

## Invitation to the 2016 Ordinary General Meeting of Shareholders

Basel, March 15, 2016

Dear Shareholder,

We invite you to the **2016 Ordinary General Meeting of Shareholders** of Basilea Pharmaceutica Ltd. ("Basilea" or "the Company") to be held on Thursday, **April 21, 2016** at 2:00 p.m. (doors open at 1:00 p.m.) at the Radisson Blu Hotel, Steinentorstrasse 25, in Basel, Switzerland.

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### Agenda and Proposals of the Board of Directors

#### 1. Annual Report, Financial Statements and Consolidated Financial Statements for 2015

Proposals:

- 1a Approval of the annual report, financial statements and consolidated financial statements for the business year 2015.
- 1b Approval in a non-binding advisory vote of the aggregate amount of the Management Committee's variable compensation for the fiscal year 2015.

Explanation: The Board of Directors has decided to submit the variable compensation of the Management Committee for the fiscal year 2015 to shareholders for a separate non-binding advisory vote in addition to the binding approvals of compensation under agenda item 7. For more detailed information please refer to the explanations in the "Appendix" on page 6 of this invitation.

#### 2. Appropriation of the Results

Proposal:

Carry forward of accumulated deficit of CHF 1,408,815.

#### 3. Release of the Members of the Board of Directors and of the Management Committee

Proposal:

Release of the members of the Board of Directors and of the Management Committee.

Explanation: Table 1 below provides information about the service of Basilea's Board of Directors during the previous year from Annual General Meeting 2015 (AGM) to Annual General Meeting 2016.

Table 1: Board Members (AGM 2015 - AGM 2016)

| Name                              | Year of birth | Director since | Audit Committee | Compensation Committee | Governance Committee |
|-----------------------------------|---------------|----------------|-----------------|------------------------|----------------------|
| Dr. Martin Nicklasson, Chairman   | 1955          | 2013           | M               | C                      | M                    |
| Mr. Domenico Scala, Vice-Chairman | 1965          | 2011           | C               |                        |                      |
| Mr. Hans-Beat Gürtler             | 1946          | 2009           | M               |                        | M                    |
| Prof. Daniel Lew                  | 1948          | 2003           |                 |                        | M                    |
| Dr. Thomas M. Rinderknecht        | 1954          | 2011           | M               |                        | C                    |
| Mr. Steven D. Skolsky             | 1956          | 2008           |                 | M                      |                      |
| Dr. Thomas Werner                 | 1956          | 2011           |                 | M                      |                      |

"C" indicates Chair of the Committee and "M" indicates Member of the Committee

#### 4. Elections to the Board of Directors

Proposals:

- 4a Re-election of Prof. Daniel Lew
- 4b Re-election of Dr. Martin Nicklasson
- 4c Re-election of Dr. Thomas M. Rinderknecht
- 4d Re-election of Mr. Domenico Scala
- 4e Re-election of Mr. Steven D. Skolsky
- 4f Re-election of Dr. Thomas Werner

Explanation: Re-elections will be held individually. By law, the term of each elected Board Member lasts until the end of the following year's Ordinary General Meeting of Shareholders. The biographical data of the candidates can be found on [www.basilea.com](http://www.basilea.com) or in the Annual Report (see pages 24 ff.). According to the current Organizational Regulations, each member of the Board of Directors shall resign effective as per the Ordinary General Meeting immediately following completion of his or her 70th year of age. For this reason, Mr. Hans-Beat Gürtler is not standing for re-election at the current Ordinary General Meeting.

#### 5. Election of the Chairman of the Board of Directors

Proposal:

The Board proposes that the shareholders elect Domenico Scala as the Chairman of the Board for Basilea.

Explanation: By law, the Chairman of the Board stands for election at each year's Ordinary General Meeting of Shareholders and his term lasts until the end of the following year's meeting.

The Chairman of the Board, Dr. Martin Nicklasson, has informed the Board that he will not stand for re-election at the 2016 AGM. Dr. Nicklasson will stand for re-election as a Board member. Dr. Nicklasson has been Chairman of the Board since 2013. The Board thanks Dr. Nicklasson for his contributions as Chairman.

Domenico Scala, a Swiss and Italian citizen, has served as a member of Basilea's Board of Directors and its Vice-Chairman since 2011. From 2007 to 2011, Mr. Scala was President and Chief Executive Officer of Nobel Biocare Holding AG and from 2003 to 2007, he was Chief Financial Officer of Syngenta International AG. From 1995 to 2003, he served in various senior leadership positions at Roche Holding AG. Prior to that, he served as Finance Director with Panalpina Italy Spa and Senior Auditor

with Nestlé SA. Mr. Scala is Chairman of the Audit and Compliance Committee of FIFA (Fédération Internationale de Football Association), President of BaselArea, a Member of the Board of Directors of BAK Basel Economics AG and a Member of the Board of Overseers of Tufts University in Boston, Massachusetts (USA). Mr. Scala graduated from the University of Basel with a degree in economics and holds Executive Development degrees from INSEAD and London Business School.

## 6. Election of the Members of the Compensation Committee

Proposals:

- 6a Re-election of Dr. Martin Nicklasson
- 6b Re-election of Mr. Steven D. Skolsky
- 6c Re-election of Dr. Thomas Werner

Explanation: Re-elections will be held individually. By law, the term of each Compensation Committee member lasts until the end of the following year's Ordinary General Meeting of Shareholders.

## 7. Determination of the Compensations

The approval of the maximum aggregate amount of compensation for the Board of Directors and the Management Committee according to articles 6.5 to 6.7 of the Articles of Association.

7a Maximum aggregate amount of compensation for the Board of Directors

Proposal:

Approval of an amount of CHF 1,437,000 as the maximum aggregate amount of compensation for the Board of Directors for the period from this Ordinary General Meeting to the 2017 Ordinary General Meeting.

Explanation: The proposed maximum aggregate amount of compensation for the Board of Directors is below the level of the previous year as the number of Board Members is reduced from seven to six. The actual compensation of the Board members will be disclosed in the Compensation Report. For more detailed information please refer to the explanations in the "Appendix" on page 8 of this invitation.

7b Maximum aggregate amount of fixed compensation for the Management Committee

Proposal:

Approval of an amount of CHF 3,310,000 as the maximum aggregate amount of fixed compensation for the Management Committee for the period from July 1, 2016 to June 30, 2017.

Explanation: The proposed maximum aggregate amount of the fixed compensation for the Management Committee is lower compared to the amount approved for the previous period due to various factors including the retirement of a Management Committee member at the end of 2016. The proposed amount includes base salaries, pension plan contributions, certain disability insurance and other indirect benefits. The actual compensation of the Management Committee will be disclosed in the Compensation Report. For more detailed information please refer to the explanations in the "Appendix" on page 10 of this invitation.

#### 7c Maximum aggregate amount of variable compensation for the Management Committee

Proposal:

Approval of an amount of CHF 5,160,000 as the maximum aggregate amount of variable compensation for the Management Committee for the period from January 1, 2016 to December 31, 2016.

Explanation: The proposed maximum aggregate amount for the variable compensation of the Management Committee includes short-term incentives (performance-related bonuses) and long-term incentives (stock options). The bonus payment and allocation of stock options are based on performance, considering individual performance and the Management Committee member's respective contribution to achieving the Company's goals. Basilea's company goals are related to key value drivers comprised of financial Key Performance Indicators (KPIs) and non-financial KPIs. For the performance period 2016 following the launch of our products CRESEMBA® (isavuconazole) and Zevtera®/Mabelio® (ceftobiprole), 60% of the Company's corporate goals are related to sales growth. Management Committee's actual short-term variable compensation and actual long-term variable compensation will be disclosed in the Compensation Report. The actual amount of variable compensation for the fiscal year 2016 will be submitted to the shareholder non-binding advisory vote at the 2017 Ordinary General Meeting. For more detailed information please refer to the explanations in the "Appendix" on page 11 of this invitation.

### 8. Election of the Independent Voting Rights Representative

Proposal:

Re-election of Dr. Caroline Cron, Attorney-at-law, Lenz Caemmerer, as Independent Voting Rights Representative for a term until the end of the following Ordinary General Meeting of Shareholders.

### 9. Election of the Statutory Auditors

Proposal:

Re-election of PricewaterhouseCoopers Ltd, Basel as Statutory Auditors for the audit of the stand-alone and the consolidated financial statements for the business year 2016.

### 10. Amendments to the Articles of Association

#### 10a Amendment of Article 18, paragraph 4

Proposal:

Amendment of Article 18, paragraph 4, of the Articles of Association to remove stock options as an available form of Board compensation. The exact wording is provided in the "Appendix" on page 15.

#### 10b Amendment of Article 3b

Proposal:

Amendment of Article 3b of the Articles of Association by replacing the previously approved CHF 2,000,000 of authorized share capital that expired on April 9, 2016 with CHF 1,000,000 of authorized share capital. The exact wording is provided in the "Appendix" on page 15.

Explanation: Basilea's shareholders have previously approved the creation and renewal of authorized share capital to provide Basilea with the flexibility to quickly respond to strategic opportunities such as partnerships, business or product acquisitions or investments in businesses, products or product development programs. The Board of Directors therefore requests the shareholders to approve the amendment of Article 3b, which previously provided for CHF 2,000,000 of authorized share capital, to now provide CHF 1,000,000 of authorized share capital for this purpose.

## Right to Participate/Proxies

Only shareholders and usufructuaries, who as per April 8, 2016, are recorded in the share register with voting rights are entitled to participate and exercise their voting rights.

**No trading restriction on shares:** The registration of shareholders for voting purposes does not affect the trading of Basilea shares held by registered shareholders before, during or after a general meeting.

**Admission cards** can be ordered from the Share Transfer Office of Basilea at SIX SAG AG, Basilea Pharmaceutica Ltd., P.O. Box, 4609 Olten, Switzerland, by means of the enclosed form "registration to attend" or electronically on [www.ecomm-portal.com](http://www.ecomm-portal.com). For further information please refer to the enclosed e-voting fact sheet.

**Representation:** If you do not wish to attend the general meeting in person, you can be represented as follows.

- a) By any other person. The proxy can be granted and the instructions be issued in writing with the enclosed form "registration to attend".
- b) By the Independent Voting Rights Representative, Dr. Caroline Cron, Attorney-at-law, Lenz Caemmerer, Elisabethenstrasse 15, P.O. Box 430, 4010 Basel, Switzerland, pursuant to Article 689c of the Swiss Code of Obligations. The proxy can be granted and the instructions be issued in writing with the enclosed form "registration to attend". Instructions to the Independent Voting Rights Representative can also be issued electronically after opening a shareholder account on [www.ecomm-portal.com](http://www.ecomm-portal.com). The electronic instructions can be amended at any time until April 19, 2016, 5 p.m. CEST. For further information please refer to the enclosed e-voting fact sheet.

**Annual Report 2015:** You will find enclosed a copy of our Annual Report 2015, which is also available on the internet at [www.basilea.com](http://www.basilea.com). From March 15, 2016, the Annual Report and the reports of the Statutory Auditors will be available for inspection by shareholders at our Basilea offices. These reports can also be obtained by shareholders upon request from the Corporate Secretary at Basilea Pharmaceutica Ltd., P.O. Box, 4005 Basel, Switzerland.

Yours sincerely

**Basilea Pharmaceutica Ltd.**  
Board of Directors

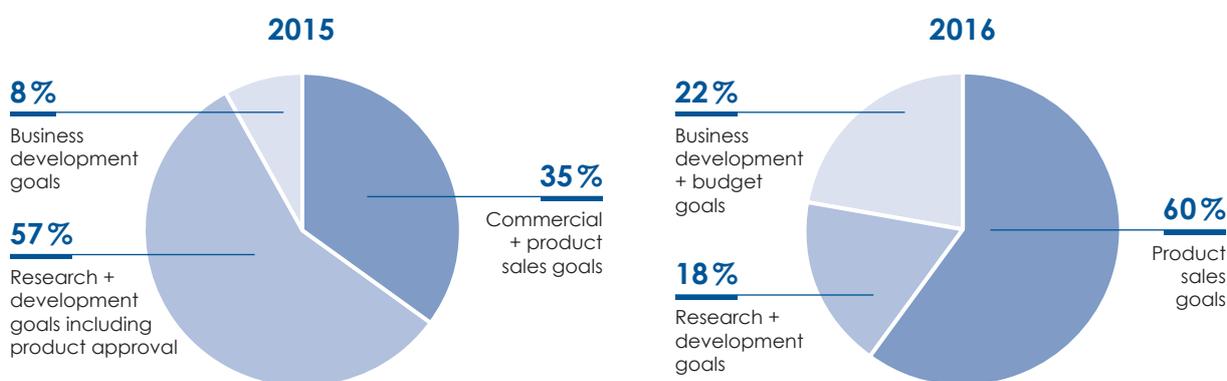
## Appendix

### Explanations to Agenda Item 1b

Basilea is committed to provide compensation that is performance-based and to align the interests of our employees and our shareholders. Basilea achieved significant goals in 2015:

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

Table 2: Company goals 2015 and 2016

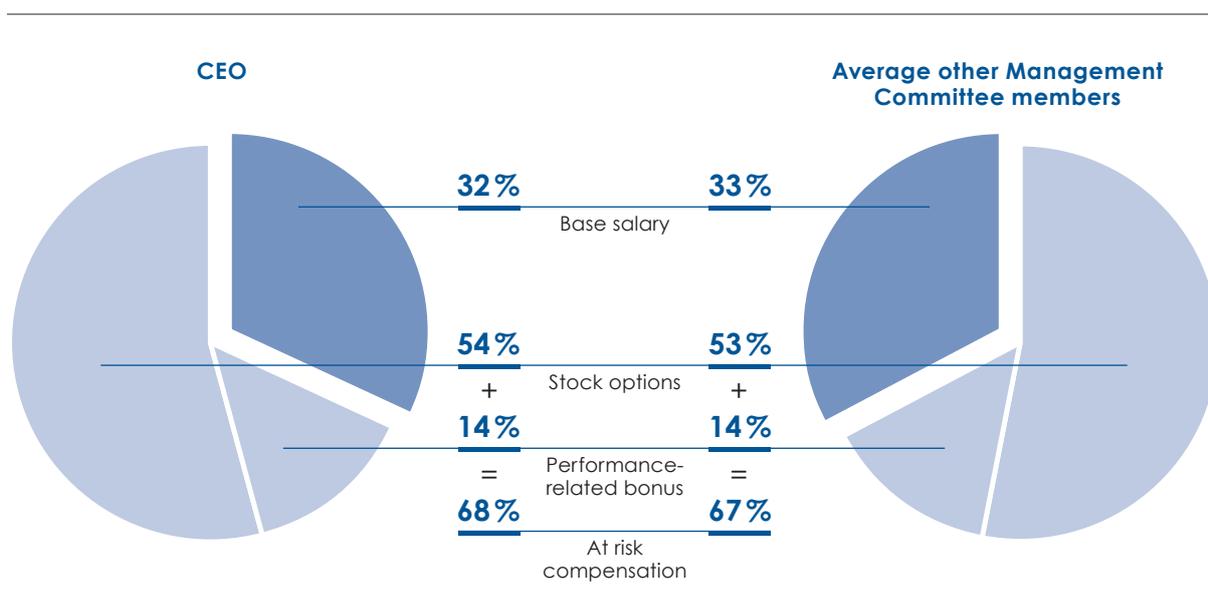


As shown in Table 2 above, company and individual goals for the performance period 2015 were focused on research and development (57% weight), specifically the product approval of CRESEMBA®. For the performance period 2016 following the launch of our products CRESEMBA® and Zevtera®/Mabelio®, 60% of the Company's corporate goals are related to sales growth to align with shareholder interest and company value creation. The weighting of the Company goals (40%) and the individual goals (60%) is the same for all members of the Management Committee.

Under agenda item 1b, the Board provides our shareholders the opportunity for a separate non-binding advisory vote on the aggregate amount of the Management Committee's variable compensation for the fiscal year 2015 as reported in the Compensation Report (CHF 5,464,913 consisting of performance related

bonus of CHF 1,083,933, fair value of stock options of CHF 4,068,980 and social security contributions of CHF 312,000<sup>1</sup>). This amount remains below the budget proposal of CHF 6,980,000 approved at the 2015 Ordinary General Meeting. A 2015 benchmarking analysis of Basilea's Management Committee compensation compared to relevant peers performed by independent consultants found that both the base salary and the total compensation (without social security contributions) of the CEO and the Management Committee fall within a range of the 50<sup>th</sup> to the 75<sup>th</sup> percentile of the peer group. The performance-related bonus opportunity and the bonus cap for the CEO and the Management Committee are below the market median, as explained further under the heading "Benchmarking practices" on page 13.

Table 3: Percentage of direct compensation at risk for the CEO and the other Management Committee members in 2015



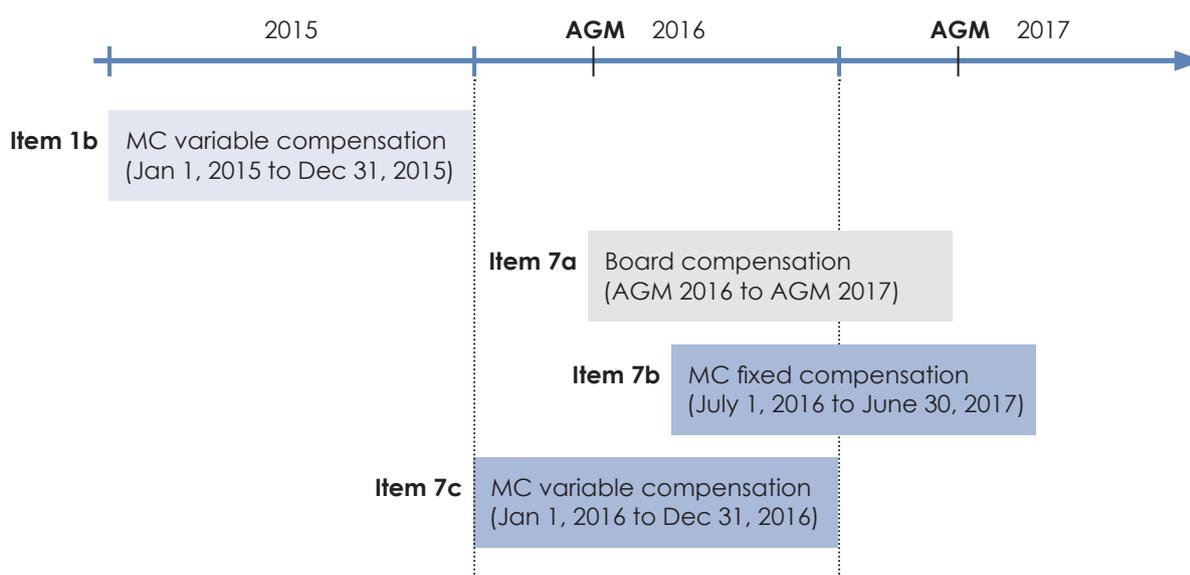
As shown in Table 3, the majority of compensation for the CEO and the Management Committee was at risk in 2015. Bonuses are only paid in the event that corporate goals are achieved, and there is no cash value to stock options unless the Company's share price increases over the share price on the grant date, aligning Managements' interests with the short- and long-term interests of shareholders. The company applies the same compensation structure to both the CEO and the Management Committee.

<sup>1</sup> The total amount of social security contributions and other fringe benefits in the Compensation Report 2015 of CHF 865,705 includes both the social security contributions for the fixed compensation as well as for the variable compensation of the Management Committee.

## Explanations to Agenda Item 7

According to Basilea's Articles of Association the shareholders meeting votes on the compensation of the Board of Directors and the Management Committee (MC). The approvals are binding and are conducted prospectively. In addition, the Board of Directors has decided to submit the Management Committee's variable compensation for the fiscal year 2015 to shareholders for a separate non-binding advisory vote. The votes are illustrated in Table 4 below.

Table 4: Overview of separate votes on compensation

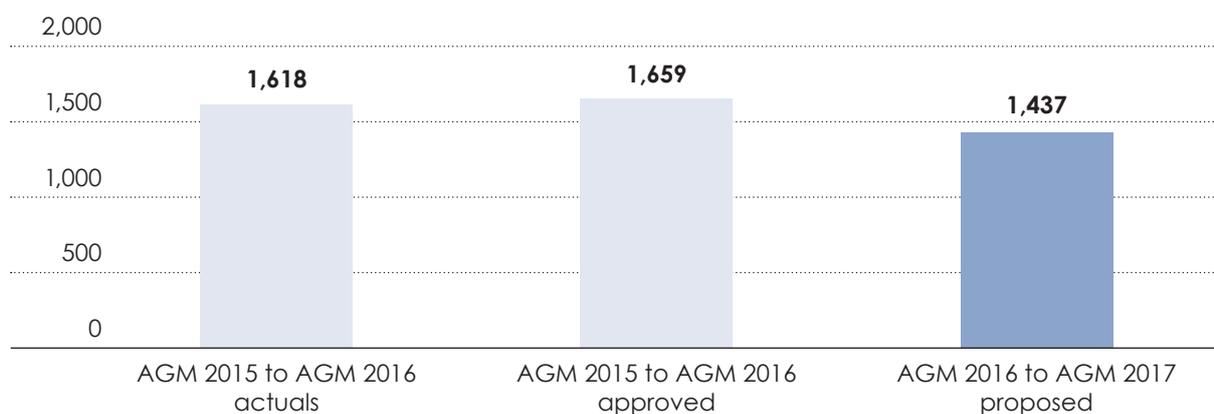


## Explanations to Agenda Item 7a

Under agenda item 7a, the total maximum compensation for the Board of Directors for the period from the 2016 Ordinary General Meeting to the 2017 Ordinary General Meeting is proposed at CHF 1,437,000.

Table 5: Overview of Board members' total compensation proposed AGM 2016 to AGM 2017 compared to the previous period approved amount and actuals

in CHF K



The proposed maximum aggregate amount of compensation for the Board of Directors for the period from the Ordinary General Meeting 2016 to the Ordinary General Meeting 2017 is below the level of the previous year as the number of Board Members is reduced from seven to six due to the retirement of one Board member. The compensation is calculated on the assumption that Board members receive Board fees for a maximum of five Board meetings. The difference between the proposal and the actual compensation in the previous period (AGM 2014 to AGM 2015) is due to the inclusion of a small reserve (CHF 41,000) to allow for a potential increase in social security rates on a pro-rated basis for the period from the Ordinary General Meeting 2016 to the Ordinary General Meeting 2017.

Table 6: Amount of Board members' compensation proposed AGM 2016 to AGM 2017 compared to the previous period approved amount and actuals

| Aggregate compensation, in CHF | Number of Board members | Total cash compensation | Social security contributions | Total            |
|--------------------------------|-------------------------|-------------------------|-------------------------------|------------------|
| AGM 2015 to AGM 2016 actuals   | 7                       | 1,441,000               | 177,000                       | <b>1,618,000</b> |
| AGM 2015 to AGM 2016 approved  | 7                       | 1,441,000               | 218,000                       | <b>1,659,000</b> |
| AMG 2016 to AGM 2017 proposed  | 6                       | 1,248,523               | 188,477                       | <b>1,437,000</b> |

As shown in Table 7, this maximum compensation includes the Board's fixed base payment, Board compensation for attending Board meetings and serving on Board committees, and all employee and employer social security contributions. The Chairman of the Board's and the Members of the Board's 2016 fee structure has not changed from 2015.

Table 7: Elements of Board members' compensation proposed for AGM 2016 to AGM 2017 compared to the previous period

| In CHF                                    | Proposed for AGM 2016 to AGM 2017 | Approved for AGM 2015 to AGM 2016 |
|---|-----------------------------------|-----------------------------------|
| <b>Chairman of the Board of Directors</b> |                                   |                                   |
| Fixed compensation                        | 238,363                           | 238,363                           |
| Board meeting fee <sup>1</sup>            | 9,375                             | 9,375                             |
| Committee membership fee <sup>2</sup>     | 7,875                             | 7,875                             |
| <b>Members of the Board of Directors</b>  |                                   |                                   |
| Fixed compensation                        | 150,382                           | 150,382                           |
| Board meeting fee <sup>3</sup>            | 6,250                             | 6,250                             |
| Committee membership fee <sup>2</sup>     | 5,250                             | 5,250                             |

<sup>1</sup> Fee per meeting attended with the maximum cumulative amount paid for meeting attendance limited to CHF 46,875 from AGM to AGM.

<sup>2</sup> Fee per Board committee membership.

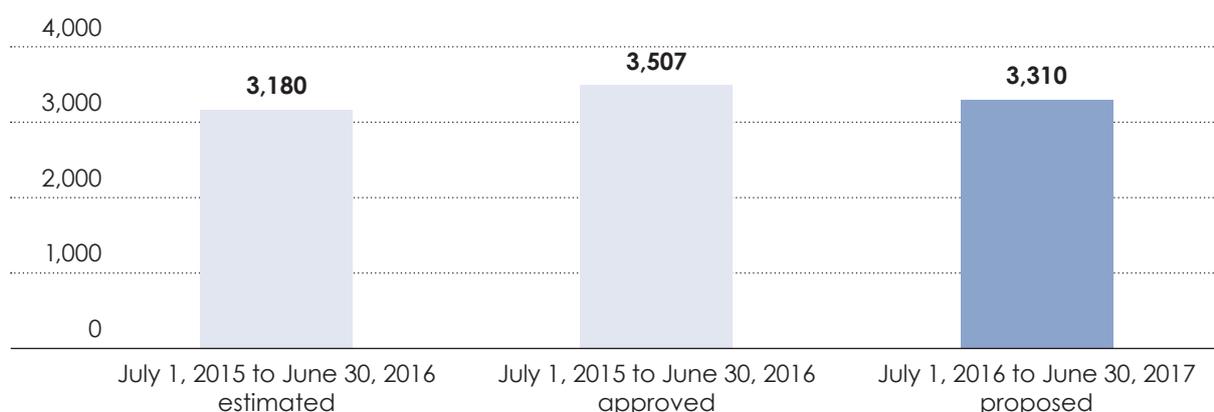
<sup>3</sup> Fee for each Board meeting attended with fees capped at five meetings (maximum payout from AGM to AGM for meeting attendance limited to CHF 31,250).

## Explanations to Agenda Item 7b

Under agenda item 7b, the total maximum fixed compensation for the Management Committee for the period from July 1, 2016 to June 30, 2017 is proposed to be set at CHF 3,310,000. This maximum compensation includes the sum of all base salaries of all members of the Management Committee, employer social security contributions, and certain indirect benefits.

Table 8: Overview of the Management Committee's total fixed compensation proposed July 1, 2016 to June 30, 2017 compared to the previous period approved amount and actuals

in CHF K



The proposed maximum fixed management compensation for the period from July 1, 2016 to June 30, 2017 is lower than the compensation proposal for the previous period due to a decrease in the overall sum of base salaries and respective social security and pension contributions as one member of the Management Committee is retiring at the end of 2016 and therefore this member's compensation is included on a pro-rated basis. The proposed maximum fixed management compensation includes certain indirect benefits (relocation and school fees) as well as a small reserve on a pro-rated basis for 2017 to allow for adjustment in case of anticipated changes in social security contribution rates. The actual amount of fixed management compensation, estimated at CHF 3,180,000 to be paid out for the period July 1, 2015 to June 30, 2016 remains below the budget proposal approved by the Ordinary General Meeting 2015.

Table 9: Management Committee's total fixed compensation

| Aggregate compensation, in CHF                      | Number of MC members | Cash compensation fix | Social security contributions + other fringe benefits | Total fixed compensation |
|---|----------------------|-----------------------|---|--------------------------|
| July 1, 2015 to June 30, 2016 estimated             | 7                    | 2,579,851             | 600,149   | <b>3,180,000</b>         |
| July 1, 2015 to June 30, 2016 approved              | 7                    | 2,654,500             | 852,500   | <b>3,507,000</b>         |
| July 1, 2016 to June 30, 2017 proposed <sup>1</sup> | 7                    | 2,519,400             | 790,600   | <b>3,310,000</b>         |

<sup>1</sup> As of January 1, 2017, there will be six instead of seven members in the Management Committee as the Head of Global HR will retire at the end of 2016.

## Explanations to Agenda Item 7c

Under agenda item 7c the total maximum variable compensation for the Management Committee for the period from January 1, 2016 to December 31, 2016 is proposed to be set at CHF 5,160,000. This amount includes two components and social security contributions:

- ▶ Maximum performance-related bonus in the amount of CHF 1,614,600;
- ▶ Maximum fair value of stock options to be granted under stock option program 2016 in the amount of CHF 3,109,000;
- ▶ Maximum social security contributions of CHF 436,400.

Table 10: Overview of the Management Committee's total variable compensation

in CHF K

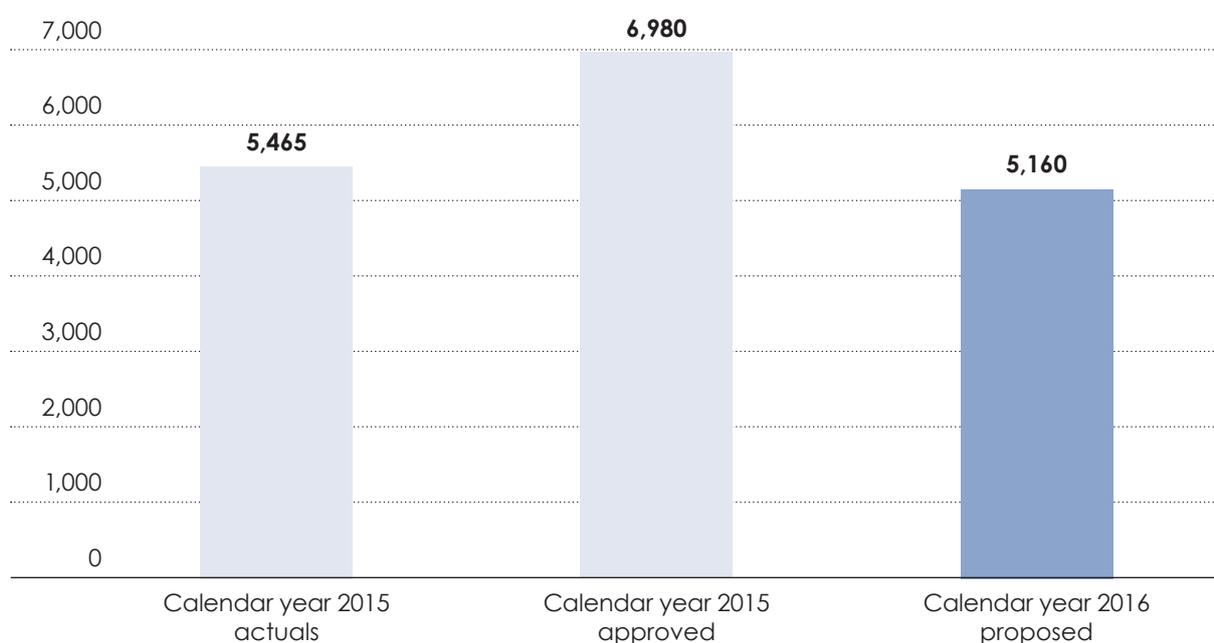


Table 11: Management Committee's total variable compensation

| Aggregate compensation, in CHF                | Number of MC members | Cash compensation variable | Stock Options | Social security contributions | Total variable compensation |
|---|----------------------|----------------------------|---------------|-------------------------------|-----------------------------|
| January 1, 2015 to December 31, 2015 actuals  | 7                    | 1,083,933                  | 4,068,980     | 312,000 <sup>1</sup>          | <b>5,464,913</b>            |
| January 1, 2015 to December 31, 2015 approved | 7                    | 1,576,800                  | 4,820,000     | 583,200                       | <b>6,980,000</b>            |
| January 1, 2016 to December 31, 2016 proposed | 7                    | 1,614,600                  | 3,109,000     | 436,400                       | <b>5,160,000</b>            |

<sup>1</sup> The total amount of social security contributions and other fringe benefits in the Compensation Report 2015 of CHF 865,705 includes the social security contributions for the fixed compensation of the Management Committee.

As shown in Tables 10-11 above, the actual amount of Management Committee variable compensation of CHF 5,464,913 for the period from January 1, 2015 to December 31, 2015 is below the budget of CHF 6,980,000 approved by the Ordinary General Meeting 2015. The proposed maximum variable compensation amount for the Management Committee for the period from January 1, 2016 to December 31, 2016 is lower than the amount for the 2015 variable compensation approved by the Ordinary General Meeting 2015 primarily due to a decrease in the fair value of options available for grant to the Management Committee in 2016 and a lower number of options proposed to be granted. Potential fluctuations in the share price up until the Ordinary General Meeting 2016 are taken into consideration. A small reserve for an anticipated increase in social security contribution rates in 2017 has been included in the amount.

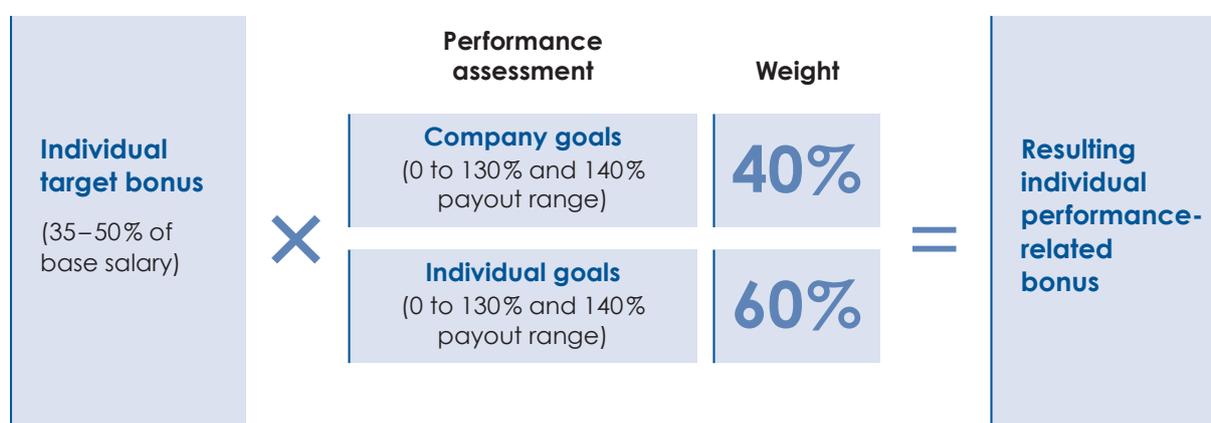
### Calculation of performance-based variable compensation

In addition to the fixed compensation based on the professional experience and areas of responsibility of the respective management members, Basilea is committed to performance-based compensation practices compliant with the market that are fair and balanced aligning long-term employee and shareholder interests and encouraging a long-term focus.

Whether and to which extent the amounts will be paid or granted depends on whether each individual management member meets the relevant performance and other criteria of the respective plans. An amount of approximately 5% of the total has been included in the performance-related bonus amount for potential special performance awards for Management Committee members.

The maximum variable compensation also includes all employer social security contributions and any other payment in the nature of a compensation. Social security contributions to be paid in case of stock option exercises are also included based on an estimated fair value of the stock options at the time of their grant.

Table 12: Calculation of performance-related bonus for the members of the Management Committee



The target bonus is determined in the employment contract and is calculated as a percentage of the base salary, ranging from 35% and 50% depending on position. The achievement of targets is clearly defined:

- ▶ 40% of the target bonus relates to key performance indicators (KPI) of financial and non-financial corporate goals and
- ▶ 60% of the target bonus relates to the roles and responsibilities of the members of the Management Committee and are aligned with the Company strategy and annual Company goals.

The payout is capped at 140% for the CEO and 130% of the target bonus for the other Management Committee members, which can be reached only in the event of extraordinary performance.

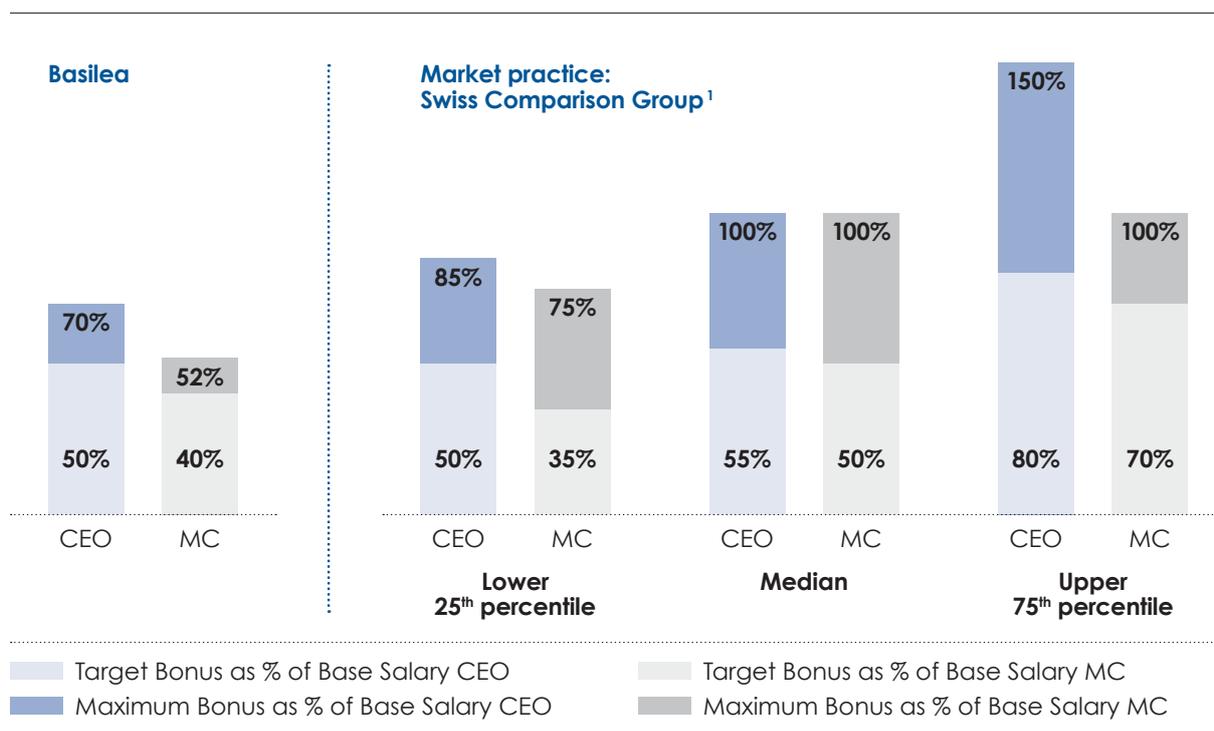
### Benchmarking practices

In its review of Management Committee compensation, the Compensation Committee takes into account the professional experience and areas of responsibility of each Management Committee member and also considers compensation packages of other companies in the biotech and pharmaceutical industry in Switzerland and Europe that are comparable to Basilea with respect to size or business model.

In 2015, the Compensation Committee engaged independent external consultants (Towers Watson and HCM Hostettler & Company) to provide benchmarking services on compensation matters and conduct a comprehensive benchmarking analysis on executive compensation as compared to relevant peers in the healthcare sector across different geographical markets. Each Management Committee position was evaluated by Towers Watson according to their Global Grading System and compensation level, taking into consideration company criteria such as size, complexity, responsibility and geographic scope.

The evaluation found that the base salary and the total direct compensation of the CEO and the Management Committee members fall within a range of the 50<sup>th</sup> to the 75<sup>th</sup> percentile of the peer group. Table 13 below shows that the performance-related bonus opportunity for the CEO and the Management Committee members is below the market median.

Table 13: Benchmarking of performance-related bonus and bonus cap

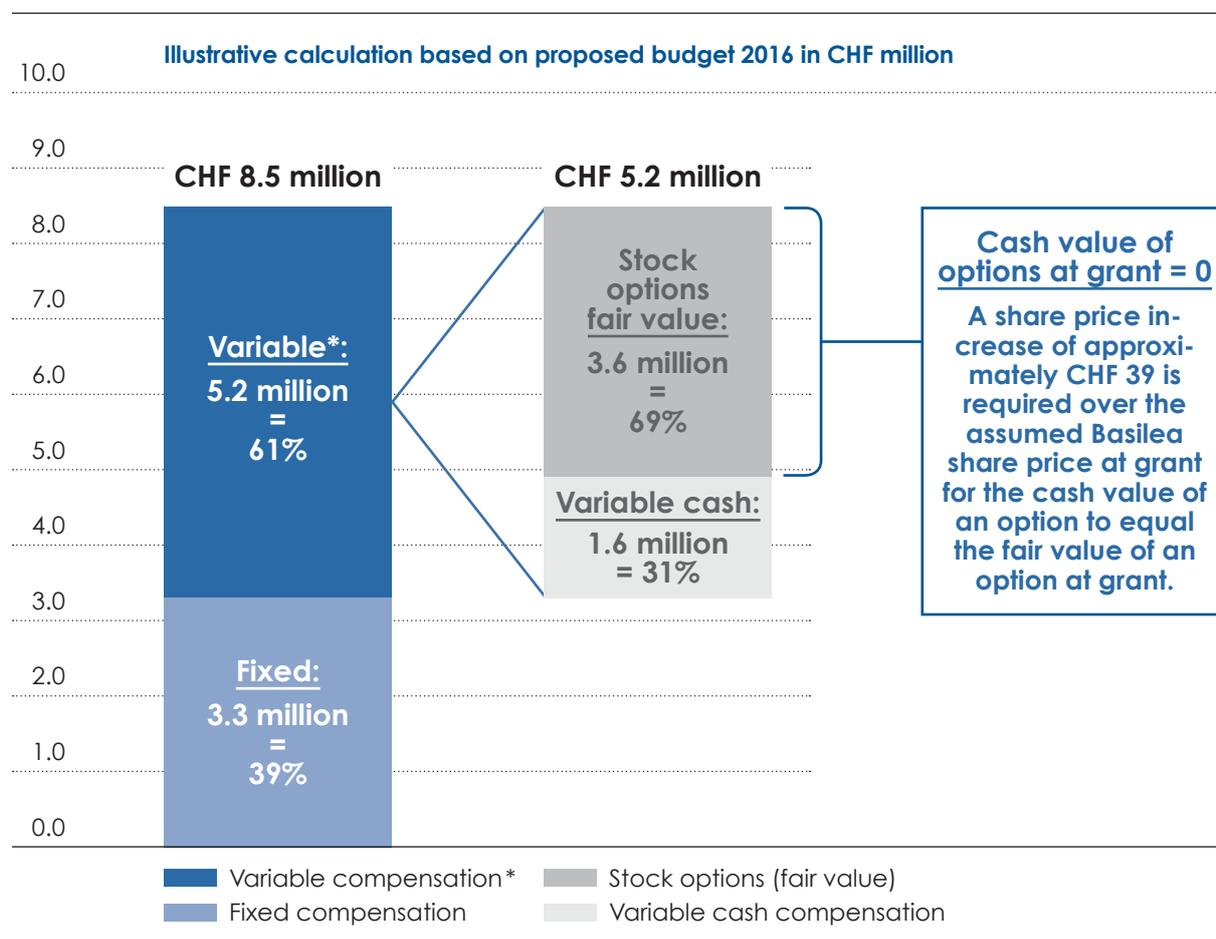


<sup>1</sup> Swiss smaller mid-caps without financial companies (n=26)  
 MC (Management Committee member)  
 Source: Data from HCM International Ltd.

### Stock option program

The value of the stock options corresponds to a calculated value, the so-called "fair value," which is determined at the time of allocation in accordance with accepted valuation methods. However, the cash value for the members of the Management Committee at the time of grant is zero, since the exercise price of the stock options is equal to the Basilea share price at the time of grant and the stock options are not immediately tradable. Table 14 below shows that a substantial part of the maximum aggregate amount for the Management Committee variable compensation submitted to shareholders for approval is not paid in cash but granted as long-term incentive in the form of stock options which have no cash value at the time of the grant.

Table 14: Stock option fair value



\* Incl. CHF 0.4 million social security contributions on stock options

Stock options are non-tradeable during the vesting period and only have a cash value in the event the Basilea share price increases over the share price at the grant date (strike price). The value appreciation is only available to the Management Committee and CEO once the options have vested and in the event the share price after vesting exceeds the strike price at the grant date.

To increase the long-term nature of this compensation element reflecting shareholder proposals, the stock option plan has been amended so that any stock options granted in 2016 and beyond will vest 50% three years from grant and 50% four years from grant. Previously, options vested over four years starting one year from grant on a pro-rata basis. The term of a stock option grant is ten years.

Based on the 10,800,623 registered shares (with a nominal value of CHF 1 per share) per December 31, 2015 and including the 1,000,000 convertible bonds created beginning of January 2016, the 1,248,951 outstanding employee options as of December 31, 2015 represent a dilution of the share capital by employee stock options of 9.57% fully diluted.

More detailed information about Basilea's performance evaluation system and KPIs can be found in the Compensation Report 2015, available for downloading at [www.basilea.com](http://www.basilea.com).

## Explanations to Agenda Item 10a

A Board review of Board members' compensation took place on November 20, 2014, at which time the Board of Directors resolved that stock options would be replaced by fixed monetary compensation starting in 2014. To formally reflect this decision in the Articles of Association, the Board proposes to amend Article 18, paragraph 4, to remove stock options as an available form of Board compensation. This amendment of the Articles of Association will become effective upon its registration with the Commercial Register.

### Article 18 Compensation

#### Current version

(The English version is for translation purposes only)

- 4 Compensation may be paid or granted in the form of cash, shares, **options** and similar financial instruments and/or units, in kind or in the form of other benefits. The board of directors and/or the compensation committee determines forfeiture, vesting and exercise conditions; it may provide for acceleration or removal of vesting and exercise conditions, for payment or grant of compensation based upon assumed target achievement, or for forfeiture, in each case in the event of pre-determined events such as a change-of-control or termination of an employment or mandate agreement. In this determination, the board of directors and the compensation committee take into account the interests of the company. The company may procure the required shares through purchases on the market or a conditional increase of its share capital. Compensation may be paid by the company or companies under its control.

#### Proposed version

- 4 Compensation may be paid or granted in the form of cash, shares, and similar financial instruments and/or units, in kind or in the form of other benefits. The board of directors and/or the compensation committee determines forfeiture, vesting and exercise conditions; it may provide for acceleration or removal of vesting and exercise conditions, for payment or grant of compensation based upon assumed target achievement, or for forfeiture, in each case in the event of pre-determined events such as a change-of-control or termination of an employment or mandate agreement. In this determination, the board of directors and the compensation committee take into account the interests of the company. The company may procure the required shares through purchases on the market or a conditional increase of its share capital. Compensation may be paid by the company or companies under its control.

## Explanations to Agenda Item 10b

The proposed amendment to article 3b of the Articles of Incorporation replaces the previously approved CHF 2,000,000 of authorized share capital that expired on April 9, 2016 with CHF 1,000,000. The authorized capital shall, as allowed by the law, be limited for two years.

### Article 3b Authorized Share Capital

#### Previous version

(The English version is for translation purposes only)

- 1 The board of directors is authorized, for a period of two years, to increase the share capital, all at once or in portion by a maximum of **CHF 2'000'000** by issuing a maximum of **2'000'000** registered shares having a nominal value of CHF 1 each. The new shares have to be fully paid up.

#### Proposed version

(changes highlighted)

- 1 The board of directors is authorized, for a period of two years, to increase the share capital, all at once or in portion, by a maximum of **CHF 1,000,000** by issuing a maximum of **1,000,000** registered shares having a nominal value of CHF 1 each. The new shares have to be fully paid up.

**Previous version**

(The English version is for translation purposes only)

- 2 The subscription and the acquisition of the new registered shares as well as each following transfer of shares are subject to the restrictions set forth in article 5 of the Articles of Incorporation.
- 3 The time of the issuance of new shares, their issue price, the manner in which they are to be paid up, the conditions for the exercise of the preferential subscription right as well as the beginning of the period of dividend entitlement will be defined by the board of directors. To that effect, the board of directors may issue shares through firm underwriting by a bank or consortium.
- 4 The board of directors may exclude the preferential subscription rights of the existing shareholders partly or in total, including in the event of a public offer for shares of the company, and allocate them to certain shareholders or third parties if the shares are to be used for the purposes of participations by strategic partners; or for acquisitions of or investments in businesses, parts thereof, participations, products and product development programs, intellectual property rights, or licenses to develop, manufacture or commercialize products in the field of pharmaceuticals, biologicals or diagnostics or in case of share placements for the financing or refinancing of such acquisitions or investments of the company; or for the exchange of shares to facilitate a transaction; or for expansion of the shareholder constituency in certain investor markets or in connection with the listing of the shares on foreign stock exchanges; or in order to quickly and flexibly raise equity capital by a share placement, which would otherwise be difficult to achieve. The preferential subscription rights shall be granted in all other cases. Any shares for which the granted preferential subscription rights have not been exercised, will be at the disposal of the board of directors, who may sell them at market conditions.

**Proposed version**

(changes highlighted)

- 2 The subscription and the acquisition of the new registered shares as well as each following transfer of shares are subject to the restrictions set forth in article 5 of the Articles of Incorporation.
- 3 The time of the issuance of new shares, their issue price, the manner in which they are to be paid up, the conditions for the exercise of the preferential subscription right as well as the beginning of the period of dividend entitlement will be defined by the board of directors. To that effect, the board of directors may issue shares through firm underwriting by a bank or consortium.
- 4 The board of directors may exclude the preferential subscription rights of the existing shareholders partly or in total, including in the event of a public offer for shares of the company, and allocate them to certain shareholders or third parties if the shares are to be used for the purposes of participations by strategic partners; or for acquisitions of or investments in businesses, parts thereof, participations, products and product development programs, intellectual property rights, or licenses to develop, manufacture or commercialize products in the field of pharmaceuticals, biologicals or diagnostics or in case of share placements for the financing or refinancing of such acquisitions or investments of the company; or for the exchange of shares to facilitate a transaction; or for expansion of the shareholder constituency in certain investor markets or in connection with the listing of the shares on foreign stock exchanges; or in order to quickly and flexibly raise equity capital by a share placement, which would otherwise be difficult to achieve. The preferential subscription rights shall be granted in all other cases. Any shares for which the granted preferential subscription rights have not been exercised, will be at the disposal of the board of directors, who may sell them at market conditions.