares and consequently did not hold any treasury shares as of December 31, 2007 and 2006.

8 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. There are no significant contingencies as a result of these guarantees as of December 31, 2007.

9 Compensation and shareholdings

The total compensation of the members of the Board of Directors in 2007 is outlined below:

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
Dr. Gottlieb Keller, Director	50,000	-	149,500	3,025	202,525
Prof. Daniel Lew, Director	55,000	-	149,500	3,328	207,828
Prof. Peter van Brummelen, Director	55,000	-	149,500	3,328	207,828
Dr. Walfer Fuhrer, Director	55,000	-	149,500	11,474	215,974
Mr. Claude Schreiner, Director	69,351	-	149,500	2,535	221,386
Mr. Peter Friedli ³	17,500	-	37,375	55,017	109,892
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 in 2007 and received a total compensation of CHF 27,950 for his consulting services. Furthermore, Mr. Schreiner acted as consultant to Basilea in 2007 and received a total compensation of CHF 9,351 for his consulting services. These compensations are included in the cash compensations as presented in the table above.

The total compensation and the highest individual compensation of the members of executive management in 2007 are outlined below:

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 management ⁴	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.

The total compensation to current management and the total compensation to management, as presented in the table above, each include a severance payment to one member of management of CHF 400,000.

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

The shareholdings in Basilea of members of the Board of Directors and executive management as of December 31, 2007 are outlined below:

	Number of shares
Mr. Werner Henrich, Chairman	17,600
Dr. Andreas Wicki, Vice-Chairman	-
Prof. Peter van Brummelen, Director	600
Mr. Claude Schreiner, Director	40
Dr. Walter Fuhrer, Director	240
Dr. Gottlieb Keller, Director	1,000
Prof. Daniel Lew, Director	7
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, 2007:

	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
Mr. Claude Schreiner, Director	-	2,500	2,500
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
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 shareholders Roche Finance Ltd. For information on significant shareholders, please refer to footnote 10 "Significant Shareholders".

10 Significant Shareholders

According to the information available to Basilea, the following shareholders held a significant percentage of shares of Basilea as of December 31, 2007:

	Percentage of outstanding shares held
Chase Nominees Ltd.	18.3 %
Roche Finance Ltd.	11.1 %

The ownership percentages in the table above are based on the 9,543,678 shares outstanding as of December 31, 2007.

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

	2007 Proposed by the Board of Directors
Loss carried forward	0
Net loss of the year	(119 618 811)
Subtotal	(119 618 811)
Release from free reserve	91 192 797
Release from legal reserve	28 426 014
Loss carried forward	0

The Board of Directors proposes a release of CHF 28.4 million from legal reserve to free reserve and to offset an amount of CHF 119.6 million from free reserve with the accumulated loss.

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Annual General Meeting

The Annual General Meeting of Shareholders for the financial year 2007 will take place on March 19, 2008, in Basel, Switzerland.

Basilea Pharmaceutica's Annual Report 2007 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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