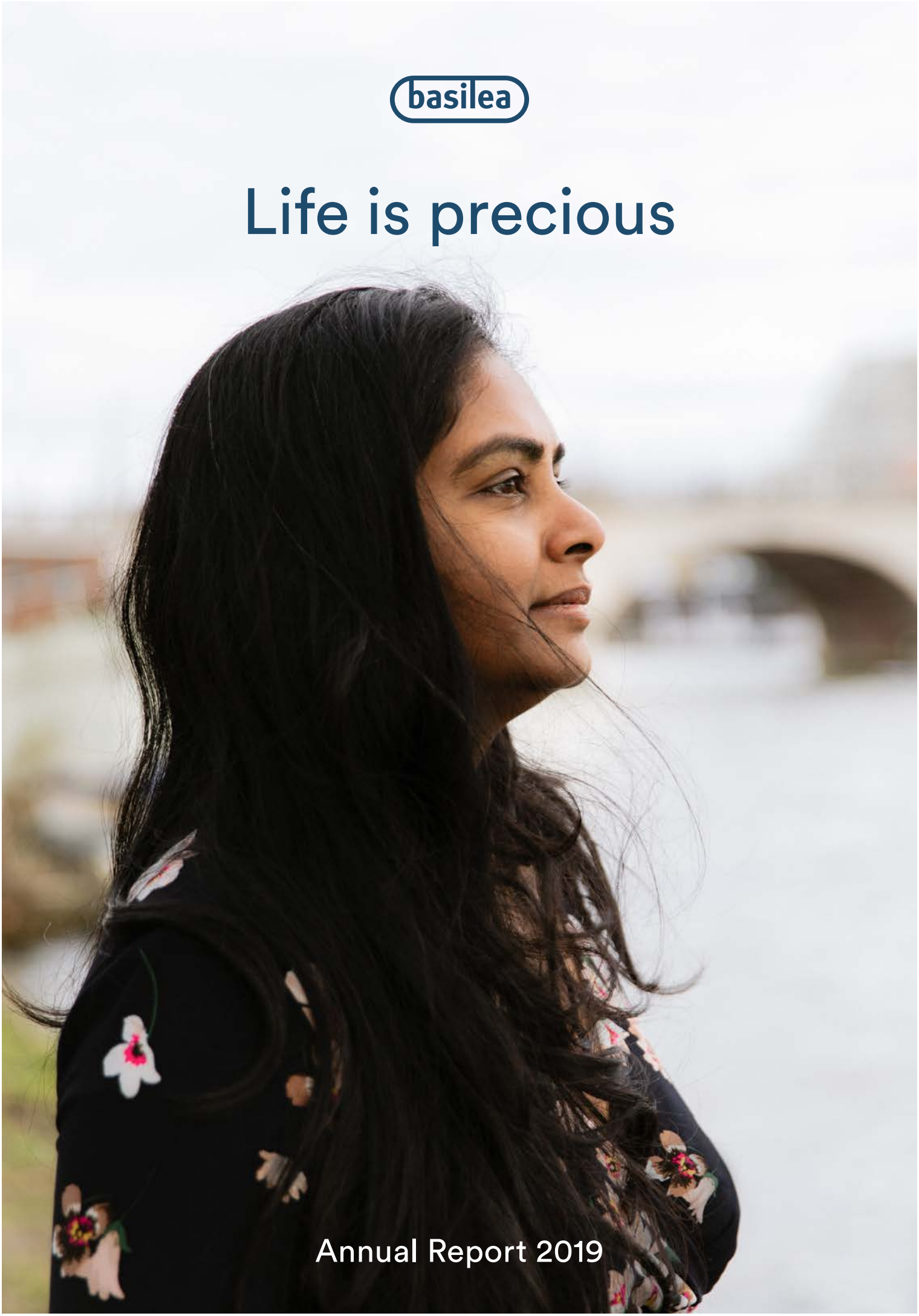
basilea

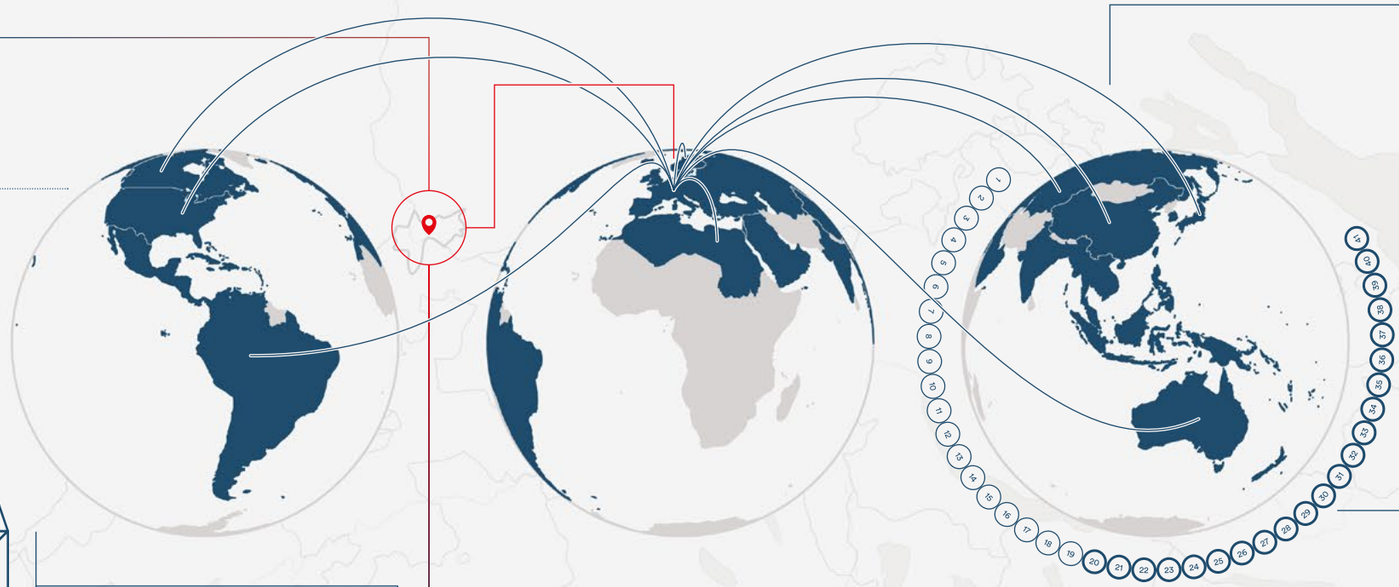
# Life is precious



Annual Report 2019

“Patients are at the heart of what we do.”

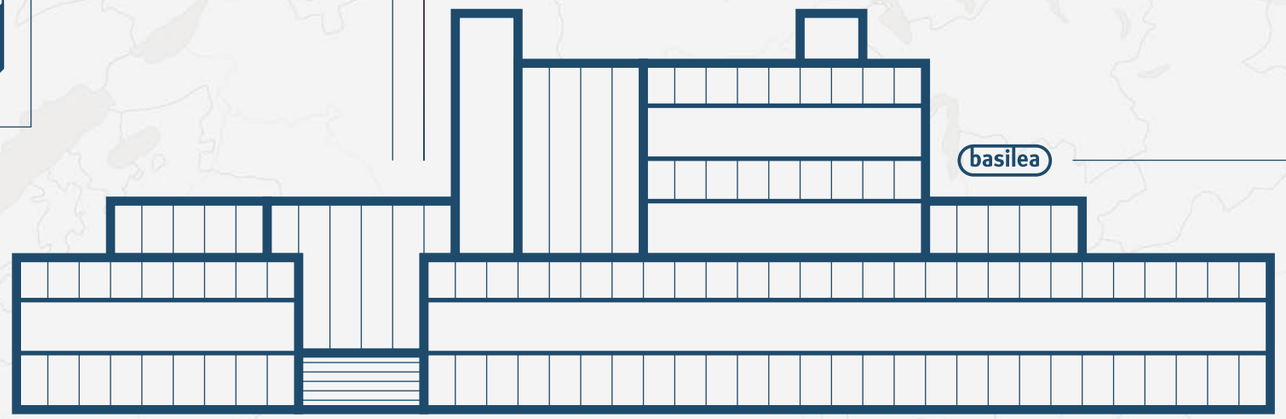
HQ in
# Basel
Switzerland



Partnerships for commercialization of Cresemba and Zevtera cover over
**100**
countries

Doubled number of Cresemba-launched countries in 2019, currently launched in more than 40 countries


Two marketed anti-infective brands

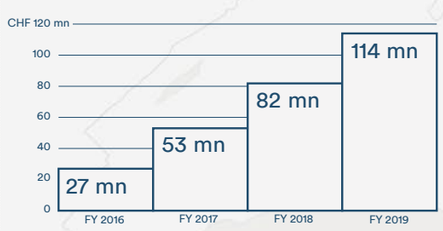



17 % share price increase in 2019

**BSLN**
Listed on SIX since 2004

Founded in 2000

39 % year-on-year increase of revenue contribution from Cresemba (isavuconazole) and Zevtera (ceftobiprole) in 2019




36 % increase year-on-year of non-deferred revenue contributions from Cresemba and Zevtera in 2019

We focus on the medical challenges in oncology and infectious diseases.

**3** oncology product candidates in development
**Derazantinib**
**Lisavanbulin (BAL101553)**
**BAL3833**

TARGET ABSSSI Study | ERADICATE SAB Study

Ceftobiprole phase 3 studies: positive results of TARGET study in skin infections (ABSSSI) and patient enrolment into ERADICATE study in bloodstream infections (SAB) on track for topline results in H2 2021

USD **12** mn milestone payments received for Cresemba sales from Pfizer

Solid cash and financial investments at year-end 2019
CHF **161** mn

Reduced net operating cash consumption compared to FY 2018 by
**19** %

Operating result improved compared to FY 2018 by
**29** %

Fides°

Derazantinib: clinical supply agreements with Roche for its immune-checkpoint inhibitor atezolizumab (Tecentriq®) for combination studies in urothelial and gastric cancer

Reported positive interim results of registrational phase 2 study FIDES-01 in intrahepatic cholangiocarcinoma (iCCA)

Expansion of FIDES-01 by new cohort to explore broader patient population in iCCA

Initiation of phase 1/2 study FIDES-02 in urothelial cancer alone and in combination with atezolizumab

2018 2017 2016 2015 2014 2013 2012 2011 2010 2009 2008 2007 2006 2005 2004 2003 2002 2001 2000 1999 1998 1997 1996 1995 1994 1993 1992 1991 1990

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# Our mission and vision

People are at the heart of everything we do. We strive towards making a difference to patients. With expertise, care and persistence.

We aim to be a leading provider of innovative medicines. For the benefit of patients.

# Our company

Basilea Pharmaceutica Ltd. is a commercial-stage biopharmaceutical company, focused on the development of products that address the medical challenges in the therapeutic areas of oncology and infectious diseases. With two commercialized drugs, the company is committed to discovering, developing and commercializing innovative pharmaceutical products to meet the medical needs of patients with serious and life-threatening conditions. Basilea Pharmaceutica Ltd. is headquartered in Basel, Switzerland, and listed on the SIX Swiss Exchange (SIX: BSLN).

Additional information can be found on Basilea's website basilea.com.

# Summary and key events

**Growing revenue contributions from marketed brands**

- Cresemba (isavuconazole) and Zevtera (ceftobiprole) revenue contributions increased 39% to CHF 114.3 million
  - Triggered USD 5 million Cresemba sales milestone payment in January 2019 and additional USD 7 million sales milestone payment in November 2019
  - Non-deferred revenue contributions from Cresemba and Zevtera increased 36% year-on-year to CHF 68.7 million
- Total revenue increased to CHF 134.4 million
- Combined R&D and SG&A expenses remained stable year-on-year at CHF 132.7 million
- Operating loss reduced 29% year-on-year to CHF 17.2 million
- Year-end cash and financial investments of CHF 161 million

**Guidance 2020:**

- Cresemba and Zevtera revenue contributions of CHF 77–87 million, excluding deferred revenue recognized for payments received in prior years
- Total revenue of CHF 128–138 million
- Total research & development expenses and selling, general & administrative expenses expected to remain at approximately the same level as 2019
- Operating loss of CHF 20–30 million
- Anticipated cash and investments of CHF 100–110 million at year-end 2020

**Expanding derazantinib data package**

- Started phase 1/2 study to explore FGFR kinase inhibitor derazantinib alone and in combination with Roche's atezolizumab (Tecentriq®), a PD-L1 checkpoint inhibitor, in patients with urothelial cancer
- Reported positive interim data from registrational phase 2 study in iCCA in early 2019, confirming data of previously conducted phase 1/2 study
- Expanded registrational phase 2 study into additional patient populations to support differentiated profile of derazantinib in iCCA

**In-market sales of our two marketed brands continue to significantly increase**

- Antifungal Cresemba 12-months in-market sales by Basilea's partners increased by 32% year-on-year to approximately USD 190 million (October 2018 – September 2019; latest available data)
- Partners doubled the number of Cresemba-launched countries in 2019; Cresemba now launched in more than 40 countries and antibiotic Zevtera launched in 18 countries
- New Cresemba-launched countries in 2019 include Canada, and Singapore as the first country in Asia Pacific

**Positive topline results from phase 3 study with ceftobiprole support U.S. strategy**

- Successfully completed TARGET study for the treatment of patients with acute bacterial skin and skin structure infections (ABSSSI); this is the first of two phase 3 studies required for gaining regulatory approval in the U.S.
- TARGET topline results showed that ceftobiprole was efficacious and well-tolerated
- Second phase 3 study, ERADICATE, in patients with *Staphylococcus aureus* bacteremia (SAB) is on track to report topline results in the second half of 2021

**Tumor checkpoint controller lisavanbulin (BAL101553) shows clinical efficacy in glioblastoma**

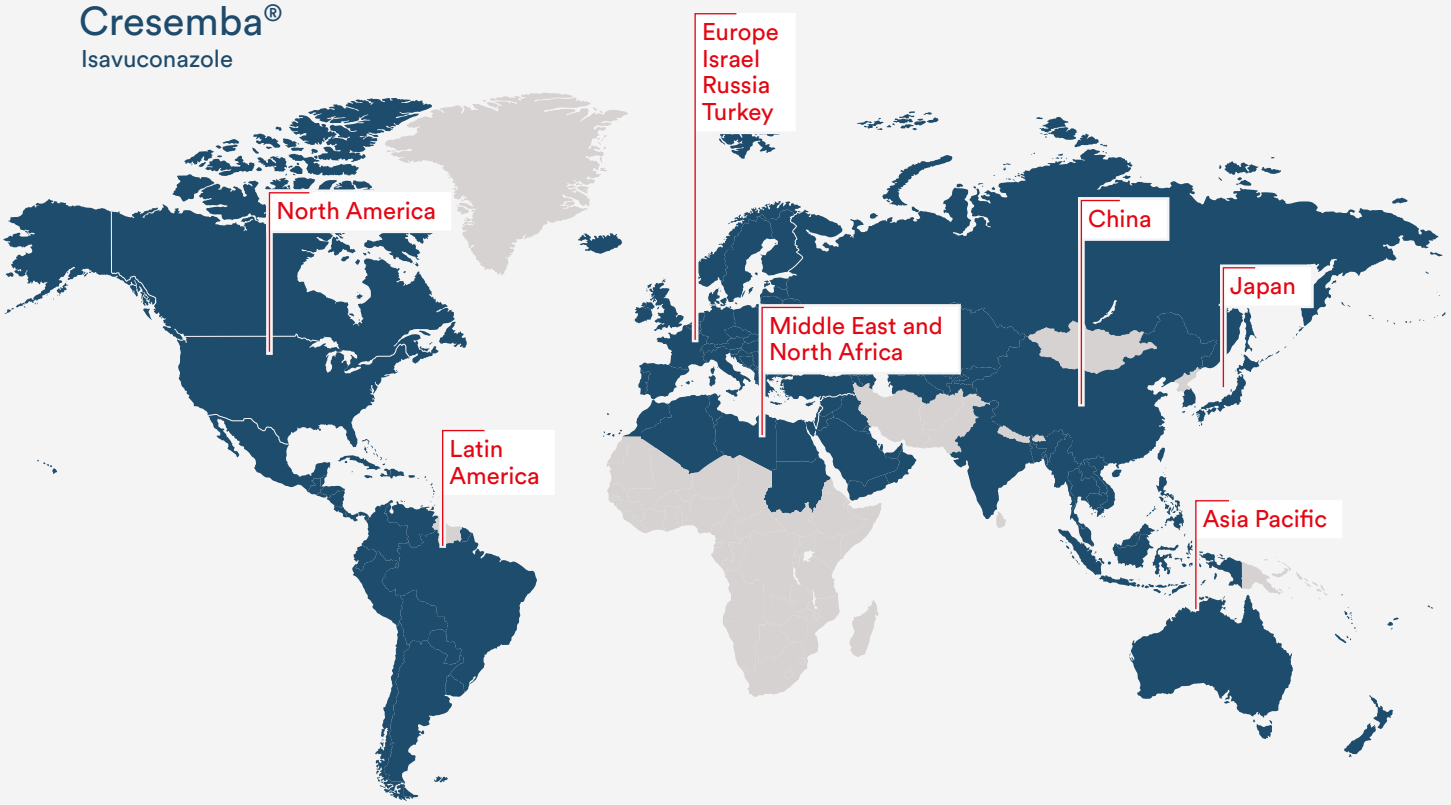
- Concluded patient enrolment into two phase 1/2 studies (daily oral and weekly 48-hour infusion)
- Observed clinical activity in glioblastoma in both studies, including two patients with profound clinical responses with more than 80% reduction of the tumor area
- Decided to advance development to a targeted, biomarker-driven phase 2 oral study in recurrent glioblastoma and potentially additional tumor types

**External innovation supports pipeline development**

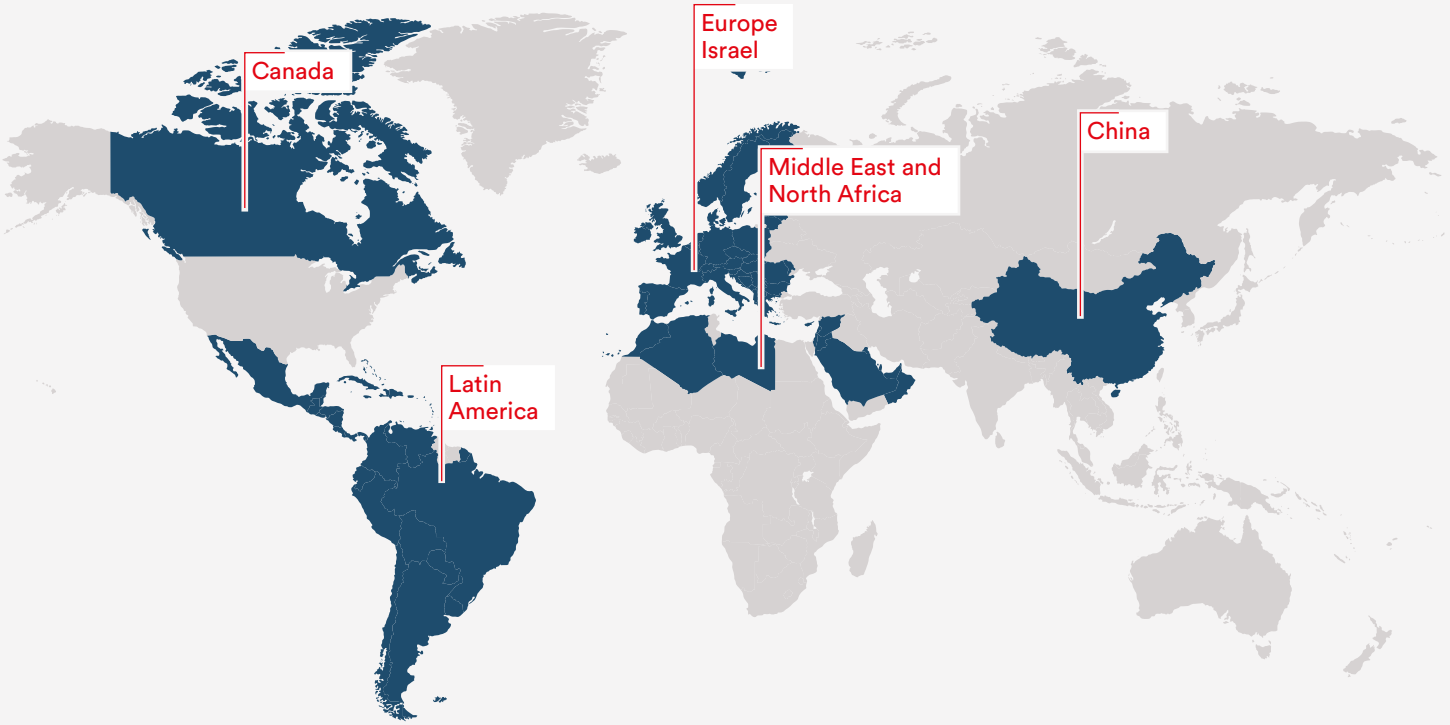
- Entered into licensing and research collaborations for preclinical compounds in oncology and infectious diseases

# Global partnerships

## Cresemba®
Isavuconazole




## Zevtera®
Ceftobiprole



# Dear shareholders

In 2019, Basilea made significant progress in its clinical-stage products. This includes important steps forward in our most advanced oncology programs with derazantinib and lisavanbulin, in addition to successfully completing the first of the two phase 3 studies necessary for applying for a marketing authorization for our anti-MRSA broad-spectrum antibiotic ceftobiprole in the U.S.

Clinical studies are key activities in drug development. Potential new drugs are assessed on their efficacy, safety and quality within such studies. However, the importance of clinical studies goes beyond the data generation; they provide patients access to potentially life-saving medicines and thus give new hope to patients whose illnesses cannot be satisfactorily addressed by currently available drugs. Despite more than 50,000 clinical studies globally recruiting, many patients and their families still have only very little knowledge about how to participate in such studies. We are therefore very pleased that Dr. Juanita Lopez, Consultant Medical Oncologist in the Drug Development Unit at the renowned Royal Marsden NHS Foundation Trust and the Institute of Cancer Research in London, UK, has shared with us her thoughts, observations and guidance for patients who are interested in finding out more about phase 1 studies (see Feature, starting on page 12). She is also active as a clinical study investigator for one of Basilea's oncology drug candidates.

## Focus on targeted cancer treatments

As stated, we have progressed our oncology programs towards important decision points in 2019. Analyzing the data collected in preclinical and early clinical studies with our tumor checkpoint controller lisavanbulin (formerly BAL101553), we have identified promising prognostic biomarkers that could help us to identify those patients that may have a higher probability of benefiting from treatment with lisavanbulin.

One brain cancer patient with a specific biomarker signature experienced an exceptionally strong response in the clinical study, including a more than 80% tumor reduction and a long-lasting response of more than 20 months, and still ongoing. This is very encouraging and we hope to transform this finding into a benefit for more patients going forward. We have decided to progress lisavanbulin into a targeted, biomarker-driven phase 2 study, with the once-daily oral formulation.

**We selectively invest in our pipeline to create the basis for sustained long-term value creation**

## Derazantinib: pipeline in a drug

Early in 2019, we presented positive interim results for our most advanced oncology asset, the FGFR kinase inhibitor, derazantinib, in intrahepatic cholangiocarcinoma (iCCA), a form of bile duct cancer. Based on the encouraging efficacy demonstrated in iCCA patients with a particular genetic aberration, FGFR2 gene fusions, we opened another cohort for patients with FGFR2 gene mutations and amplifications, in order to further profile and differentiate the drug in this indication.

FGFR2 genetic aberrations are well-established oncogenic drivers in iCCA. Therefore, we consider iCCA as an ideal indication to establish the clinical proof-of-concept for derazantinib. However, prevalence data show that FGFR genetic aberrations are involved in a broad range of cancers. We therefore believe that derazantinib could have clinical utility in a number of different cancers, thus providing a "pipeline in a drug".

A first step in the implementation of this strategy was the start of a phase 1/2 study in patients with urothelial cancer in August 2019. Urothelial cancer is the sixth most common cancer in the U.S. with an estimated 60,000 new cases per year in the U.S. alone. What is special about this study is that we are also going to test derazantinib in combination with Roche's immune-checkpoint inhibitor atezolizumab (Tecentriq®). This is because derazantinib has the potential to enhance the response to checkpoint inhibition and thus this combination may become a promising new targeted treatment approach in urothelial cancer. Based on derazantinib's unique target profile, convincing preclinical data and the high medical need in the indication, Basilea is also planning to start a phase 1/2 study in patients with gastric cancer in the third quarter of 2020.

## Delivering on our goals

We reported positive results for the phase 3 skin infection (ABSSSI) study with our antibiotic ceftobiprole. Ceftobiprole has been approved and launched under the trade names of Zevtera and Mabelio in a number of countries in Europe and beyond but not yet in the U.S., which represents the commercially most important market for ceftobiprole. For a filing in the U.S., two positive phase 3 studies are required. The successful completion of the skin infection study is therefore a significant step forward. We are also on track for reporting topline results for the second study required to support a U.S. filing, a phase 3 study in bloodstream infections caused by *Staphylococcus aureus* bacteria. The topline results are planned to be available in the second half of 2021.

We have a proven track record of progressing compounds through research and development to the market. We have also been able to enter into a number of licensing agreements for promising preclinical small-molecule drugs in our strategic focus areas of oncology and infectious diseases. We thus continue to build our pipeline from both internal and external innovation. We selectively invest in our pipeline in order to create the basis for sustained long-term value creation for the company.

The "in-market" sales of Cresemba reached approximately 190 million U.S. dollars in the 12-month period ending September 2019. This is a growth of more than 30% compared to the 12 months to end-September 2018. The continued strong sales performance also triggered two sales milestones by Pfizer in the total

amount of USD 12 million. In 2019, our partners doubled the number of Cresemba-launched countries. The brand is now launched in more than 40 countries and we believe that this number will increase to about 60 by the end of 2021. Together with the already established markets, these new countries will form the basis for continued significant revenue growth. Our licence and distribution agreements cover more than 100 countries. This forms the basis for us to maximize the global revenues of our commercial-stage assets. We participate through royalties, milestone payments by and product sales to our commercial-stage partners.

Our significant progress is also reflected in the 17% increase in our share price in 2019.

Year on year we are reducing our net cash consumption, based on our increasing cash generating revenues and our focus on selectively investing in our R&D portfolio, which also involves deprioritizing or stopping projects at the appropriate time if they no longer meet our high threshold with respect to their risk-return profile, thus keeping our operating expenses under control. As such, we were able to maintain a solid cash position of approximately 161 million Swiss Francs at the end of December 2019.

In summary, Basilea is very well positioned to take the next value-generating steps.

We would like to thank our employees for their work and commitment to bring new innovative drugs to patients in need and also thank our shareholders for the continued support that enables us to accomplish our mission of making a difference to patients.

Basel, February 2020

Domenico Scala
Chairman of the Board

David Veitch
Chief Executive Officer

Domenico Scala

David Veitch

# “Life is precious!”

Juanita Lopez, Consultant Medical Oncologist in the Drug Development Unit for early clinical studies at The Royal Marsden NHS Foundation Trust and the Institute of Cancer Research in London, has a clear objective: she wants to cure cancer. In her work as an investigator, she aspires to create a link between the scientists and the clinic. It is part of her job to be able to deal with the uncertainty of clinical trials, but she prefers to focus on the growing number of cured patients. Juanita Lopez is also active as an investigator for one of Basilea’s oncology drug candidates.


Dr. Lopez on her way to church on a Sunday morning

## A fascination for the brain

Juanita Lopez was born in Malaysia, but went to school and university in the United Kingdom. Becoming a doctor was always her dream, at least since she was three years old. "There are quite a lot of doctors in my family. I have got a set of seven cousins and all of them are working in the medical field," says Lopez. Still, there was never any pressure from her parents to study medicine. "They would have supported whatever career I chose." Inspired by the Scottish scenery of the movie "Braveheart" (1995), as a 17-year-old she was determined to attend the University of Edinburgh—despite an offer from Cambridge. "Ultimately it was the headmaster of my school who set my head straight," she remembers. And the memories of her time at the second-oldest university in the English-speaking world are nothing but fond. "I was able to study the development of frog brains for a year—that was terrific," she says. And more importantly: during her studies, she was allowed to explore her own ideas and experiments. At the time Lopez was convinced that she was going to be a neurologist. "To be able to understand how the brain works seemed fascinating."

## Molecular medicine is the future

But when she returned to a hospital in order to finish her medical training, she realized that she wanted to treat people. "Back then, you could make a lot of clever diagnoses in neurology, but there were not a lot of treatment options. That is why I switched to oncology." A decision she has never regretted once. "I always wanted to make things better—and also to find out why things went wrong," she states. In the end, Lopez did her Ph.D. in looking at cell death and how it affected the body's immune response. "When I did that—more than ten years ago—no one really expected the revolution in therapy that was about to follow," she says. According to her, oncology was still very limited a decade ago. "All we had was radiotherapy and chemotherapy." But Juanita Lopez was soon aware of the possibilities: "I actually worked in the hospital where they carried out the very first trials with Imatinib, a drug for the treatment of leukemia and other cancers. It really transformed the way we treat cancer and helped to evolve our thinking. And when Lopez got a first glimpse of molecular medicine, she quickly concluded: "This is where the future is going to be. And I was right."

## Solving the puzzle

As investigator at The Royal Marsden Hospital, Juanita Lopez has a vast portfolio of responsibilities: "We run about sixty trials at any one time," she elaborates. She directs about a quarter of these herself. It is not only vital for her as an investigator to understand the science, but also to be engaged with the patients." Lopez knows: "These trials are very demanding, and the patients often have very little time left." They have to be seen weekly, which includes a lot of assessments. "You need to be a very engaged investigator in order to be able to explain to the patients what you are hoping to do. Or why this extra blood test is necessary. And you have to explain it in a language patients can understand." When asked what else it takes to be a good investigator, Lopez mentions curiosity. She gets to ask all the questions she wants, because her job is also about creating trust and a good relationship with the patients. "That is the best part of my work." She adds that she also loves solving scientific puzzles and that she is quite a "people person". "Compassion and humanity are of utmost importance in our line of work," she says with conviction.

## Keeping up with the technology

"The science is moving quickly. Partly because we have this incredible technology. It is therefore quite challenging keeping up to date," says Lopez. "We have got a lot of information, but we also need to make sense of it." And, of course, there are also quite a few emotional challenges for Lopez: "I have to look after my incredible staff of 150 members and together with 15 doctors and my nursing staff I see up to 700 patients a year." A tremendous workload. "In addition to that we have to keep pace with the science, as the clinical trials are getting more and more complex," says Lopez.

## Creating the link between the scientists and the clinic

With the clinical trials also comes the translational drug development: "If you ever have traveled on the London tube, you know the 'mind the gap' announcement. And there is also a certain gap between the scientists in the lab, who are really interested in the biology, and the patients," explains Juanita Lopez. "I see my role as investigator in minding that gap and creating the link between the scientists and the clinic." It is important to quickly apply to the patients whatever the scientists learn in the lab. "And if the patients don't respond as expected, you want to take their blood sample and hand it over to the lab as soon as possible. So they can come up with the next explanation."

The trials in The Royal Marsden don't always go according to plan. "It is part of my job to be able to deal with frustration," concludes Lopez. "On the other hand, one has to acknowledge the patients we have cured. And there is a growing number of them!"

# “My family is very important to me.”

## Empowered patients

How can patients become part of clinical studies? “We used to depend on referrals from oncologists. But nowadays patients are getting much more empowered,” says Juanita Lopez. Meaning: patients are doing their own searches online—identifying trials and making contact directly. Moreover, thanks to websites and chat boards patients and patient groups learn very quickly when someone has had an exceptional response to a new drug. “It is a very effective way of getting other patients interested in trials,” knows Lopez. “It also helps that the open access website www.clinicaltrials.gov now lists pretty much every trial in the world.” Asked whether there have been major improvements in early clinical studies recently, Lopez exclaims: “I actually could write a whole book about that!” She recalls that there have been tremendous advances in cancer research. Tumor types like melanoma have been completely revolutionized, says Lopez. “When you spoke about melanomas 15 years ago, the word ‘cure’ was never mentioned. Now it is.”

Dr. Lopez at The Royal Marsden Hospital

However, research in brain cancer has lagged behind: "Although we are trying lots of different approaches, there hasn't been any significant progress in that field. Brain cancer has a bad prognosis and terrible symptoms. And compared to other cancers, it is rare," Lopez says. That is probably why brain cancer has not been more center stage. "It's also really difficult to do research in the brain," she adds. "Even getting a sample is complicated." Despite all this, Lopez is convinced that once the puzzle of brain cancer is solved, all other forms of cancer can also be cured. For further progress, biomarkers are required. "Because we need to select the right patients and the right treatment. And part of that is understanding how their cancer is hiding from the immune system, and also how the tumor evolves."

## Safety first

Although Lopez sees patients with any tumor type, she specializes in brain cancer. "Other doctors may be somewhat nervous treating people with that disease. I'm not—thanks to my knowledge in neurology," she explains. Lopez herself doesn't respond directly to emails from patients. "But of course, patients can contact us at any time." How does she decide which patients can participate in a clinical study? "They have to be well enough," stipulates Lopez. "We investigate twice as many patients as we have spots for. So sometimes it just depends on what is available in the week a patient comes to us." When dealing with cancer patients, safety always comes first. "But what is really important in early trials is finding the right dose of a drug," she adds. "If you don't have the right dose, you will never have efficacy. There is always the pressure of demonstrating efficacy—that is what patients want, and it is what sponsors like. But in order to take a treatment forward, you need maximum safety."

## The uncertainty of clinical trials

Lopez is certain that the clinical studies are incredibly important for patients. That is also why she recommends patients to participate—especially when they have exhausted all current therapeutic options. "I remember this young patient with brain cancer, who was told there was nothing more that could be done for him. He came to us and we put him on a clinical trial. And he's had the most incredible response. On the occasion of the sixth birthday of his younger son, he was even able to visit Disneyland with his kids—and the patient is still doing well." So why has his tumor responded so well? Lopez intends to find out. Despite the many success stories, she doesn't beat about the bush and points out that clinical studies also bring great uncertainty. "We never really know whether a trial is going to work or not. And the patients have to be aware of the fact that the drugs may have unexpected side effects and also include invasive biopsies. To be part of a clinical study is a big undertaking for patients," says Lopez.

# Life is precious

In her job Juanita Lopez has to juggle a lot of different and difficult tasks. "Curing cancer is part of my life—that is why I never really can call it a day." But she emphasizes that she is not only a doctor and scientist, but also a wife and mother. "My family is very important to me." Usually Lopez gets up at 4 a.m. and tackles a problem in her mind or reads for one or two hours before she wakes her two sons and has breakfast with them. After that it's time for the boys' homework and then it's off to school for the six- and seven-year-old. "Some days I take them there myself," says Lopez. In her spare time she likes going to art museums, and she loves music. "I used to play the violin, but now I concentrate on the piano." Juanita Lopez and her "extremely supportive" husband, who is of South African descent, are also active members of their local church. That most of their friends have no connection to the medical world benefits her work-life balance, she thinks: "To chat with my exceptionally good friends is like a wonderful out-of-work debrief," she says—and smiles contentedly. What also helps her is the lesson that her work has ultimately taught her: "Life is precious!"

# Products and clinical pipeline

We discover, develop and commercialize innovative medicines in the therapeutic areas of oncology and infectious diseases.

## Oncology

Oncology is one pillar of our strategy. Over the last decade, we have built an oncology research and development portfolio of novel drug candidates. We have strong in-house competencies and excellent researchers in the field of cancer biology, oncology research and development and medicinal chemistry.

We are focused on targeted small molecules in oncology, identifying biomarkers very early on in development, which can help to elucidate the mode of action of a drug, to optimize clinical dosing strategies and to identify patients most likely to respond to treatment.

**There were 18 million new cancer patients worldwide in 2018**

### Derazantinib

Derazantinib is the clinically most advanced oncology drug candidate in our portfolio. We in-licensed it in April 2018 from the U.S. company ArQule Inc, which is now a wholly-owned subsidiary of Merck & Co., Inc. The exclusive license is worldwide, excluding China, Hong Kong, Macau and Taiwan.

Derazantinib is an orally administered small molecule inhibitor of the fibroblast growth factor receptor (FGFR) family of kinases with strong activity against FGFR1, 2, and 3. FGFR kinases play a key role in cell proliferation, differentiation and migration, and alterations of the FGFR gene, e.g. fusions, amplifications or mutations, have been identified as important drivers for various cancers, such as intrahepatic cholangiocarcinoma (iCCA, a form of bile duct cancer), urothelial, gastric (stomach), breast and lung cancer.

Because of its kinase inhibition spectrum, derazantinib may have utility in a range of different cancers. Proof-of-concept for single-agent activity has been established in a phase 1/2a study with patients with FGFR2 gene fusion-positive iCCA.

Derazantinib also inhibits the colony-stimulating-factor-1-receptor (CSF1R) kinase, which is another target for anti-cancer drugs as CSF1R inhibition may make tumors more susceptible to immunotherapy.

Currently, there are two clinical studies ongoing with derazantinib, in a study program called FIDES (Fibroblast growth factor Inhibition with DErazantinib in Solid tumors). FIDES-01 (NCT03230318) is a registrational phase 2 study in patients with iCCA. Initially focused on FGFR2 gene fusion-positive iCCA, we opened another cohort in the study in 2019 for patients with FGFR2 gene mutations or amplifications

# Portfolio


**Phase 1**

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

**Phase 1/2a**

Sequential study, for instance in oncology, which starts with a phase 1 dose-escalation portion to determine the maximum tolerated dose (MTD), which will be explored in the phase 2a expansion in selected patient populations to look for initial efficacy signals.

**Phase 2**

Expanded clinical testing in a larger number of patients, usually in more narrowly defined patient populations, to confirm the best dose and further explore efficacy signals as well as potential side effects.

**Phase 3**

Even larger studies than in phase 2, designed to provide confirmatory evidence of the efficacy and provide further safety information. Phase 3 studies usually form the basis to obtain regulatory approval.

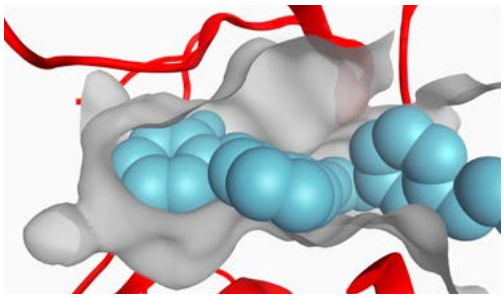
* Tecentriq® is a registered trademark of Hoffmann-La Roche Ltd.
** preclinical reformulation activities ongoing

in their tumors. This patient population has not responded well to other FGFR kinase inhibitors in clinical development, but we believe that they may benefit from treatment with derazantinib. The study in the cohort of patients with FGFR2 gene fusions is expected to report topline results in the second half of 2020. Derazantinib has U.S. and EU orphan drug designation for iCCA.

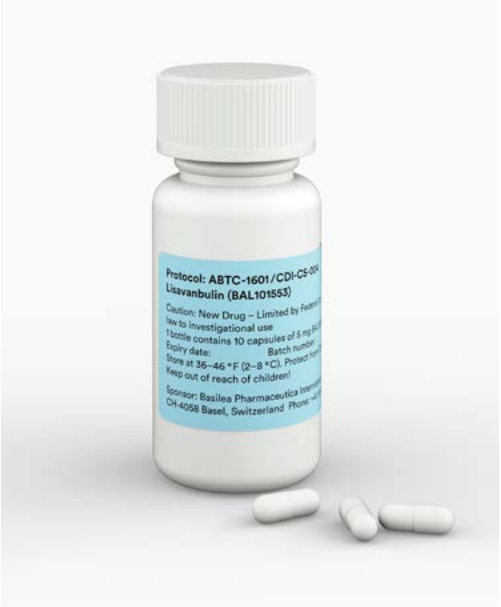
## Clinical proof-of-concept for derazantinib has been established in bile duct cancer (iCCA)

The second study, FIDES-02 (NCT04045613), is a phase 1/2 study in patients with advanced urothelial cancer and confirmed FGFR genetic aberrations in which derazantinib is explored as monotherapy and in combination with Roche's immune-checkpoint inhibitor atezolizumab (Tecentriq®).

Early in 2020, we announced that we intend to start a third study, FIDES-03, in patients with advanced gastric cancer, again with derazantinib as monotherapy or in combination with standard of care or atezolizumab. We have entered into a clinical supply agreement with Roche, who will provide atezolizumab for the FIDES-02 and FIDES-03 studies.



Crystal structure-based computational molecular modeling conducted by Basilea indicates that the CSF1R inhibition activity of derazantinib seen in kinase assays may be explained by the good fit of derazantinib (blue) into the active site of CSF1R. Other FGFR kinase inhibitors have different chemical structures and may not fit as well into the active site.




### Lisavanbulin

Lisavanbulin (formerly BAL101553) is a novel microtubule-targeting drug candidate that is able to cross the blood-brain barrier, which makes it a promising candidate for the treatment of brain cancer.

Lisavanbulin is the second most advanced oncology drug in Basilea's portfolio after derazantinib. Among others, it has been shown to be active in cancer cells resistant to taxanes, a well-established class of anti-cancer drugs that have been used in the treatment of cancer for many years. Microtubules play an important role in cell division, mainly in the alignment and separation of the chromosomes during mitosis. If this process is disrupted, the cancer cells die. The active moiety of lisavanbulin binds to microtubules at a different site than taxanes, or any other currently approved microtubule-targeting anti-cancer agent, and may therefore overcome resistance to these compounds. Lisavanbulin induces tumor cell death by activating the so-called "spindle assembly checkpoint". This is why lisavanbulin is called a tumor checkpoint controller.

Lisavanbulin is a small-molecule drug and is thus more easily chemically synthesized than approved microtubule-targeting agents derived from complex natural products. Furthermore, unlike many large-molecule cancer drugs, lisavanbulin is able to cross the blood-brain barrier, which normally prevents the entry of large molecules and pathogens. This addresses a major challenge in the development of drugs that target pathological changes in the brain. Preclinical studies also strongly support the potential utility of lisavanbulin for the treatment of brain cancer.

Basilea made significant progress in the clinical development of lisavanbulin in 2019. Patient enrolment into two of the three ongoing studies was concluded during the year.

The first phase 1 study (NCT02490800) with daily oral lisavanbulin in patients with recurrent glioblastoma (GBM), a highly aggressive form of brain cancer, or high-grade glioma, was completed in August 2019. In December 2019, we announced that we had completed an interim data review of the second study, a phase 2a expansion study using weekly 48-hour intravenous (i.v.) administration (NCT02895360).

Across the two studies, profound objective responses, with more than 80 % reduction of the GBM tumor area, were observed in two patients with glioblastoma, who continue to remain on treatment with lisavanbulin. The brain tumor tissue of one of these patients displayed strong expression of the potentially response-predictive biomarker EB1 (end-binding protein 1). Non-responders did not show a strong expression of EB1. Five further patients experienced stable disease as a best response in the oral study. In the ovarian cancer group of the i.v. study, four patients showed reduction in target lesion size but did not meet the formal response criteria of the study protocol.

## Moving to a targeted, biomarker-driven approach in glioblastoma with lisavanbulin

Based on these observations, we are investigating a panel of biomarkers, including EB1, and have decided to move to a targeted, biomarker-driven phase 2 study in recurrent glioblastoma and potentially additional tumor types. This study with the oral formulation of lisavanbulin is planned to start mid-2020.

The third ongoing study (NCT03250299) is exploring orally administered lisavanbulin in combination with radiotherapy in patients with newly diagnosed glioblastoma who have a reduced sensitivity to chemotherapy with the standard-of-care drug temozolomide. This phase 1 study is conducted in the U.S. in collaboration with the Adult Brain Tumor Consortium (ABTC). The ABTC is a multi-institutional consortium consisting of investigators at renowned cancer research institutions across the United States. Its aim is to develop effective treatment for malignant brain tumors. It is funded by the U.S. National Cancer Institute (NCI).

### BAL3833

The drug candidate BAL3833 blocks the transmission of certain signals in cells responsible for uncontrolled tumor growth. Melanoma, the most aggressive type of skin cancer, is often caused by such a mechanism. However, BAL3833 also has potential for the treatment of other types of cancer.

Basilea in-licensed the small-molecule drug candidate in 2015. It was developed by scientists at The Institute of Cancer Research (ICR) in London, funded by Cancer Research UK and the Wellcome Trust. BAL3833 is a dual-targeting (panRAF and SRC) kinase inhibitor that blocks certain signals in cells responsible for uncontrolled growth and has demonstrated activity in a range of tumor models derived from melanoma (including models with intrinsic or acquired resistance to selective BRAF inhibitors) and in tumor models derived from colorectal, pancreatic and lung cancers, including KRAS-driven tumors.

A first-in-human phase 1 dose-escalation study (NCT02437227) with daily oral administration of BAL3833 in patients with solid tumors including metastatic melanoma was conducted by the ICR in cooperation with the Christie and Royal Marsden NHS Foundation Trusts and the Cancer Research UK Institute at the University of Manchester. The study was completed without defining a maximum tolerated dose. We are conducting preclinical activities to explore alternative formulations, as BAL3833 continues to show very encouraging anti-cancer activity in preclinical models and the medical need for cancer patients with RAF- and RAS-driven tumors remains high.

## Infectious diseases

Drugs against fungal and bacterial infections form the second pillar in our strategy. We have successfully brought two anti-infective drugs to the market: the antifungal Cresemba (isavuconazole) and the antibiotic Zevtera (ceftobiprole).

### Cresemba

Isavuconazole, marketed under its trade name Cresemba, is an antifungal drug for the treatment of the two most frequent invasive mold infections: invasive aspergillosis and mucormycosis.

Invasive fungal diseases are an increasing global health issue due to the growing number of immunocompromised patients who are at a higher risk of these infections. It is estimated that fungal diseases kill more than 1.5 million people each year and affect over one billion people globally. Invasive mold infections are mainly caused by airborne *Aspergillus* species; however, Mucormycetes, which can be found for example in soil, have emerged as the second most frequent group of molds causing invasive infections. Over 50% of patients with mucormycosis die from this infection, so its mortality rate is particularly high. Today there are only limited available treatment options for invasive mold infections.

Isavuconazole belongs to the azole class of antifungal compounds, which block fungal growth and replication through inhibition of an enzyme required for essential building blocks of fungal cell walls. It is the only azole antifungal approved for the treatment of both invasive aspergillosis and mucormycosis. This is important because these two infections are difficult to differentiate clinically. In addition, Cresemba is the only licensed medication for the treatment of mucormycosis that can be administered both orally and by infusion.

**The number of Cresemba-launched countries doubled in 2019 with the goal of reaching 60 at year-end 2021**

Isavuconazole has U.S. and EU orphan drug designation for its approved indications. In Europe, orphan drugs are granted ten years of market exclusivity, regardless of patent protection. In the U.S., orphan drugs are granted seven years of market exclusivity. Isavuconazole is also designated as a Qualified Infectious Disease Product (QIDP), which further extends the market exclusivity in the U.S. to a total of 12 years. In addition, we are conducting a pediatric investigation plan, which may lead to an additional two years of exclusivity in the EU and an additional six months of exclusivity in the U.S. upon completion. We therefore anticipate that isavuconazole could have market exclusivity until 2027, both in Europe and the U.S.

We have established license and distribution agreements for isavuconazole covering around 115 countries. Our commercialization partners include Astellas Pharma Inc. for the U.S. and Pfizer for most of Europe. Pfizer's license territory also includes Russia, Turkey, Israel, China and further countries in Asia Pacific. Moreover, we have strong regional partners for Latin America (Grupo Biotoscana), Japan (Asahi Kasei Pharma), the Middle East and North Africa, or MENA, region (Hikma) and Canada (Avir).

During 2019, our partners doubled the number of countries in which Cresemba has been launched. It is on the market in more than 40 countries. Accordingly, Cresemba sales continued to grow strongly in 2019. As of end of September 2019, the 12-month global "in-market" sales generated by our partners reached approximately USD 190 million. The increase in sales was not only driven by growth within established countries but also by contributions from the countries newly launched in 2019. Further launches are planned throughout the year, so that our partners are on track to reach the goal of 60 launched countries by year-end 2021.

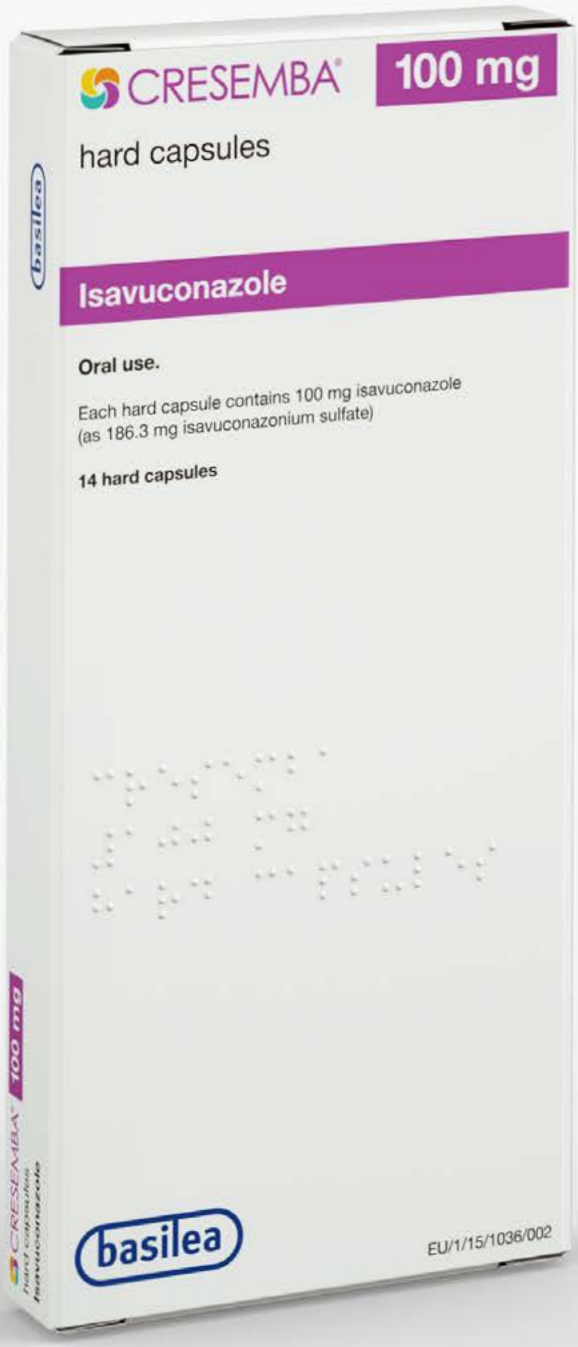
In 2019, Basilea received USD 12 million from Pfizer after reaching certain sales milestones. Sales in the U.S. continue to grow at a healthy annual rate, too. Astellas' sales guidance for its full financial year until end of March 2020 amounts to USD 143 million, a 20% increase compared to the preceding 12-month period.

We continue to participate in the global commercial success of Cresemba through royalties, regulatory and sales milestone payments from our license partners, and by selling Cresemba to our distribution partners at a transfer price. Regulatory and sales milestones from all license agreements for Cresemba could amount to almost USD 1 billion over the lifetime of these partnerships.

**>2.5 mn**
patient-days (oral & i.v.) since launch

**>59,000**
patients treated

**>40**
countries in which Cresemba is launched



### Zevtera/Mabelio

Ceftobiprole, marketed in most countries under the trade name Zevtera, is an antibiotic for the treatment of severe bacterial infections in the hospital. It is currently approved for the treatment of pneumonia, especially for pneumonia acquired in hospitals. Based on its broad spectrum of activity, we believe that the drug could also be effective in the treatment of other bacterial infections.

## The first of the two phase 3 studies to support a U.S. filing was successfully completed in 2019

According to recent estimates, there are about 2.4 million healthcare-associated infections each year leading to approximately 77,000 deaths in the European Union and the European Economic Area alone. About 40% of these deaths have been attributed to hospital-acquired pneumonia and to hospital-acquired bloodstream infections. Ceftobiprole has demonstrated activity against a wide spectrum of clinically relevant Gram-positive and Gram-negative bacteria, including methicillin-resistant *Staphylococcus aureus* (MRSA). Patients with MRSA infections are more than twice as likely to die from this infection as patients with methicillin-susceptible strains (MSSA).

We have established license and distribution agreements for ceftobiprole with several partners covering more than 80 countries. This includes Correvio for Europe as well as strong regional partners for Latin America (Grupo Biotoscana), the MENA region (Hikma), China (CR Gosun) and Canada (Avir). Zevtera is now launched in 18 countries, not only in Europe, but also in several international markets such as Canada, countries in Latin America (Argentina and Peru) and the MENA region (Jordan and Saudi Arabia). As with Cresemba, we participate in the commercial success of Zevtera through royalties, regulatory and milestone payments, and by selling the drug to our distributors.

However, by far the most important market for novel, branded hospital antibiotics is the U.S. We estimate that, in terms of value, the U.S. represents more than 70% of the global market for these drugs. Furthermore, in terms of medical need, MRSA rates in the U.S. have been reported in the range of 45%. In comparison, a population-weighted median MRSA rate of about 16% was reported for Europe (EU/EEA) in 2018, with significantly higher MRSA rates of up to about 43% in Southern European countries.

To support a regulatory filing for ceftobiprole in the U.S., we started two phase 3 studies in 2018. In August 2019, we reported positive topline results from the first of these phase 3 studies, the TARGET study (NCT03137173), which evaluated ceftobiprole in the treatment of patients with acute bacterial skin and skin structure infections (ABSSSI). Ceftobiprole met primary and secondary efficacy endpoints and was well tolerated with the overall rates of drug-related adverse events being similar between ceftobiprole and the control group. The second phase 3 study, ERADICATE (NCT03138733), is exploring ceftobiprole in patients with bloodstream infections (bacteremia) caused by *Staphylococcus aureus* bacteria and is on track to report topline results in the second half of 2021. Both studies are conducted under Special Protocol Assessments with the U.S. Food and Drug Administration (FDA).

*Staphylococcus aureus* bacteremia (SAB) may become the most important indication for ceftobiprole in the U.S. This bacterial bloodstream infection is associated with significant morbidity and for the past two decades, the reported mortality rates remained at about 20 %. SAB can result in infective endocarditis, an inflammation of the heart, which is associated with poor patient outcomes. Only very few antibiotics that cover both MSSA and MRSA are approved for the treatment of SAB. Hence, there is an urgent need for new effective antibiotics in this indication.

The ceftobiprole phase 3 program is funded in part (up to USD 128 million of non-dilutive funding, which is approximately 70 % of the total estimated program costs) with U.S. federal funds from the Biomedical Advanced Research and Development Authority (BARDA). BARDA is a division within the Office of the Assistant Secretary for Preparedness and Response in the U.S. Department of Health and Human Services. It was established by the U.S. Congress to provide federal investments in later-stage development of novel countermeasures to public health emergencies and has become an important source of public funding for the development of novel antibiotics for U.S. patients.

If approved in the U.S., ceftobiprole will have ten years of regulatory market exclusivity, as it has QIDP designation with respect to the ABSSSI and SAB indications.

# Research at Basilea

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

Our research team is comprised of experienced drug discovery scientists with expertise in screening, biochemistry, microbiology, tumor biology, bioinformatics, in silico structure-based discovery, medicinal chemistry, pharmacology, chemical synthesis, and analytics, all key disciplines required for successful drug discovery. They work in an innovative R&D environment in the heart of the life sciences hub of Basel with multiple renowned corporations and academic institutes. The internal activities are complemented by collaborations with both industry partners and top academic groups.

Our Basel experts are supported in all their key R&D projects by scientists at Basilea's subsidiary Basilea Pharmaceutica China Ltd. There, the focus is on organic and medicinal chemistry, analytics and process research and development. Basilea China was founded in 2002 as one of the first foreign-invested biotech companies in China. It is located near Shanghai in the Haimen Economic-Technological Development Zone.

## Oncology

In oncology research, we focus on small-molecule compounds addressing novel targets involved in oncogenic kinase signaling as well as targets in emerging areas with the potential to become the next-generation cancer drugs. In our focus areas we leverage our expertise and strengths in cancer research to discover first-in-class drug candidates. A major emphasis is also put on the implementation of biomarker strategies to select patients more likely to respond to treatment. Biomarker discovery is integrated into all projects at a very early stage.

Our preclinical oncology portfolio includes several internally discovered projects, as well as externally sourced programs.

## Anti-infectives

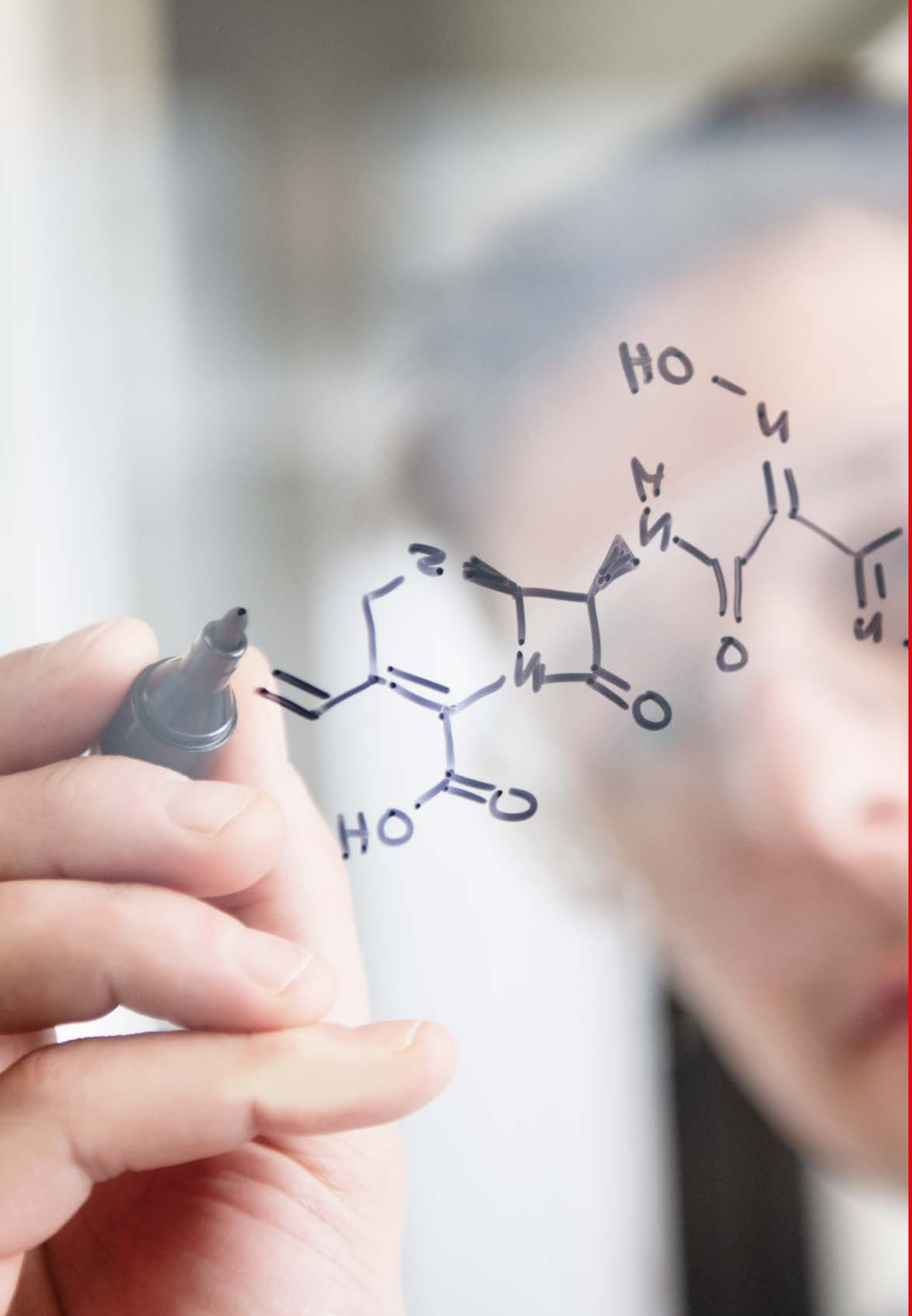
In anti-infectives research, we focus on projects based on new or commercially unexploited clinically relevant targets and approaches with the potential to show medically relevant superiority against established anti-infective drugs. With our emphasis on novelty, we address current and future challenges posed by difficult-to-treat pathogens, in particular by the development of drugs against Gram-negative pathogens such as carbapenem-resistant Enterobacteriaceae, multidrug-resistant *Pseudomonas aeruginosa* and *Acinetobacter baumannii*.

We also actively support the development of new antibiotics as a member of the BEAM Alliance (Biotech companies in Europe combating AntiMicrobial resistance) and the Antimicrobial Innovation Alliance (AIA). Moreover, we participate in research programs supported by the European Commission's Innovative Medicines Initiative (IMI), which has funded the ND4BB (New Drugs for Bad Bugs) project. ND4BB helps address some of the biggest challenges in antibiotic development including basic discovery, research and early-stage development of novel antibiotics.

## Collaborations

In 2019, we entered into exclusive research collaboration and licensing agreements to expand our early-phase portfolio. In oncology, we are assessing a novel small-molecule drug candidate for improved safety and efficacy over standard of care, including in models of treatment-refractory disease. In anti-infectives, we are pursuing entirely novel antibiotic classes, enabled by our collaboration partner's proprietary discovery platform. We believe that both collaborations are excellent additions to our innovative preclinical portfolio.

In 2020, our research team will continue to strengthen Basilea's oncology and anti-infectives pipeline through internal research and external collaborations, with the ultimate goal of advancing novel drug candidates into clinical development and to the market and thus making a difference to patients' lives.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# Corporate governance

## Group structure and shareholders

### Group structure

The Basilea group is composed of the parent company Basilea Pharmaceutica Ltd. ("Basilea"); the Swiss operating subsidiary Basilea Pharmaceutica International Ltd. ("Basilea International"); BPh Investitionen Ltd. ("BPh"), a subholding company; Basilea Pharmaceutica China Ltd. ("Basilea China"), a Chinese operating subsidiary held through BPh; and wholly-owned subsidiaries in Germany, and the United Kingdom (collectively the "Company").

As of December 31, 2019, the Company had 225 full-time equivalents (FTEs).

### Basilea subsidiaries and subholdings (as of December 31, 2019)

- Basilea Pharmaceutica China Ltd., Haimen, China
- Basilea Pharmaceutica Deutschland GmbH, Lörrach, Germany
- BPh Investitionen Ltd., Baar, Switzerland
- Basilea Pharmaceutica International Ltd., Basel, Switzerland
- Basilea Medical Ltd., Rickmansworth, U.K.
- Basilea Pharmaceuticals Ltd., Rickmansworth, U.K.

The operating activities of the Company are currently focused on research, development, and commercialization of pharmaceutical products. The Company's operating activities are directed by and primarily undertaken by Basilea International.

In 2019, Basilea International was operationally organized to focus on its core activities. The Chief Executive Officer leads the Management Committee, consisting of the Chief Financial Officer, the Chief Medical Officer, the Chief Scientific Officer, and the Chief Technology Officer. The members of the Extended Management Committee, representing the legal, human resources and quality management functions, do also report to the Chief Executive Officer. For further information, please refer to the section "Management Committee/Extended Management Committee" on page 48.

Basilea is represented on the board of directors of all its wholly-owned subsidiaries. In addition, there is close operational cooperation between Basilea International and Basilea's subsidiaries.

## Basilea Pharmaceutica Ltd.

Basilea is located at Grenzacherstrasse 487, 4058 Basel, Switzerland, and Basilea's shares were listed on the SIX Swiss Exchange on March 25, 2004, under the Swiss security number ("Valorennummer") 1143244. The ISIN is CH0011432447. The Common Code is 018859220. The ticker symbol is BSLN. Basilea's LEI is 391200TTZP8EIPSJ5J20.

As of December 31, 2019, the market capitalization of Basilea amounted to CHF 556,787,943 (11,881,945 registered shares issued with a nominal value of CHF 1.00 per share).

## Basilea Pharmaceutica China Ltd.

Basilea China is a wholly foreign owned enterprise ("WFOE"), founded on May 29, 2002 and incorporated with limited liability under the laws of The People's Republic of China, with a fully paid-in registered capital of USD 7 million as of December 31, 2019. Basilea China is located near Shanghai in the Haimen Economic-Technological Development Zone, Jiangsu Province, People's Republic of China. The subsidiary supports Basilea International's key research and development, projects with chemical synthesis, analytical development, and process research and development. The shares of Basilea China are not listed on any stock exchange. All of its shares are held and controlled by BPh, a Swiss stock corporation with registered office at Schochenmühlestrasse 4 in 6340 Baar, Switzerland. BPh has a share capital of CHF 131,950, divided into 10,150 fully paid-in registered shares with a par value of CHF 13 each, all held and controlled by Basilea.

For information on the non-listed companies belonging to the Company, please refer to note 2 (investments, page 137) to the financial statements.

## Significant shareholders

As of December 31, 2019, Basilea had 11,881,945 registered shares issued.

According to the Company's share register, RBC Investor + Treasury Services, Swane Lane, Riverbank House 2, London EC4R 3AF, U.K., held 539,512 Basilea shares as of December 31, 2019, corresponding to 4.54% of the issued share capital, but registered without voting rights.

In the past, Basilea received the following notifications in accordance with the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading from shareholders who held more than three percent (the notifications were made based on the share capital as registered in the commercial register at the time of the respective transactions):

- On February 27, 2017, Credit Suisse Funds AG, Zurich, Switzerland, notified Basilea of its holdings of 386,587 Basilea shares, corresponding to 3.28% of the issued share capital, as of February 21, 2017.
- On December 16, 2019, CI Investments Inc., 2 Queen Street East, 18th Floor, Toronto, ON M5C 3G7, Canada, notified Basilea that Black Creek Global Leaders Fund, Black Creek Global Leaders Corporate Class, Black Creek International Equity Fund, Black Creek International Equity Corporate Class, Black Creek Global Balanced Fund, Black Creek Global Balanced Corporate Class, Select International Equity Managed Fund, Select International Equity Managed Corporate Class, International Equity Alpha Corporate Class, CI Global Equity Alpha Private Pool, and CI International Equity Alpha Private Pool held 583,157 Basilea shares, corresponding to 4.91% of the issued share capital, as of December 10, 2019.

– Basilea reported that, as of April 21, 2016, it held 40,000 sales positions based on the issuance of the convertible bond. The sales positions corresponded to 1,586,017 voting rights (13.44%). Basilea also reported that as of the same date, the outstanding options under the employee stock option plan amounted to 1,428,028 which corresponded to 12.10%.

As of December 31, 2019, Basilea has not received any notification that the above listed shareholdings fell below the relevant reporting threshold of three percent.

All disclosures of shareholdings, including those of shareholders that fell below three percent during 2019, are published on the website of the SIX Disclosure Office and can be accessed there (https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=BSLN).

Basilea has not entered into any shareholder agreement regarding the voting rights or holding of Basilea shares.

## Cross-shareholdings

No cross-shareholdings existed as of December 31, 2019.

# Capital structure and shares

## Share capital

As of December 31, 2019, Basilea's issued fully paid-in share capital consists of CHF 11,881,945 divided into 11,881,945 common registered shares with a nominal value of CHF 1.00 each and no preferred shares. The share capital is fully paid-in. In January 2016 CHF 1,000,000 shares were created out of authorized capital in connection with the conversion rights attached to the convertible bond issued in December 2015 by the Company. These shares are held by Basilea as treasury shares. As of December 31, 2019, Basilea and Basilea International held 1,108,041 (9.33%) shares of Basilea.

## Authorized capital

In accordance with article 3b of the articles of association, the Board of Directors is authorized at any time until April 10, 2021, to increase the share capital by a maximum aggregate amount of CHF 2,000,000 through the issuance of not more than 2,000,000 registered shares, which would have to be fully paid-in, with a nominal value of CHF 1.00 each (Basilea's articles of association are available on the Basilea website at www.basilea.com/articles-of-association). As of December 31, 2019, the authorized capital amounts to CHF 2,000,000 which equates to 16.83% of the existing share capital. Increases in partial amounts are permitted. The Board of Directors has the power to determine the type of contributions, the issue price and the date on which the dividend entitlement starts.

## Conditional capital

As of December 31, 2019, the conditional capital amounts to a maximum of CHF 2,518,196 which equates to 21.19% of the existing share capital as of December 31, 2019.

In accordance with article 3a paragraph 1 of the articles of association, the share capital may be increased by a maximum aggregate amount of CHF 1,878,196 through the issuance of not more than 1,878,196 common registered shares, which would have to be fully paid-in, with a nominal value of CHF 1.00 each, to cover the exercise of option rights which have been granted or may be granted to employees in the future in accordance with the employee stock option plan. 1,521,110 employee-options were outstanding as of December 31, 2019 (including 1,700 options that will forfeit after that date due to termination of employment).

In accordance with article 3a paragraph 2 of the articles of association, the share capital may be increased by a maximum aggregate amount of CHF 640,000 through the issuance of not more than 640,000 common registered shares, which would have to be fully paid-in, with a nominal value of CHF 1.00 each, to cover the exercise of conversion rights granted in connection with the convertible bond issued in December 2015 by the Company.

Any shares issued under authorized or conditional capital are subject to the transfer restrictions set forth under "limitations on transferability of shares and nominee registrations" on page 36.

## Changes in capital

In 2019, Basilea increased its share capital by CHF 3,389 (3,389 registered shares with a par value of CHF 1.00 per share), which equates to 0.03% of the issued share capital as of December 31, 2019, as a result of the exercise of stock options granted under Basilea's employee stock option plan.

In 2018, Basilea increased its share capital by CHF 6,900 (6,900 registered shares with a par value of CHF 1.00 per share), which equates to 0.06% of the issued share capital as of December 31, 2018, as a result of the exercise of stock options granted under Basilea's employee stock option plan.

In 2017, Basilea increased its share capital by CHF 59,683 (59,683 registered shares with a par value of CHF 1.00 per share), which equates to 0.50% of the issued share capital as of December 31, 2017, as a result of the exercise of stock options granted under Basilea's employee stock option plan.

For further information on changes in capital in 2019, 2018 and 2017, including changes in reserves and retained earnings, please refer to the consolidated statement of changes in shareholders' equity, as well as note 15 (shareholders' equity, page 125) to the consolidated financial statements and note 3 (share capital, page 137) to the financial statements of Basilea. Please also refer to the consolidated statement of changes in shareholders' equity included in the annual reports 2018 and 2017 for information on changes in equity in the respective years (available online at www.basilea.com/reports-archive).

## Shares, participation and profit sharing certificates

Basilea has only one class of shares (registered shares) with a par value of CHF 1.00 per share. Each share is fully paid-in and carries one vote and equal dividend rights, with no special privileges. Basilea has not issued any participation or profit sharing certificates.

## Limitations on transferability of shares and nominee registrations

Basilea's shares are uncertificated securities ("*Wertrechte*", within the meaning of art. 973c of the CO) and, when administered by a financial intermediary ("*Verwahrungsstelle*", within the meaning of the Federal Act on Intermediated Securities (FISA)), qualify as intermediated securities ("*Bucheffekten*", within the meaning of the FISA). In accordance with art. 973c of the CO, Basilea maintains a non-public register of uncertificated securities ("*Wertrechtebuch*"). Basilea may at any time convert uncertificated securities into share certificates (including global certificates), one kind of certificate into another, or share certificates (including global certificates) into uncertificated securities. Following entry in the share register, a shareholder may at any time request a written confirmation in respect of the shares. Basilea may print and deliver certificates for shares at any time. Shareholders are not entitled, however, to request the printing and delivery of certificates.

Shares in uncertificated form ("*Wertrechte*") may only be transferred by way of assignment. Shares that constitute intermediated securities ("*Bucheffekten*") may only be transferred when a credit of the relevant intermediated securities to the acquirer's securities account is made in accordance with the relevant provisions of the FISA.

According to Article 5 of the articles of association (available on the Basilea website at www.basilea.com/articles-of-association), voting rights may be exercised only after a shareholder has been entered in the share register (“*Aktienbuch*”) with his or her name and address (in the case of legal entities, the registered office) as a shareholder with voting rights. Basilea enters an acquirer of shares as shareholder with voting rights if the acquirer discloses its name, citizenship or registered office, respectively, and address and explicitly states that the acquirer acquired the shares in its own name and for its own account.

Failing registration by the deadline set by the Board of Directors, a shareholder or usufructuary (“Nutzniesser”) may not vote at or participate in a general meeting of shareholders, but is still entitled to receive dividends and other rights of financial value. No exemptions were granted from the above restrictions in 2019.

A nominee, meaning a person or legal entity not explicitly stating in its registration request that it will hold the shares for its own account may be entered as a shareholder in the share register with voting rights for shares up to a maximum of 3% of the issued nominal share capital, provided such nominee enters into a nominee agreement with Basilea. Shares held by a nominee that exceed this limit are only registered in the share register with voting rights if such nominee declares in writing to disclose the name, address, and shareholding of any person or legal entity for whose account the nominee is holding 0.5% or more of the issued nominal share capital. The limit of 3% applies correspondingly to nominees who are related to one another through capital ownership or voting rights or have a common management or are otherwise interrelated.

Basilea’s articles of association do not further limit the transferability of shares. A qualified majority of at least two-thirds of the share votes represented as well as the majority of the par values of shares represented at a general meeting of shareholders are required for resolutions on transfer restrictions of Basilea’s shares. For further information on the registration in the share register, please refer to the section “registration in the share register” on page 54.

## Convertible bond and options

In December 2015, Basilea placed a senior unsecured convertible bond due December 23, 2022. The aggregate principal amount of the bond is CHF 200 million and is divided into securities with denominations of CHF 5,000 each. The bond carries a coupon of 2.75% per annum, payable semi-annually in arrears on December 23 and June 23 and was payable for the first time on June 23, 2016. The bond is listed on the SIX Swiss Exchange (security number: 30.539.814; ISIN: CH0305398148).

Existing eligible shareholders were granted advance subscription rights to subscribe for the newly issued securities in proportion to their then current shareholding. Unless previously redeemed, converted or repurchased and cancelled, the bond will be convertible into shares of Basilea at the option of the bondholders from February 2, 2016 up to and including the earlier of (i) seven trading days before December 23, 2022 or (ii) ten trading days prior to an early redemption. The bond has a conversion price of CHF 126.1020. The shares delivered upon conversion will be sourced from conditional capital and the existing treasury shares of Basilea.

Upon execution of the conversion right, the relevant bondholder will receive 39.6504 Basilea shares per security, subject to adjustment pursuant to anti-dilution provisions. The bond is thus convertible into a total number of 1,586,017 shares. Basilea may redeem all outstanding convertible bond securities at their

principal amount of CHF 5,000, together with unpaid accrued interest, if any (i) at any time on or after January 7, 2021, if the volume weighted average price of a Basilea share on each of at least twenty out of thirty consecutive trading days ending not earlier than five trading days prior to the giving of notice of redemption is at least 130% of the prevailing conversion price; or (ii) at any time provided that less than 15% of the aggregate principal amount of the bond originally issued is outstanding. As of December 31, 2019, the principal nominal amount of CHF 200 million was outstanding.

For information on the employee stock option plan and on the number of options granted thereunder, please refer to Basilea's Compensation Report (page 78), and note 14 (stock-based compensation, page 123) to the consolidated financial statements included in this annual report.

# Board of Directors

Board of Directors as of December 31, 2019 (from left to right):
Ronald Scott, Thomas Werner, Martin Nicklasson, Nicole Onetto, Steven D. Skolsky, Domenico Scala

## Members, functions and other activities

The following table sets forth the names and terms of the current Board members as of December 31, 2019. A description of each member's nationality, business experience, education and activities is provided further below.

| Name | Year of first election | End of current term |
|---|---|---|
| Domenico Scala, Chairman | 2011 | 2020 |
| Thomas Werner, Vice-Chairman | 2011 | 2020 |
| Martin Nicklasson | 2013 | 2020 |
| Nicole Onetto | 2017 | 2020 |
| Ronald Scott | 2018 | 2020 |
| Steven D. Skolsky | 2008 | 2020 |

**Domenico Scala,** Chairman of the Board | Nationality: Swiss and Italian | Year of Birth: 1965.
Domenico Scala has been a member of the Board since 2011 and has been serving as the Chairman of the Board since 2016. He is also Chairman of the Audit Committee.
Mr. Scala served as chairman of the audit and compliance committee of FIFA (Fédération Internationale de Football Association) from 2012 to 2016. From 2007 to 2011, Mr. Scala was president and CEO of Nobel Biocare Holding AG and from 2003 to 2007, he was CFO of Syngenta International AG. Prior to that, he held various senior leadership positions at Roche Holding AG and was finance director with Panalpina Italy Spa and senior auditor with Nestlé SA.
Mr. Scala is chairman of the board of Oettinger Davidoff AG and a member of the board of Implantica MediSwiss AG. He is a member of the bank council of the Basler Kantonalbank, president of BaselArea, and chairman of the board of BAK Basel Economics AG.
Mr. Scala graduated with a master in economics from the University of Basel and holds executive development degrees from INSEAD and London Business School.

**Thomas Werner, Ph.D.,** Vice-Chairman of the Board | Nationality: German | Year of Birth: 1956
Thomas Werner, Ph.D., has been a member of the Board since 2011 and has been serving as the Vice-Chairman of the Board since 2018. He is also Chairman of the Corporate Governance Committee and a member of the Compensation Committee.
Mr. Werner served as senior vice president & managing director of Glaxo SmithKline Germany from 2001 to 2008. From 1997 to 2000, he was managing director for Glaxo Wellcome Germany and director of the Central European Region. He also led Bristol-Myers Squibb Germany and Convatec Germany/Central Europe.
Mr. Werner is senior independent non-executive director of Vectura Group plc. He also serves as the chairman of the investment advisory committee of the Health for Life Capital Fund of Seventure Partners. From January 2017 to September 2019 he was chairman of the board of Fertin Pharma A/S.
Mr. Werner graduated with a doctorate in chemistry from the University of Göttingen, Germany.

**Martin Nicklasson, Ph.D.,** Member of the Board | Nationality: Swedish | Year of Birth: 1955
Martin Nicklasson, Ph.D., has been a member of the Board since 2013. He is also Chairman of the Compensation Committee and a member of the Audit Committee.
Mr. Nicklasson served as president and CEO of Biovitrum AB and Swedish Orphan Biovitrum AB from 2007 to 2010. From 1999 to 2007 he held various executive vice president positions and was a member of the executive committee of AstraZeneca Plc.
Mr. Nicklasson is chairman of the board of Kymab Group Ltd., of Orexo AB and of Zealand Pharma A/S. He also serves as consultant at Excore Consulting KB.
Mr. Nicklasson is a certified pharmacist and holds a doctorate in pharmaceutical technology from the University of Uppsala. He is an honorary associate professor at the Pharmaceutical Faculty of the University of Uppsala.

**Nicole Onetto, M.D.,** Member of the Board | Nationality: Canadian and French | Year of Birth: 1953
Nicole Onetto, M.D., has been a member of the Board since 2017. She is also a member of the Corporate Governance Committee.
Ms. Onetto is an independent consultant in oncology, drug development and translational research. She was deputy director & chief scientific officer at the Ontario Institute for Cancer Research from 2009 to 2016. From 2005 to 2009 she was senior vice president and chief medical officer at ZymoGenetics Inc. From 2002 to 2005, she served at OSI Pharmaceuticals, Inc., first as executive vice president Oncology, and then as chief medical officer and executive vice president. Her career in the pharmaceutical industry also includes senior management positions at Bristol-Myers Squibb and Nexstar Pharmaceuticals, which was acquired by Gilead Sciences, Inc.
Ms. Onetto is a member of the board of NBE Therapeutics AG and a member of the board of Sunesis Pharmaceuticals, Inc. She served as a board member of Sierra Oncology, Inc. from 2015 to November 2019 and as a board member of ImmunoGen Inc from 2005 to 2016.
Ms. Onetto holds a doctor of medicine from the University of Paris and a master of pharmacology from the University of Montréal.

**Ronald Scott,** Member of the Board | Nationality: Swiss | Year of Birth: 1955
Ronald Scott has been a member of the Board since 2018. He is also a member of the Corporate Governance Committee.
Mr. Scott served as Basilea's CEO from 2013 to 2018. Before that he held other key leadership positions at Basilea, including COO and from the Company's founding in 2000 through January 2012 as CFO. From 2004 to 2011, Mr. Scott served on the Board and was also a co-founding Board member of the Company in 2000. Prior to joining Basilea, Mr. Scott worked at Roche Holding AG in management positions in finance, licensing and in the mergers & acquisitions group. Prior to joining Roche, Mr. Scott worked for Prudential Investment Corporation in the United States as director in Prudential's finance and international business development units, managing divestitures and joint venture transactions.
Mr. Scott is a member of the supervisory board of Medigene AG. From July 2018 to November 2019 he served as board member of KIDPharma AG.
Mr. Scott holds a bachelor's degree from Utah State University and a master's degree from Harvard University.

**Steven D. Skolsky,** Member of the Board | Nationality: American | Year of Birth: 1956
Steven D. Skolsky has been a member of the Board since 2008. He is also a member of the Compensation Committee and of the Audit Committee.
Mr. Skolsky is principal at Expis Partners, a life science consultancy. He served as a senior executive at Quintiles Transnational Holdings from 2011 to 2016, most recently as senior vice president & managing director and formerly, head of global clinical operations. From 2007 to 2011, Mr. Skolsky served as the president & CEO of Sequoia Pharmaceuticals Inc. and from 2004 to 2006 as CEO of Trimeris Inc. Mr. Skolsky joined Trimeris from GlaxoSmithKline, where he had served for more than 20 years in a range of senior leadership roles, including senior vice president, head of global clinical development and commercial strategy, and managing director of GlaxoSmithKline's operations in Australia and New Zealand.
Mr. Skolsky serves on the board of Clinipace Clinical Research and also on the foundation board of the Kenan-Flagler School of Business and the board of visitors at the University of North Carolina at Chapel Hill.
Mr. Skolsky holds a B.A. in biology from the University of North Carolina at Chapel Hill.

The Board is fully composed of independent members (in accordance with section 14 of the Swiss Code of Best Practice for Corporate Governance), with the exception of Ronald Scott, who served as Basilea's CEO until April 2018. The Board is fully composed of non-executive members.

There are no significant business connections between the Board members and Basilea or any of its subsidiaries. For further information, please refer to note 20 (related party transactions, page 130) to the consolidated financial statements.

Apart from the activities indicated above, the Board members have no other activities in governing and supervisory bodies of important Swiss or foreign organizations, institutions or foundations under private or public law, permanent management or consultancy functions for important Swiss or foreign interest groups or official functions and political posts.

According to Article 26 of Basilea's articles of association no Board member may hold more than twelve additional mandates, whereof not more than four mandates in listed companies. All Board members fulfill these requirements. The full text of Article 26 of Basilea's articles of association is available online at www.basilea.com/articles-of-association.

## Elections and terms of office

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

The current Board members were elected at the general meeting of shareholders held on April 10, 2019. For an overview of the years of first election and of expiry of the current terms of each member of the Board, please refer to the table on page 39.

According to Section 4.1.3 of Basilea's organizational regulations (available online at www.basilea.com/organizational-regulations), each Board member shall resign effective as per the ordinary general meeting of shareholders immediately following completion of his or her 70$^{th}$ year of age.

# Areas of responsibility

### Responsibilities of the Board

The Board is entrusted with the ultimate direction of Basilea and the supervision of management. It has the following non-delegable and inalienable powers and duties:

- the determination of the strategy of the Company and issuing of relevant directives; establishing the organization of the Company; formulating accounting procedures, financial controls and financial planning;
- nominating and removing persons entrusted with the management and representation of the Company and regulating the power to sign for the Company;
- the ultimate supervision of those persons entrusted with management of the Company, specifically the CEO and Management Committee, with particular regard to adherence to law, the articles of association, and regulations and directives of the Company;
- issuing the annual report and the compensation report, and preparing the general meeting of shareholders and carrying out its resolutions; and
- informing the court in case of over-indebtedness.

The Board may, while retaining such non-delegable and inalienable powers and duties, delegate some of its powers, in particular direct management, to a single or to several of its members, managing directors, committees or to third parties who need be neither Board members nor shareholders. Pursuant to Swiss law and Article 16 of the articles of association, details of the delegation and other procedural rules such as quorum requirements must be set in the organizational regulations issued by the Board.

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

# Internal organization

According to Section 4.2 of Basilea's organizational regulations (available online at www.basilea.com/organizational-regulations), resolutions of the Board are passed by way of simple majority. To validly pass a resolution, a quorum of more than half of the members of the Board must attend the meeting. No quorum is required for confirmation resolutions ("*Feststellungsbeschlüsse*") and adaptations of the articles of association in connection with capital increases pursuant to articles 651a, 652g and 653g of the Swiss Code of Obligations.

### Working methods of the Board and its Committees

According to Section 4.2 of the organizational regulations (available online at www.basilea.com/organizational-regulations), the Board must hold at least four meetings per year. When required, the Board holds ad hoc meetings or telephone conferences to discuss specific issues or passes resolutions by way of written circular resolutions.

In 2019, the Board of Directors held nine meetings. Six of these meetings were held at the offices of Basilea or at the location of the ordinary general meeting of shareholders, each with a typical duration of one day. Three meetings with an average duration of an hour were held by telephone conference.

The Management Committee members report to the Board at each board meeting on the status of operations including the progress of research and clinical development, commercialization activities, including by its partners, the status of drug supply, licensing, financial activities, and human resources. In addition, an update on investor relations activities and the development of the Company's share price is provided. Furthermore, members of the Board regularly meet with project teams to review and discuss progress in research and development activities.

The board committees report to the full Board at the board meeting following the relevant committee meeting. Any resolutions on matters assigned to the committees are taken by the Board on the basis of recommendations of the relevant committee.

The Board of Directors performs an annual self-evaluation and discusses the findings in order to continuously improve its governance performance and practices.

### Chairman of the Board

The Chairman of the Board is elected by the general meeting of shareholders. He calls, prepares, and chairs the meetings of the Board. The Chairman also chairs the general meetings of shareholders. He supervises the implementation of the resolutions of the Board and regularly supervises the CEO and the Management Committee. The CEO regularly reports to the Chairman on the meetings of the Management Committee and on all important matters of the Company. The Chairman is also entitled to attend the meetings of the Management Committee. For urgent matters that do not allow for the Board to take resolutions in time, the Chairman is entitled to take decisions that fall within the competencies of the Board. At the ordinary general meeting of shareholders on April 10, 2019, Domenico Scala was re-elected as Chairman of the Board.

### Vice-Chairman of the Board

The Vice-Chairman of the Board is designated by the Board and exercises the powers of the Chairman in the Chairman's absence. In the meeting of the Board subsequent to the ordinary general meeting of shareholders on April 10, 2019, Thomas Werner was re-elected as Vice-Chairman.

### Board Committees

The Board can set up specialized committees to analyze specific issues and advise the Board on those issues. The committees are advisory bodies only and decision-making remains with the Board. The Board determines each committee's organization, procedures, policies and activities. The Board has established an Audit Committee and a Compensation Committee in 2003. In addition, the Board established a Corporate Governance Committee in 2012. The members of the Compensation Committee are elected by the shareholders at each annual general meeting. In the meeting of the Board subsequent to each ordinary general

meeting of shareholders, the Board appoints the members of the Audit and of the Corporate Governance Committee.

| Audit Committee | Compensation Committee | Corporate Governance Committee |
|---|---|---|
| Domenico Scala (Chairman) | Martin Nicklasson (Chairman) | Thomas Werner (Chairman) |
| Martin Nicklasson | Steven D. Skolsky | Nicole Onetto |
| Steven D. Skolsky | Thomas Werner | Ronald Scott |

### Audit Committee

In the meeting of the Board subsequent to the ordinary general meeting of shareholders on April 10, 2019, the following board members were re-appointed to the Audit Committee: Domenico Scala (Chairman), Martin Nicklasson, and Steven D. Skolsky. All Audit Committee members are independent and non-executive in accordance with section 23 of the Swiss Code of Best Practice for Corporate Governance.

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

The Audit Committee held three meetings in 2019, lasting three hours on average. The main topics at these meetings were review of the year-end financial statements and Annual Report 2018; review of the half-year financial statements 2019; review of the annual budget 2019 and 2020 as well as mid-term financial planning; financial and non-financial risk management; the scope of the external audit 2019 as well as the scope and results of the internal audit 2019. The external auditors were present at all three Audit Committee meetings in 2019 to report on the results of the full-year 2018 audit, the half-year 2019 review and on the preparation of the full-year 2019 audit. The recommendations of the Audit Committee were then provided to the full Board of Directors.

### Compensation Committee

At the ordinary general meeting of shareholders on April 10, 2019, the following board members were re-elected as members of the Compensation Committee: Martin Nicklasson (Chairman), Steven D. Skolsky, and Thomas Werner. All Compensation Committee members are independent and non-executive in accordance with the Swiss Code of Best Practice for Corporate Governance.

The Compensation Committee assists the Board in compensation-related matters, including providing recommendations on the compensation of the members of the Board and the Management Committee, the policies for the compensation of the Management Committee and Company employees and the basic principles for the establishment, amendment and implementation of the stock option plan.

The Compensation Committee held three meetings in 2019, lasting three hours on average, and an additional conference call with a duration of one hour. The main topics at these meetings were the planning of the 2019 Corporate goals; the

review of the Company's achievements against the 2018 goals and determination of the performance-related bonus pool; evaluation of the achievements of the CEO and the Management Committee and determination of their variable compensation; annual general salary increases; grant of options; review of the long-term-incentive plan; the general remuneration of the Board of Directors, the Management Committee, and employees; review of budgets for the maximum aggregate amount of compensation for the Board of Directors and the Management Committee for shareholder approval. The recommendations of the Compensation Committee were then provided to the full Board of Directors.

### Corporate Governance Committee

In the board meeting following the annual general meeting of shareholders on April 10, 2019, the following Board members were re-appointed to the Corporate Governance Committee: Thomas Werner (Chairman), Nicole Onetto, and Ronald Scott.

The Corporate Governance Committee is responsible for developing, updating and recommending to the Board corporate governance principles and policies applicable to the Company, and for monitoring compliance with such principles and policies.

The Corporate Governance Committee held two meetings in 2019, with an average duration of half an hour. The main topics at these meetings were the Company's governance principles, policies, and ongoing compliance activities.

### Attendance at Board and Committee meetings in 2019

| | Board | Audit Committee | Compensation Committee | Corporate Governance Committee |
|---|---|---|---|---|
| **Number of meetings/conference calls** | **9** | **3** | **4** | **2** |
| Domenico Scala | 9 | 3 | - | - |
| Thomas Werner | 9 | - | 4 | 2 |
| Martin Nicklasson | 9 | 3 | 4 | - |
| Nicole Onetto | 9 | - | - | 2 |
| Ronald Scott | 9 | - | - | 2 |
| Steven D. Skolsky | 9 | 3 | 4 | - |

During 2019 all Board members attended all of the Board meetings/conference calls and all Committee members attended all of the respective Committee meetings/conference calls.

## Delegation to the Management Committee

In accordance with the articles and the organizational regulation (available online at www.basilea.com/articles-of-association and www.basilea.com/organizational-regulations), the Board has delegated all areas of management of Basilea that are not reserved to the Board by law, the articles of association or the organizational regulations (see section "responsibilities of the Board" on page 43), to the CEO and the Management Committee reporting to the CEO. The main duty of the CEO with the assistance of the Management Committee is to manage the business operations, to implement the strategies and other decisions of the Board, to make proposals to the Board regarding matters within the decision making competency of the Board, and to set the operative focus and priorities as well as to procure the necessary resources.

## Information and control instruments of the Board

The Board is responsible for the oversight of the Company's risk management activities and has delegated the responsibility of assisting the Board in this task to the Audit Committee. While the Board oversees risk management, the Management Committee is responsible for day-to-day risk management processes. The Board has directed the Management Committee to consider risk and risk management in each business decision, to proactively develop and monitor risk management strategies and processes for day-to-day activities and to effectively implement risk management strategies.

Board meetings are the Board's main platform to supervise and control the Company's management. At board meetings, the CEO and Management Committee members report on the financial, research and development, commercial, drug supply, business development, and human resources activities with a particular focus on the main risks of the Company related to its key value drivers, respective measures taken and related strategic proposals.

In addition, management provides interim updates to the Board as necessary on the status of operations and other issues that may be requested by the Chairman and the Board. The main components of these updates are the status of development and research programs, commercial activities, the status of drug supply, and partnering activities. Furthermore, management provides a monthly management report to the Chairman and a financial report to the Board including an unaudited consolidated balance sheet, a statement of operations and a statement of cash flows for the respective month. The financial report further includes comparisons of actual versus budgeted numbers.

Draft consolidated financial statements for the previous financial year and draft consolidated financial interim statements, as prepared by Basilea management, are provided to the Audit Committee for review and to the external auditors for performing their audit and review, respectively. Each year at the end of January or beginning of February (for the audited consolidated financial statements) and end of July or beginning of August (for the unaudited consolidated half-year statements) the Audit Committee makes its recommendation regarding the approval of the respective financial statements to the full Board.

At the end of each year, upon recommendation of the Audit Committee, the Board reviews and approves the annual budget of the Company for the following year. The Audit Committee reviews any budget changes as may occur from time to time related to strategic changes or opportunities. In the event the Audit Committee recommends any changes to the budget, the Board considers and may determine to approve such budget changes consistent with the strategy of the Company.

In addition, the Board is provided with a written report by the auditors on any of their findings with respect to internal controls.

## Board Compensation

For the content and method of determining the Board compensation please see the Compensation Report on pages 60 to 72.

# Management Committee/ Extended Management Committee

## Members, functions and other activities

The Management Committee, appointed by the Board, is responsible for the operational management of the Company pursuant to the organizational regulations (available online at www.basilea.com/organizational-regulations). The Chief Executive Officer is the head of the Management Committee and the members of the Management Committee and of the Extended Management Committee report to him. The Board and in particular the Chairman of the Board is responsible for regular supervision of the CEO and the Management Committee. Under the direction of the CEO, the Management Committee focuses on the corporate goals, budget, portfolio review and risk management, and as needed on organizational structure, corporate policies and corporate strategies. In addition, regular operational management meetings for the different functions are held. These operational management meetings, chaired by the responsible Management Committee member, focus on significant operational issues concerning execution of goals, budget, resources, new business proposals, and priorities. The participants of these management operational meetings are key managers, the CEO, and Management Committee members as required.

The following table sets forth the name, date of appointment and position of the members of the Management Committee as of December 31, 2019. A description of each member's nationality, business experience, education, and activities is outlined further below.

| Name | Appointed | Position |
|---|---|---|
| David Veitch | 2018 | Chief Executive Officer |
| Marc Engelhardt | 2018 | Chief Medical Officer |
| Gerrit Hauck | 2018 | Chief Technology Officer |
| Adesh Kaul | 2019 | Chief Financial Officer |
| Laurenz Kellenberger | 2009 | Chief Scientific Officer |

During the reporting period Donato Spota resigned from his function as CFO with effective date April 10, 2019. Adesh Kaul, previously Basilea's Chief Corporate Development Officer, was appointed as CFO with effective date April 10, 2019.

**David Veitch,** Chief Executive Officer | Nationality: British | Year of Birth: 1965
David Veitch has been Chief Executive Officer of Basilea since 2018.
Mr. Veitch joined Basilea in 2014 as Chief Commercial Officer. Before that, from 2012 to 2013, he served as the president of European operations at Savient Pharmaceuticals. From 2007 to 2011, he served as senior vice president of European marketing & brand commercialization at Bristol-Myers Squibb Pharmaceuticals. From 2004 to 2007, he was vice president & general manager UK at Bristol-Myers Squibb Pharmaceuticals. Prior to this Mr. Veitch held various general management and commercial roles in Bristol-Myers Squibb Pharmaceuticals and prior to that commercial roles with SmithKline Beecham Pharmaceuticals.
Mr. Veitch holds a B.Sc. in Biology from the University of Bristol.

**Marc Engelhardt, M.D.,** Chief Medical Officer | Nationality: Swiss, German, and American | Year of Birth: 1964
Marc Engelhardt, M.D., has been Chief Medical Officer of Basilea since 2018. He is a member of the Management Committee of Basilea.
Mr. Engelhardt previously held the position of Head of Development, leading Basilea's clinical research and development group. He joined Basilea in 2010 as Head of Clinical Research. Before that, he served as global program medical director at Novartis Pharma AG and held various positions with increasing responsibility at Bracco-Altana, Germany and Bracco Diagnostics, USA.
Mr. Engelhardt holds a medical degree and a Ph.D. from the University Frankfurt/Main and is board certified in internal medicine.

**Gerrit Hauck, Ph.D.,** Chief Technology Officer | Nationality: German | Year of Birth: 1964
Gerrit Hauck, Ph.D., has been Chief Technology Officer of Basilea since 2018. He is a member of the Management Committee of Basilea.
Mr. Hauck joined Basilea from Sanofi, where he held various technical operations and management functions during his 24-year career at Sanofi and its predecessor companies, including formulation development, plant management and global CMC leadership. Most recently, he was cluster head synthetic molecules, overseeing most of Sanofi's technical development programs for synthetic molecules from pre-clinical candidates to launch. Since January 2012 he was a member of Sanofi's research stage gate committee, which was responsible for the transition of candidate molecules from research into development.
Mr. Hauck graduated as a pharmacist from the University of Heidelberg and holds a Ph.D. from Saarland University.

**Adesh Kaul,** Chief Financial Officer | Nationality: Swiss | Year of Birth: 1974
Adesh Kaul has been Chief Financial Officer of Basilea since April 2019. He is a member of the Management Committee of Basilea.
Mr. Kaul previously held the position of Chief Corporate Development Officer of Basilea since 2018 and before that Head of Corporate Development. He joined Basilea in 2009 as Head Business Development & Licensing, Investor Relations and as Head Public Relations & Corporate Communications. From 2015 to 2016, he held the positions of CFO and head corporate development at Polyphor AG. From 2006 to 2009 Mr. Kaul was senior financial analyst at Neue Zürcher Bank and before that he held several senior executive positions in general management and in sales & marketing at Genedata AG.
Mr. Kaul holds master's degrees in economics and in biochemistry from the University of Basel, and an Executive MBA from the University of St. Gallen.

**Laurenz Kellenberger, Ph.D.,** Chief Scientific Officer | Nationality: Swiss | Year of Birth: 1967
Laurenz Kellenberger, Ph.D., has been Chief Scientific Officer of Basilea since 2009. He is a member of the Management Committee of Basilea.
Mr. Kellenberger joined Basilea in 2000 and held several leadership positions in research with responsibilities for key projects from lead finding and optimization through to preclinical development, including as Head of Chemistry. He started his career as a researcher at the University of Cambridge and at F. Hoffmann-La Roche, where he held different positions in preclinical research and chemical technologies.
Mr. Kellenberger holds a Ph.D. in Organic Chemistry from the Swiss Federal Institute of Technology Zurich (ETH Zürich) and is author of numerous scientific publications.

In addition to the above-mentioned Management Committee members, the Extended Management Committee (EMC, not part of the Management Committee as per the SIX Swiss Exchange Directive on Information relating to Corporate Governance) is appointed by and reports to the CEO. As of December 31, 2019, the EMC comprises Ursula Eberhardt, Head of Global Human Resources, Damian Heller, General Counsel & Corporate Secretary, and Anne Stehlin, Head of Global Quality Management.

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

**Ursula Eberhardt,** Head of Global Human Resources | Nationality: Swiss | Year of Birth: 1962
Ursula Eberhardt has been Head of Global Human Resources of Basilea since 2017. She is a member of the Extended Management Committee of Basilea.
Mrs. Eberhardt joined Basilea in 2006 and held various leadership positions in Human Resources, including Deputy Head of Global Human Resources. Prior to joining Basilea, she worked in various marketing, communications and administration positions at Barclays Bank Ltd, Zurich and Dubach Advertising Agency.
Ms. Eberhardt holds a Swiss Federal Diploma in Marketing Communication and a Swiss Advanced Federal Diploma of Higher Education in Human Resources Management.

**Damian Heller,** General Counsel & Corporate Secretary | Nationality: Swiss | Year of Birth: 1966
Damian Heller has been General Counsel & Corporate Secretary of Basilea since 2017. He is a member of the Extended Management Committee of Basilea.
He joined Basilea in 2015 as Deputy General Counsel and Global Compliance Officer. Prior to joining Basilea, he worked for 20 years in the field of Legal, Compliance and Corporate Governance and held several leadership positions, including Director of the Basel Institute on Governance, Global Compliance Officer of Novartis Pharma AG and Corporate Secretary of Syngenta AG.
Mr. Heller holds a master's degree in Law from the University of Basel and a master's degree in Business Administration from the University of Rochester, New York.

**Anne Stehlin, Pharm.D.,** Head of Global Quality Management | Nationality: French | Year of Birth: 1976
Anne Stehlin, Ph.D., has been Head of Global Quality Management of Basilea since 2018. She is a member of the Extended Management Committee of Basilea.
Ms. Stehlin joined Basilea in 2018 as Deputy Head of Global Quality Management. Prior to joining Basilea, during her 15-year career at Novartis she held several operational and quality positions with increasing responsibilities within Novartis Technical Operations, most recently as global head product quality lifecycle management at Novartis Pharma AG. From 2000 to 2003 she held the position of head of quality control and quality assurance at Almedica HPS AG.
Ms. Stehlin is a certified pharmacist and holds a Pharm.D. in Pharmaceutical Sciences from the University of Strasbourg.

Apart from the information given above, there are no other activities of the Management Committee or Extended Management Committee members in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, permanent management and consultancy functions for important Swiss and foreign interest groups as well as official functions and political posts.

According to Basilea's articles of association no Management Committee member may hold more than five additional mandates, whereof not more than one mandate in listed companies. For further details please refer to Article 26 of Basilea's articles of association available online at www.basilea.com/articles-of-association. All Management Committee members fullfil the requirements stipulated in Article 26 of the articles of association.

## Management contracts

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

# Compensation, shareholdings and loans

For content and method of determining Board and Management compensation and Basilea's long-term incentive plan please see the Compensation Report on pages 60 to 79.

# Shareholder participation

## Voting rights and representation restrictions

Each share entitles a holder to one vote, regardless of the share's nominal value. The shares are not divisible. The right to vote and the other rights of share ownership may only be exercised by shareholders (including any nominees) or usufructuaries ("*Nutzniesser*") who are entered in the share register ("*Aktienbuch*") at the cut-off date determined by the Board of Directors. No exceptions from these restrictions were granted in 2019.

Those entitled to vote in the general meeting of shareholders may be represented by the independent proxy (annually elected by the general meeting of shareholders) or any other person with written authorization to act as the shareholder's representative.

Subject to the registration of shares in the share register within the deadline set by the Board before each annual general meeting of shareholders, Basilea's articles of association do not impose any restrictions on the voting rights of shareholders. Specifically, there is no limitation on the number of voting rights per shareholder.

For further information on the conditions for registration in the share register (including in relation to nominees) and for attending and voting at a general meeting of shareholders, please refer to the sections "limitations on transferability of shares and nominee registrations" on page 36 and "registration in the share register" on page 54.

A shareholder resolution with a qualified majority of at least two-thirds of the votes represented as well as the absolute majority of the nominal value of the shares represented at a general meeting of shareholders is required for the creation of shares with privileged voting rights.

## Statutory quorums

Shareholder resolutions and elections (including the election of members of the Board) require the affirmative vote of the absolute majority ("*absolutes Mehr*") of shares represented at the general meeting of shareholders, unless otherwise stipulated by law or the articles of association.

A resolution of the general meeting of the shareholders passed by two-thirds of the shares represented at the meeting, and the absolute majority of the nominal value of the shares represented is required for:

- amending the Company's corporate purpose;
- creating or cancelling shares with preference rights or amending rights attached to such shares;
- cancelling or amending the transfer restrictions of shares;
- creating authorized or conditional share capital ("*genehmigte oder bedingte Kapitalerhöhung*");
- increasing the share capital out of equity, against contributions in kind ("*Kapitalerhöhung aus Eigenkapital gegen Sacheinlage*") or for the purpose of acquiring specific assets ("*zwecks Sachübernahme*") and granting specific benefits;
- limiting or withdrawing shareholders' pre-emptive rights;
- changing the domicile of the Company;
- dissolving or liquidating the Company; or
- the amendment of the articles of association with respect to the limitation of the acquisition of own shares with voting right, the transformation of registered shares into bearer shares, and the amendment of the provision that provides for the increased voting requirements for these two matters.

The same or, in certain instances, even more restrictive voting requirements apply to resolutions regarding transactions among corporations based on Switzerland's Federal Act on Mergers Demergers, Transformations and the Transfer of Assets (Merger Act) (including a merger, demerger or conversion of a corporation).

The general meeting of shareholders may at any time convert registered shares into bearer shares into registered shares through an amendment of the articles of association.

## Convening of shareholders meetings and agenda items

The general meeting of shareholders is the supreme corporate body of Basilea. The ordinary general meeting of shareholders must be held annually and within six months of the end of a corporation's financial year. In case of Basilea, this means the ordinary general meeting must be held annually on or before June 30.

The general meeting of shareholders is convened by the Board of Directors by way of a notice appearing in Basilea's official publication medium, currently the Swiss Official Gazette of Commerce ("*Schweizerisches Handelsamtsblatt*") at least 20 days before the date of the meeting. Registered shareholders may also be informed by ordinary mail. The notice of the general meeting of shareholders must state the date, time, and place of the general meeting as well as the agenda items, the proposals to be acted upon and, in case of elections, the names of the nominated candidates.

An extraordinary general meeting of shareholders may be called by a resolution of the Board or, under certain circumstances, by the Company's auditor, liquidator or the representatives of convertible bond holders, if any. In addition, the Board is required to convene an extraordinary general meeting of shareholders if shareholders representing at least ten percent of the share capital request such general meeting of shareholders in writing. Such request must set forth the agenda items and the proposals to be acted upon. The Board must convene an extraordinary general meeting of shareholders and propose financial restructuring

measures if, based on the Company's stand-alone annual statutory balance sheet, half of the share capital and reserves are not covered by the assets. Extraordinary general meeting of shareholders can be called as often as necessary, in particular, in all cases required by law.

Pursuant to Swiss law and Article 7 of the articles of association (available online at www.basilea.com/articles-of-association), one or more shareholders whose combined shareholdings represent the lower of (i) one tenth of the share capital or (ii) an aggregate nominal value of at least CHF 100,000, may request that an item be included in the agenda for an ordinary general meeting of shareholders. To be timely, the shareholder's request must be received at least 45 calendar days in advance of the meeting. The request must be made in writing and contain the agenda items as well as the proposals of the shareholders for the respective agenda items.

## Registration in the share register

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

In 2019, the deadline for registration in the share register in order to participate and to vote at the ordinary general meeting of shareholders of April 10, 2019 was April 2, 2019. The registration deadline for the ordinary general meeting of shareholders to be held on April 8, 2020 has been set as March 31, 2020. Basilea has not enacted any rules on the granting of exceptions to these deadlines.

For further information on the registration in the share register, please refer to the section "limitations on transferability of shares and nominee registrations" on page 36.

# Changes of control and defense measures

## Duty to make an offer

The shares are listed on the SIX Swiss Exchange. Therefore, the Financial Market Infrastructure Act (FMIA) applies to the shares. The FMIA provides that any person that acquires the shares, directly or indirectly, and thereby exceed the threshold of 33 1/3% of the voting rights (whether exercisable or not) attributable to all of the shares, must submit a takeover bid to acquire all of the shares. This rule also applies to persons acting in concert to acquire the shares, and their holding is aggregated to measure whether they reached the mandatory bid threshold. Basilea's articles of association do not provide for an exemption (opting out or opting up) from such mandatory bid rules.

## Clauses on changes of control

Basilea's stock option plan contains provisions in respect of changes to Basilea's shareholder base (so called "material changes"). The material change definition in the stock option plan includes a change of control over the Company; a sale of all or substantially all assets of the Company; a merger or similar agreement which results in the Company being dissolved or in the Company's shareholders prior to such agreement not continuing to be the controlling shareholders of the

Company; a delisting from SIX Swiss Exchange or any dissolution and liquidation of the Company. The change of control definition includes the launch of any offer for the shares of the Company, which exceeds the mandatory offer threshold of 33 1/3% of all shares of the Company, if such offer becomes, subject only to conditions subsequent, unconditional.

In case of a material change, the provisions of the stock option plan cannot be changed to the detriment of the option holders, and all unvested stock options held by all option holders, including but not limited to stock options held by Board and Management Committee members, vest and all vested options are exercisable.

In such a case, Basilea will use its commercially reasonable best efforts to provide for a cashless exercise and provide for the difference in the share price realized in such cashless exercise and the price offered for the underlying shares. Alternatively, Basilea will use its commercially reasonable best efforts to procure that the offeror will offer to purchase the options. The stock option plan provides, however, that any increase in fair value of the stock options and stock appreciation rights due to accelerated vesting will not accrue to any members of the Management Committee or the Board of Directors.

In addition, in such a case, with regard to all employment agreements of indefinite nature (except for those of members of the Management Committee), the period for terminations for any cause by the Company, will automatically and immediately be extended to 12 months. In the event of any material change of the particulars of the contract regarding the position and location, Management Committee members have the right to terminate employment with notice as provided in their contracts and other employees have the right to terminate employment with immediate effect resulting in a payment of the amount of an annual salary by the Company.

In this regard, material change means a planned downgrading of more than one level in terms of position. In terms of work place, any location outside the greater Basel area is considered material.

No other change of control provision exists for the benefit of members of the Board of Directors or of the Management Committee.

# Auditors

## Duration of the mandate and term of office of the lead auditor

At the annual general meeting held on April 10, 2019, PricewaterhouseCoopers was re-elected as the statutory and group auditor of Basilea. PricewaterhouseCoopers has held the function of statutory auditor since inception of Basilea on October 17, 2000, and acts as group auditor since 2002. Since September 1, 2015, the lead auditor of Basilea is Mr. Bruno Rossi. The Audit Committee ensures that the position of the lead auditor is changed at least every seven years.

## Auditing fees

In 2019, PricewaterhouseCoopers charged the Company auditing fees in the amount of CHF 180,483 (2018: CHF 200,204).

## Additional fees

In 2019, PricewaterhouseCoopers rendered consulting services related to a reporting and publishing application to the Company in the amount of CHF 44,280 (2018: CHF 34,200).

## Information instruments of the auditors

The Board of Directors has delegated the task of supervising the auditors to the Audit Committee. The Audit Committee meets with the external auditors at least twice a year related to the half-year review and the full-year audit. In 2019, the Audit Committee met with the auditors three times to discuss the scope and results of their year-end audit for 2018, the scope of the 2019 audit as well as the scope and results of their review of the half-year financial statements.

# Information policy

Basilea publishes financial results twice a year in the form of an annual report and a half-year interim report. In addition, Basilea informs shareholders and the public about the Company's business through press releases, conference calls and roadshows. Where required by law or Basilea's articles of association, publications are also made in the Swiss Official Gazette of Commerce.

The annual report is customarily published within three months of the end of the financial year, while the interim report is customarily published within two months of the end of the half-year reporting period. Key financial figures for each reporting period are disclosed in a press release for that period. The intended release dates for the annual and interim report will be posted in the investors calendar on Basilea's website (www.basilea.com/calendar) at the latest six months prior to the event.

The annual report may be sent in printed form to all registered shareholders. Annual reports, interim reports and press releases can be obtained free of charge in either German or English upon request and are also made available on the Company's website.

Basilea's website is the permanent source of information for investors and other stakeholders. It also provides information on the Company's products, research

and development programs, as well as contact information. In addition, it includes an investors calendar with information on events such as general meetings of shareholders, publication dates of half- and full-year financials, and information on investor conferences where Basilea is presenting. The investors calendar is continuously updated throughout the financial year.

The Company provides general guidance to support the investment community and the public in their assessment of the Company and its business prospects.

The Company's investor relations department is available to respond to queries from shareholders or potential investors by email to investor_relations@basilea.com or via post to Basilea Pharmaceutica International Ltd., Investor Relations, P.O. Box, 4005 Basel, Switzerland. Additionally, investor relations inquiries may also be made by phone to +41 61 606 1102.

A subscription service to Basilea's press releases is provided at www.basilea.com/subscription.

# Ethical business conduct

The Company is committed to the highest standards of ethical business conduct. As a biopharmaceutical company, the Company is operating in a highly regulated business environment. Strict compliance with all legal and health authority requirements, as well as requirements of other regulators, is mandatory. To fulfill these goals, the Board issued a Code of Conduct (available online at www.basilea.com/code-of-conduct). The Code of Conduct sets forth the Company's policy embodying the high standards of business ethics and integrity required of all employees, contractors and agents when conducting business affairs on behalf of the Company. The Company's internal Compliance Committee is comprised of representatives of the Company's assurance functions to oversee and coordinate compliance. The Company is committed to complying with the spirit and letter of all applicable laws and regulations where the Company engages in business.

# Corporate Social Responsibility

Basilea strives towards making a difference – to patients, to our stakeholders and to society in which we are embedded. The Board supports and encourages management to address social responsibility with specific and appropriate initiatives that are aligned with the Company's strategy.

## Basilea is actively engaged in developing new strategies to fight the growing threat of antibiotic resistance

Building on our success of bringing two anti-infective drugs to the market, we retain antibiotic discovery and development as a core part of our strategy. Today, with the spectre of multidrug resistance and the return to untreatable bacterial infections looming, Basilea's experience in antibacterial drug discovery, research and development has never been more contemporary and relevant to address a global concern.

Considering the global threat of antibiotic resistance and the urgent need for new treatment options, new antibiotics remain significantly undervalued compared to drugs from other therapeutic areas. As a direct consequence of this, investments in R&D as well as the required expertise of pharmaceutical companies in the anti-infectives sector has significantly diminished. Basilea, together with stakeholders from government agencies, policy makers, patient groups and industry, is actively involved in raising awareness and developing new approaches for the urgent need to address the threat of antibiotic resistance. This includes incentives to research organizations and pharmaceutical companies that can offset the costs of the research and clinical development phase or reward the commercialization of a new antibiotic.


Dr. Mark Jones, Basilea's Head of Project Management & Head of Preclinical Development (above): "Bacteria will not stop evolving resistance to antibiotics. Society is dependent on the development of new antibiotics that overcome resistance and together we need to develop the necessary framework to foster innovation."

Basilea is a board member of the BEAM Alliance (a European industry group striving for the introduction of incentives for antibiotic development) and is also an active member of the Swiss Round Table for Antibiotics (a government, academic and industry think tank dedicated to nurture antibiotic drug development in Switzerland). In addition, Basilea is participating in the Antimicrobial

Innovation Alliance (AIA), an industry group dedicated to improving the financial environment for developing antibiotics in the U.S., the commercially most important antibiotic market. As part of the AIA, Basilea has supported two U.S. bills (DISARM, REVAMP) which, if enacted, will provide significant financial incentives for pharmaceutical companies, like Basilea, developing novel antibacterial agents.

Already through these efforts, Basilea has been able to secure financial support of up to USD 128 million from the United States Government, Biomedical and Advanced Research Development Authority (BARDA) offsetting the majority of costs of the phase 3 development of ceftobiprole for the U.S. market. In addition, our products also benefit from the U.S. GAIN act, which provides five years additional market exclusivity in the U.S.

In 2019, the lack of new antibiotics has already led to improved payment structures for antibiotics in the U.S. Centers for Medicare and Medicaid Services Inpatient Prospective Payment System (CMS). This together with other measures being pursued will help properly reimburse antibiotics, ensure financial rewards for bringing novel antibiotics to the market, remove regulatory barriers and thus ultimately incentivize antibiotic innovation.

## Basilea supports young IT talents in the Basel region

Information and communication technology becomes increasingly important for the life sciences industry. Computer scientists and life scientists with computer science skills are critical to innovation in medicine.

Basilea has therefore entered into a strategic partnership with the Förderverein ICT Scouts/Campus. This association has set itself the task of systematically scouting for young IT talents in middle schools and then supporting them continuously over many years and free of charge. More than 100 IT talents from the Basel region discovered by the ICT Scouts meet regularly at the local ICT Campus and also take part in technology world championships/Olympics. 50 percent of the selected talents are girls. In 2019, Basilea provided a large number of laptops that are no longer used by Basilea to ICT Scouts/Campus. With this social commitment, Basilea supports the next generation of MINT (mathematics, informatics, natural sciences and technology) professionals and promotes innovation and growth in the region. At the same time, Basilea can benefit from the knowledge of IT talents, which could translate into economic success in the future.
A win-win situation for all parties involved.

External links:
https://beam-alliance.eu/
https://roundtableantibiotics.ch/
http://www.antimicrobialalliance.com/
https://www.phe.gov/about/barda
https://www.govtrack.us/congress/bills/116/s1712
https://ict-scouts.ch/

# Compensation Report

## Report of the statutory auditor
to the General Meeting of Basilea Pharmaceutica Ltd.

Basel

We have audited pages 81 to 84 of the Compensation Report of Basilea Pharmaceutica Ltd. for the year ended December 31, 2019.

### Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the Compensation Report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

### Auditor's responsibility

Our responsibility is to express an opinion on the accompanying Compensation Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Compensation Report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Compensation Report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements in the Compensation Report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the Compensation Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Opinion

In our opinion, the Compensation Report of Basilea Pharmaceutica Ltd. for the year ended December 31, 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Bruno Rossi

Audit expert
Auditor in charge

Kathryn Dobbins

Basel, February 13, 2020

# Letter from the Chairman of the Compensation Committee

Dear Shareholders,

I am pleased to share with you our Compensation Report for the financial year 2019.

2019 was a year of significant progress, building on our history, values and vision in order to make a difference to patients with cancer and infectious diseases. The company has focused on selectively investing in both its clinical and pre-clinical pipeline. In addition, it has made great progress in the global roll out of its commercial-stage products, leading to continued strong product revenue growth.

In 2019, as a result of the company's focus and progress we have a solid foundation on which to build for the future.

Basilea achieved the majority of its key corporate goals for 2019:

- **Financial performance:** The revenue contributions from commercialization partnerships for our anti-infective products, Cresemba® (isavuconazole) and Zevtera© (ceftobiprole), were significantly increased by 39% to more than CHF 114 million, including receiving Cresemba sales milestones of USD 5 million and USD 7 million, based on achieving certain sales thresholds in Europe. In 2019, our partners doubled the number of countries in which Cresemba is launched. Additional Cresemba launch countries include Canada as well as Singapore as the first country in Asia Pacific. To date, Cresemba is launched in more than 40 countries, while the antibiotic Zevtera is launched in 18 countries. Basilea was also able to reduce its net cash consumption in 2019 as compared to 2018, as a result of strong cost control, combined with an increase in cash inflow from Cresemba- and Zevtera-related revenues.
  Through the reporting of good financial results and promising product data from its ongoing clinical studies, the share price also increased during 2019, but did not lead to an outperformance compared to the Swiss Performance Index (SPI) over the same time period.
- **Portfolio development:** The Company remained focused on internal and external innovation, through both its selective internal discovery efforts and the assessment of in-licensing opportunities. We entered into two new pre-clinical collaborations in the company's focus areas of oncology and infectious diseases.
- **Research & development:** Basilea continued to make significant progress in its clinical pipeline. For its antibiotic ceftobiprole, Basilea successfully completed the TARGET phase 3 study for the treatment of patients with acute bacterial skin and skin structure infections (ABSSSI). This is the first of two phase 3 studies required for gaining regulatory approval for ceftobiprole in the United States. The ERADICATE phase 3 study for the treatment of patients with *Staphylococcus aureus* bacteremia is on track to meet enrolment targets. The pediatric studies for Cresemba and Zevtera were also advanced and completion will lead to extended market exclusivity for Cresemba in Europe and the USA.
- The Company started a phase 1/2 study with derazantinib to explore our FGRF kinase inhibitor, derazantinib, alone and in combination with Roche's PD-L1- blocking immune-checkpoint inhibitor, atezolizumab (Tecentriq®), in patients with urothelial cancer. We also expanded the registrational phase 2

study in intrahepatic cholangiocarcinoma (iCCA) into additional patient populations to further support the differentiated profile of derazantinib. Basilea also completed the phase 2a expansion study with lisavanbulin given as weekly 48-hour infusion to patients with glioblastoma (brain cancer) and ovarian cancer and concluded as well patient enrolment in a phase 1 study with oral lisavanbulin in glioblastoma. The results from these studies led to the decision to proceed with a targeted biomarker-driven phase 2 study in glioblastoma with the oral formulation of lisavanbulin.

In 2019, the shareholders supported the Board's compensation proposals for 2019/2020 by approving the proposed compensation budget for the Board of Directors and the Management Committee at the Annual General Meeting. Shareholders also approved the Management Committee's variable compensation for financial year 2018 in a non-binding advisory vote. I would once again like to offer my thanks to our shareholders for their continued support.

During 2019, the Compensation Committee continued to review and monitor the compensation policy and programs on an ongoing basis in order to ensure their alignment with the Company's business strategy and with the long-term interests of our shareholders. External factors such as regulatory and legal developments and benchmarking data were also taken into account. As a consequence, we took the decision except for capping the overall grant level of stock options to not make any changes to any existing remuneration elements in 2019. Throughout the year, the Compensation Committee undertakes regular performance-related activities including performance goal setting at the beginning of the year and performance assessment at year-end. It also assesses Board members' and the Management Committee's compensation, prepares the Compensation Report and proposes the budget for shareholders' say-on-pay vote at the Annual General Meeting.

Long-term compensation in the form of employee stock options continues to be an important component of the Management Committee's and key employees' compensation. Employee stock options are an adequate and effective form of long-term compensation for our company and an important component to incentivize and retain key employees. The Compensation Committee recognizes that an area of concern with employee stock options is the potential for dilution. However, through the introduction of net share settlements of employee stock options for certain grants, the board has ensured that any potential dilution effect is limited to below 10% of the share capital on a fully diluted basis. In addition, 2019 was the first year in which the grant levels of the options were subject to a cap, which takes into account potential dilution levels and company performance. For the year 2020 a grant of stock options is planned. However, in response to feedback from our shareholders, the Board of Directors of Basilea plans to replace the employee stock option plan in 2021 by a new long-term incentive plan in the form of performance share units for CEO, Management Committee members and other senior personnel. The vesting of these units will be subject to performance criteria that are widely used throughout the Swiss pharmaceutical industry. Restricted share units, with a service condition, are planned to be used for other employees in order to incentivize retention of people that play a critical role in the achievement of our goals.

Further information on the activities of the Compensation Committee and on the overall compensation system and governance can be found on the following pages. Basilea strives to maintain a high level of transparency by disclosing to shareholders detailed and comprehensive information on company goals, performance criteria and compensation.

It is the opinion of the Compensation Committee that this Compensation Report complies with regulatory requirements and provides a comprehensive view of the compensation policy and programs. The Compensation Committee and the Board remain committed to providing compensation policies and packages that are performance based and align the interests of our employees and our shareholders.

**Martin Nicklasson**
Chairman of the Compensation Committee

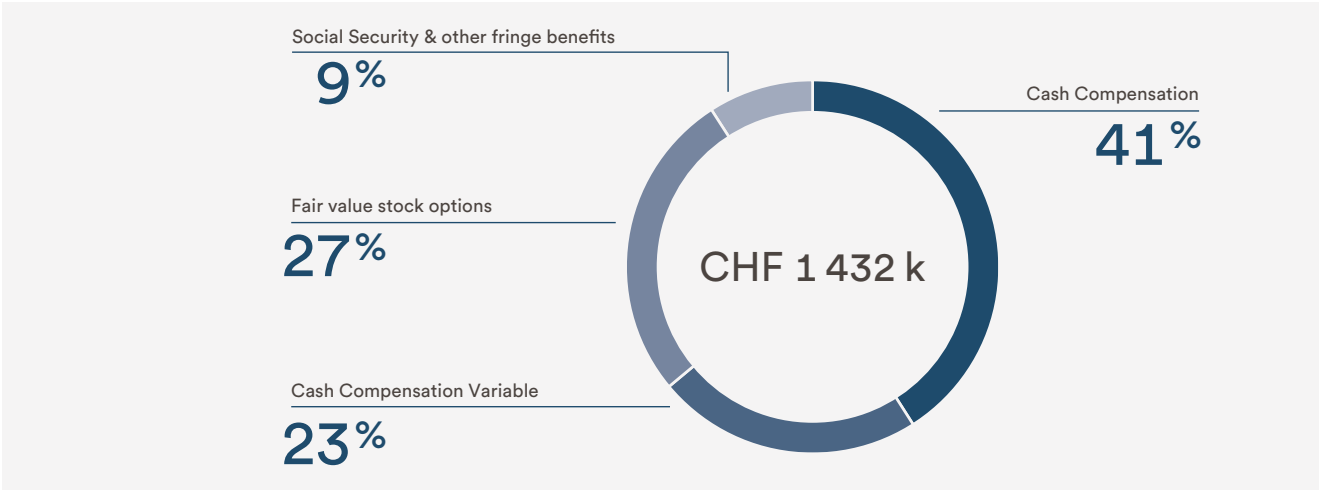
# Executive summary 2019

**Overview of 2019 compensation structure for the Management Committee (including CEO)**

| | Fixed compensation elements | | Variable compensation elements | |
|---|---|---|---|---|
| | Base Salary | Social security and other benefits | Performance-related cash bonus 2019 | Long-term incentive plan (LTIP) |
| Purpose | Attract and retain | Provision for pension and risk | Align management with Company goals and pay for performance | Foster long-term focus, retention and alignment to shareholders' interests |
| Performance measure | Role and experience; periodic review based on performance and/or industry benchmarks | Local legislation and market practice | Annually defined Company goals and individual, department-related performance | Individual performance aligned with shareholders' interests and Company and departmental goals |
| Performance / vesting period | Cash (paid out monthly) | | Cash (paid out annually in April of the following year) | Stock options are allocated based on company goal achievement and for MC members also based on departmental performance |
| CEO & MC Member compensation | 100% | Pension contributions, insurance premiums, and allowances depending on total compensation | Minimum: 0%; Target: 50%; Maximum: 70% of base salary for CEO; Minimum: 0%; Target: 35 to 40%; Maximum: 52% of base salary for other MC members | Stock options vesting in two tranches: 50% vest 3 years from grant date and 50% vest 4 years from grant; |

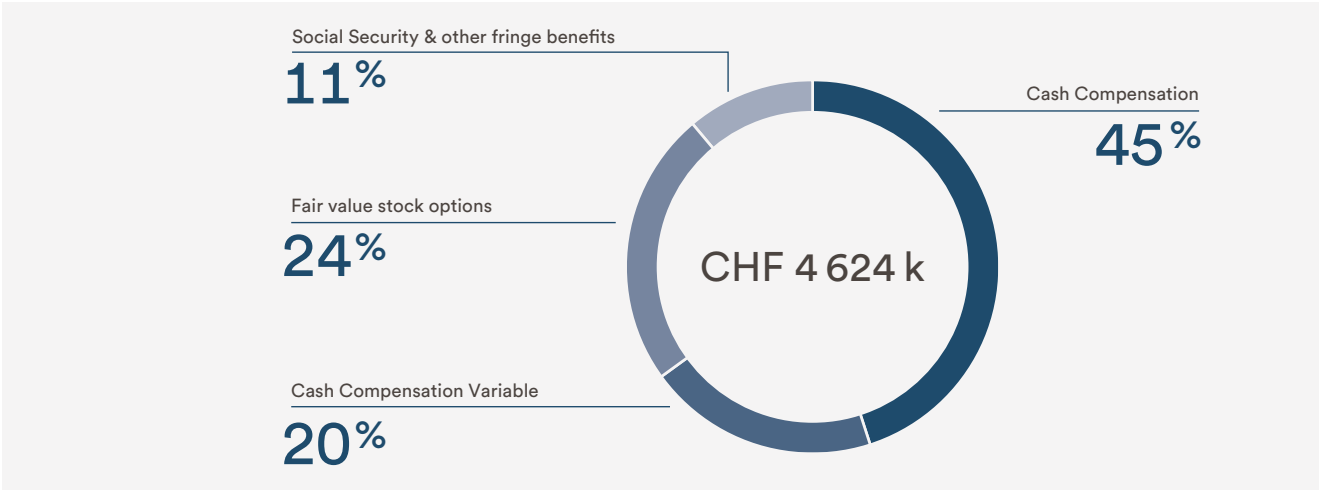
**CEO compensation 2019 (in CHF thousands, except for number of stock options and fair value of options)**

| | Fixed compensation elements | | Variable compensation elements | | |
|---|---|---|---|---|---|
| | Base salary | Social security and other benefits | Performance-related cash bonus | Long-term incentive plan (LTIP) | Total |
| Performance year 2019 | 584 | 124 | 335 | 389 | 1 432 |
| Paid in form | Cash (paid out monthly) | Contributions to social security, pension and insurances | Cash (paid out annually in April of the following year) | 22 876 stock options with a total grant value of 389 350 based on fair value CHF 17.02 | |
| Performance bonus in % of target | | | 114.5% | | |



**MC compensation 2019 (including CEO, in CHF thousands, except for number of stock options and fair value of options)**

| | Fixed compensation elements | | Variable compensation elements | | |
|---|---|---|---|---|---|
| | Base salary | Social security and other benefits | Performance-related cash bonus | Long-term incentive plan (LTIP) | Total |
| Performance year 2019 | 2 080 | 510 | 915 | 1 119 | 4 624 |
| Paid in form | Cash (paid out monthly) | Contributions to social security, pension and insurances | Cash (paid out annually in April of the following year) | 65 777 stock options with a total grant value of 1 119 525 based on fair value CHF 17.02 | |
| Performance bonus in % of target | | | 111.5% | | |



This Compensation Report provides the information required by the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). It also includes the compensation-related disclosures as required by the Directive on Information relating to Corporate Governance issued by the SIX Swiss Exchange and the Swiss Code of Best Practice for Corporate Governance.

# Compensation principles

## Core principles

For the Company's short- and long-term success, Basilea's compensation approach is fundamental to attract, incentivize and retain Management Committee members and employees with exceptional skills:

- We offer competitive compensation. Our compensation considers the market practice of our peer group as we compete for talented employees with other companies in the sector, with the median values used as our reference point.
- We reward performance. Both company performance and individual performance are evaluated and rewarded through our annual bonus scheme and stock option plan.
- We aim for commitment to long-term success. The long-term incentive plan is linked to the Company's long-term success and aligns the Management Committee's compensation with the interests of shareholders.
- We guard against risk. Management Committee members are protected against risks through appropriate pension and insurance plans.

## Compensation evaluation & benchmarking practice

The compensation of the members of the Board of Directors and of the Management Committee is reviewed annually by the Compensation Committee, which in turn makes recommendations to the Board of Directors. These include recommendations on the compensation of the members of the Board of Directors and the Management Committee, the compensation policies covering the Management Committee and the Company's employees, and the Company's stock option plan.

In its 2019 review of Management Committee compensation, the Compensation Committee considered the professional experience and areas of responsibility of each Management Committee member and took into account compensation packages of other companies in the pharmaceutical and med-tech industry in Switzerland that are comparable to Basilea with respect to size or business model. Specifically, the Compensation Committee engaged HCM International Ltd. (HCM) to provide compensation data on the board members and executives from a peer group of Swiss listed pharmaceutical and med-tech companies with market caps ranging from CHF 405 million to CHF 6.9 billion, with a median of CHF 1,430 million and operating models comparable to Basilea. After reviewing the data, the Compensation Committee did not recommend changes to the compensation models used by Basilea for its Management Committee and Board members, to its Board of Directors.

# Compensation governance

## Rules in the Articles of Association

Articles 18 and 25 of the Articles of Association (which are published on www.basilea.com/articles-of-association) contain the basic compensation rules applicable to the Board of Directors and the Management Committee:

- Compensation may be paid or granted to the Board of Directors and the Management Committee in the form of cash, shares, and similar financial instruments and/or units. The Management Committee may be granted employee stock options.
  *The Board of Directors has decided not to include shares and similar financial instruments and/or units in its compensation.*
- The Board of Directors and the Management Committee may be paid variable compensation, depending on the achievement of certain performance criteria.
  *The Board of Directors has decided not to include performance-related variable elements in its compensation.*
- Variable compensation: The performance criteria relating to variable compensation may include individual targets, targets of the Company or parts thereof and targets in relation to the market, other companies or comparable benchmarks, taking into account the position and level of responsibility of the recipient of the variable compensation. The Board of Directors or, where delegated to it, the Compensation Committee determines the performance criteria and the respective target values.
- Employee stock options: The Board of Directors or, where delegated to it, the Compensation Committee shall determine the terms of employee stock options, including grant, forfeiture, vesting and exercise conditions. The Company may procure the required shares through purchases on the market or by an increase of its share capital from conditional capital.
- In case a new or additional member of the Management Committee is appointed after the maximum aggregate amount of compensation for the Management Committee has been approved by the general meeting of shareholders and such aggregate amount is not sufficient to cover the compensation of a new or additional member, the Articles of Association provide for a supplementary amount which shall not exceed 40% of the aggregate amount of compensation approved by the general meeting of shareholders.

Article 6 of the Articles of Association (which are published on www.basilea.com/articles-of-association) provides the following compensation competences to the general meeting of shareholders:

- The approval of the maximum aggregate amount of compensation for the Board of Directors for the prospective period from one general meeting to the following general meeting of shareholders;
- The approval of the maximum aggregate amount of fixed compensation for the Management Committee for the period from July 1 of the current year to June 30 of the next year;
- The approval of the maximum aggregate amount of variable compensation for the Management Committee for the period from January 1 to December 31 of the current year.
- Those approvals require an absolute majority (more than 50% of the shares represented at the general meeting of shareholders). It should be noted that the time periods of the compensation budgets subject to shareholder approval differ from the reporting period covered in this Compensation Report (financial year 2019).

In addition to its non-transferable and irrevocable duties, Article 15 of Articles of Association (which are published on www.basilea.com/articles-of-association) provides additional compensation competences to the Board of Directors:

- The Board of Directors may submit for approval by the general meeting proposals in relation to maximum aggregate amounts of compensation relating to different periods, in relation to amounts for specific compensation elements for the same or different periods, and in relation to contingent amounts.
- In the event a proposal of the Board of Directors has not been approved by the general meeting of shareholders, the Board of Directors shall determine, taking into account all relevant factors, the respective maximum aggregate amount of compensation or partial maximum amounts for specific compensation elements, and submit the amount(s) so determined for approval by a general meeting.
- The Company or companies under its control may pay out compensation prior to approval by the general meeting subject to subsequent approval.

## Compensation Committee

The Compensation Committee consists of up to three independent and non-executive members of the Board of Directors only, and all members of the Committee are individually elected by the shareholders at each General Meeting. The Compensation Committee currently consists of Martin Nicklasson as Chairman with Thomas Werner and Steven D. Skolsky as members.

The Compensation Committee supports the Board of Directors in developing, establishing and reviewing the Company's compensation strategy and guidelines as well as performance criteria and targets.

After each meeting, the Chairman of the Compensation Committee reports to the Board of Directors on the Committee's activities and recommendations. The minutes of the Compensation Committee meetings are provided to all members of the Board of Directors.

## Compensation approval process

| Topic | CEO | Compensation Committee | Board of Directors | AGM |
|---|---|---|---|---|
| Compensation policy and guidelines in line with Basilea's Articles of Association | | Proposes | Approves | |
| Maximum aggregate amount of compensation for the Board of Directors and the Management Committee | | Proposes | Endorses | Approves |
| Actual aggregate amount of the Management Committee's variable compensation of the previous period. | | Proposes | Approves | Non-binding advisory vote |
| Individual compensation of the members of the Board of Directors | | Proposes | Approves | |
| Individual compensation of the CEO | | Proposes | Approves | |
| Individual compensation of the other members of the Management Committee | Proposes | Endorses | Approves | |
| Plan design and grant of long-term incentives | Proposes | Endorses | Approves | |

# Compensation structure & design

## Board of Directors compensation

The compensation for members of the Board consists of:
– a fixed cash compensation for the election term of 1 year;
– a meeting attendance fee (capped total amount);
– a Committee membership fee;
– the payment of social security contributions, where such contributions apply; and
– reimbursement of reasonable out-of-pocket expenses.

The members of the Board are not entitled to any performance-based, variable compensation, nor do they participate in the employee stock option plan. No Committee chairmanship fees are paid in addition to the Committee membership fees.

The compensation paid to the Board in the period from the general meeting of shareholders 2019 (AGM 2019) to general meeting of shareholders 2020 (AGM 2020) has been unchanged since 2014 and is as follows:

| In CHF | AGM 2019 to AGM 2020 |
|---|---|
| Chairman of the Board of Directors | |
| Fixed compensation | 238 363 |
| Meeting attendance fee [1] | 9 375 |
| Committee membership fee [2] | 7 875 |
| | |
| Members | |
| Fixed compensation | 150 382 |
| Meeting attendance fee [3] | 6 250 |
| Committee membership fee [2] | 5 250 |

1 Fee per meeting attended with the maximum cumulative amount paid for meeting attendance limited to CHF 46,875 for an election term of 1 year.
2 Fee per Board committee membership.
3 Fee for each Board meeting attended with the maximum cumulative amount for meeting attendance limited to CHF 31,250 from AGM to AGM.

For further information on the compensation for the members of the Board of Directors, please refer to the section “Disclosure of the compensation for the Board of Directors” on page 81.

# Management Committee compensation

## Compensation system

The compensation of the members of the Management Committee includes a base salary, performance-related cash bonus, long-term incentive (currently in the form of stock options), pension plan contributions, certain disability insurance, and eligibility for special performance awards for exceptional performance. The total Management Committee compensation is limited by the aggregate amount of compensation approved by the general meeting of shareholders.

## Compensation elements

### Base salary

Base salary is determined by the position, responsibilities, experience and skills of each Management Committee member. The Compensation Committee reviews Management Committee members' base salaries at the beginning of each year, taking into account individual performance, with any changes in base salaries becoming effective as of April each year. Base salaries may be further adjusted throughout the year as deemed necessary by the Board, for example due to an increase in responsibilities. Increases in base salary for the Management Committee are generally expected to be low and in line with general increases across the broader workforce.

### Performance-related cash bonus

Performance related cash bonuses vary annually and are based on the achievement of Company goals, individual contributions to Company goals, and on department objectives. Target bonuses ranging from 35 % to 50 % of the respective base salaries are included in each Management Committee member's employment contract. Actual cash bonuses are capped at 140% of the target bonus for the CEO and 130% of the target bonus for other Management Committee members.

The amount of each Management Committee member's bonus payment is determined by the Board of Directors upon recommendation of the Compensation Committee based on each Management Committee member's performance and contribution to achievement of the Company's goals. The CEO is not present when his own compensation is being determined by the Compensation Committee and the Board of Directors.

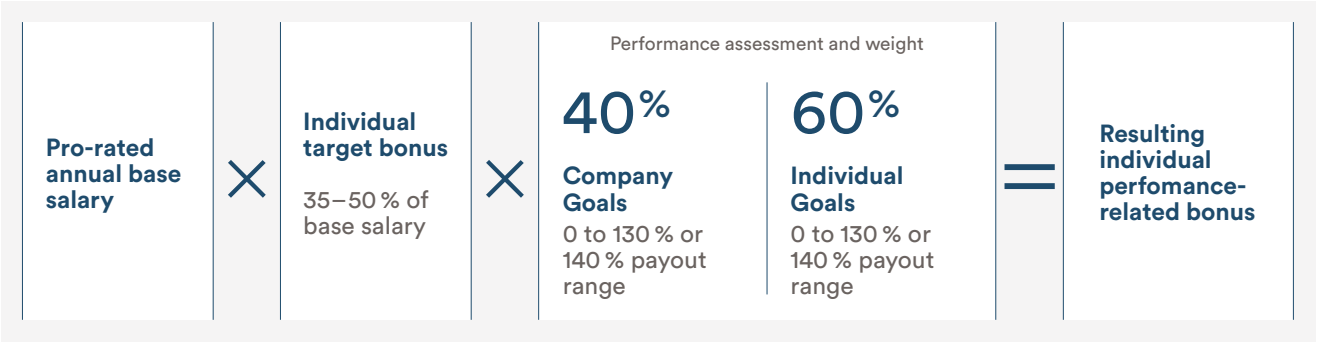
### Special bonus

The Board of Directors annually approves a special bonus pool to allow the CEO to provide a one-off reward to recognize extraordinary performance by employees. Special bonuses are project related and the amount paid to an employee may vary from 1 to 4 weeks of salary. All employees are entitled to receive a special bonus if so determined by the CEO. The CEO will inform the Compensation Committee if special bonus payments are made to Management Committee members.

In 2019, a total of CHF 266,000 was paid out in the form of special bonuses to 49 employees. No member of the Management Committee received a special bonus.

## Assessment and calculation of the performance-related cash bonus for the members of the Management Committee

Management Committee members' performance assessment is based on:



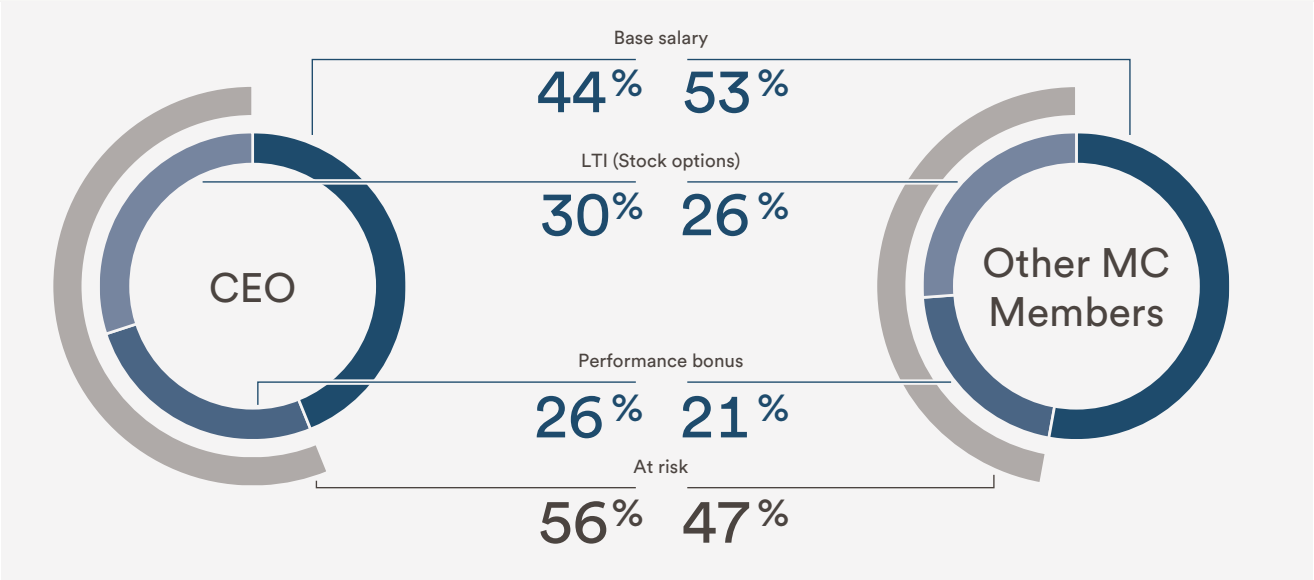

**Company goals (40% of the target bonus):** The Company goals used for performance evaluation of all Basilea employees in 2019 are linked to key value drivers with a combination of financial and non-financial Key Performance Indicators (KPIs):

- Financial KPIs are related to the financial performance of the Company, including revenues, upfront and milestone payments, share price performance and access to funding.
- Non-financial KPIs are related to achievement of operational milestones in the areas of portfolio development and research & development, such as advancement of clinical product candidates, completion of clinical trials, submission of marketing authorizations, new drug applications and product approvals.

**Individual objectives (60% of the target bonus):** Relate to the roles and responsibilities of the members of the Management Committee and are aligned with the Company strategy and annual Company goals and related to specific and measurable department objectives. The CEO's individual objectives are identical to the Company goals.

**Capping:** In the event that the Board of Directors determines that certain upside Company goals were achieved, or in case of extraordinary individual performance, the Company goal portion and the individual portion may be rated above 100%. This is up to a maximum of 140% of the target amount for the CEO and 130% of the target amount for the rest of the Management Committee.

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




The majority of compensation for the CEO is at risk and dependent on the execution of our strategic priorities and achievement of Company goals and individual performance, with 56% of Basilea's CEO's compensation and 47% of the average compensation of all other Management Committee members based on such performance and paid in the form of stock options and a performance-related cash bonus.

**Overall company bonus:** The split between company goals (40%) and individual goals (60%) is the same for all employees. On a company level, the total aggregated individual portion of the performance-related cash bonus for all employees (excluding the CEO) cannot exceed 100% of the respective target amount.

## Key company goals 2019

**Financial KPIs**

Revenues
- Achieve budgeted product-related revenues

Share price performance
- Outperform the SPI on an annual basis

**Non-financial KPIs**

Research & development
- Derazantinib: Initiate phase 2 development in other FGFR-driven solid cancer types
- Ceftobiprole: Complete enrolment into ABSSSI study and meet enrolment targets into SAB study
- Isavuconazole: Initiate safety study of the pediatric investigation program

Portfolio development
- Expand clinical oncology portfolio and pre-clinical pipeline through in-licensing

## 2019 performance highlights

Basilea focuses on the discovery, development and commercialization of innovative medicines to address the medical needs of patients with serious and life-threatening conditions. For 2019, the Board of Directors considered the achievement of the following financial and operating Company goals that support the execution of Basilea's strategic priorities when determining the performance-related cash bonus for the Management Committee members:

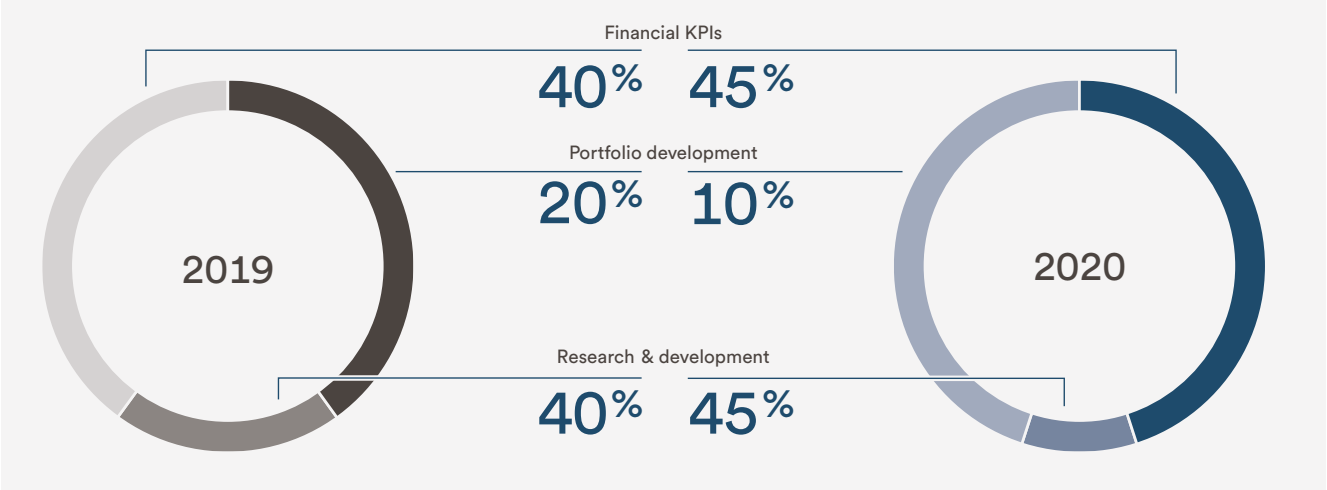
- Significantly increasing overall revenue contributions from the commercialization partnerships for its anti-infectives Cresemba and Zevtera by 39% to more than CHF 114 million including Cresemba milestones of USD 5 millon and USD 7 million, based on achieving certain sales thresholds in Europe.
- Supporting Basilea's partners in launching Cresemba in additional countries, including Canada as well as Singapore as the first country in Asia Pacific. The number of launch countries for Cresemba was doubled in 2019. To date Cresemba is launched in more than 40 countries while the antibiotic Zevtera is launched in 18 countries.
- Through the reporting of strong financial results and promising data from its ongoing clinical studies, the share price increased during 2019 but did not lead to an outperformance compared to the SPI over the same time period.
- Basilea was also able to reduce its net cash consumption in 2019 as a result of strong cost control combined with an increase in cash inflow from Cresemba- and Zevtera-related revenues.
- The Company remained also focused on internal and external innovation and selectively expanded its portfolio with two new pre-clinical collaborations that met Basileas high standards on strategic fit and risk-return profile in the company's focus areas of anti-infectives and oncology.
- Basilea continued to significantly advance its pipeline. For its antibiotic ceftobiprole, Basilea successfully completed the TARGET study for the treatment of patients with acute bacterial skin and skin structure infections (ABSSSI). This is the first of two phase 3 studies required for gaining regulatory approval for ceftobiprole in the United States. The ERADICATE study for the treatment of patients with *Staphylococcus aureus* bacteremia is on track to meet enrolment targets.
- The pediatric studies for Cresemba and Zevtera were also advanced and completion will lead to extended market exclusivity for Cresemba in Europe and the USA.
- In addition, the Company started a phase 1/2 study with derazantinib alone and in combination with Roche's PD-L1-blocking immune-checkpoint inhibitor atezolizumab (Tecentriq®) in patients with urothelial cancer and also expanded the registrational phase 2 study in intrahepatic cholangiocarcinoma (iCCA) into additional patient populations to further support the differentiated profile of derazantinib.
- The Company also completed the phase 2a expansion study with lisavanbulin given as weekly 48-hour infusion to patients with brain cancer (glioblastoma) and ovarian cancer and concluded as well patient enrolment in the phase 1 study with oral lisavanbulin in glioblastoma.

## Achievements 2019 company goals

| KPI | Allocation | Achievement* |
|---|---|---|
| Financial KPIs | 40.0% | 43.0% |
| Portfolio development | 20.0% | 15.0% |
| Research + development | 40.0% | 56.5% |
| **Total** | **100.0%** | **114.5%** |

*Capped at 140% for CEO and at 130% for all other employees

A key strategic priority for Basilea in 2019 was the achievement of financial targets such as revenues and share price development and to advance and expand its R&D portfolio as a prerequisite for supporting continued growth and sustainable shareholder value creation. While the R&D portfolio expansion remains a key objective, the 2020 Company Goals put more emphasis on the R&D development with important milestones and the achievement of financial targets such as revenues and share price development.



## Key company goals 2020

**Financial KPIs**

Revenues
– Achieve budgeted product-related revenues

Share price performance
– Share price performance relative to SPI (Swiss Performance Index)

**Non-financial KPIs**

Research & development
– Derazantinib: Complete patient enrolment into intrahepatic cholangiocarcinoma (iCCA) phase 2 study; achieve patient enrolment targets for phase 1/2 urothelial cancer and gastric cancer studies
– Lisavanbulin: Achieve patient enrolment target for phase 2 glioblastoma study (EB-1/ biomarker-driven study)
– Ceftobiprole: Achieve patient enrolment target for phase 3 staphylococcus aureus bacteremia (SAB) study
– Isavuconazole: Achieve patient enrolment targets into safety study of the pediatric investigation program

Portfolio development
– Expand R&D portfolio by in-licensing of an oncology compound
– Complete planned pre-clinical studies for research projects

## Long-term incentive plan

Equity incentives currently granted in the form of stock options are intended to focus members of the Management Committee and key employees on the mid- and long-term success of the Company. The plan is designed to reward performance in a manner that closely aligns employees' interests with shareholders' interests and is critical to enable the Company to attract and retain individuals with exceptional skills.

Key factors considered by the Board of Directors based on the recommendation of the Compensation Committee in the grant of stock options are:

– Benchmarks derived from the market and relevant companies;
– Individual performance of the Management Committee members which is related to specific Company goals or department objectives; and
– The potential dilution impact of the granted stock options.

The general decision to grant stock options under the plan is a competence of the Board of Directors and is decided on an annual basis. The Board of Directors limited the number of annually granted stock options by approving an overall grant of no more than 1.51 % of the share capital on a fully diluted basis for 2019 (equal to the grant in 2018). This is in line with the dilution cap of 1.51% (fully diluted). No employee, including members of the Management Committee, is guaranteed to receive a set value or a set number of stock options in respect of his or her individual grant.

In 2018, the Board of Directors amended the plan to allow for net share settlement of stock options in order to significantly reduce potential dilution. The net share settlement of stock options will help to ensure that the maximum potential

dilution related to all outstanding options remains below 10% of the share capital on a fully diluted basis at the issuance of each new grant.

The strike price of the stock options equals the closing price of the Basilea shares on the Swiss Stock Exchange (SIX) on the grant date which is determined by the Board of Directors. The strike price of the options granted in the business year 2019 was CHF 45.80 (in 2018 it was CHF 67.50), with 50% of the options received vesting three years from the grant date and 50% of the options vesting four years from the grant date. The term of the stock option grant is 10 years. For the options issued in 2016 and thereafter, an employee's unvested options will be forfeited upon termination of employment by the Company or resignation by the employee; however, vested options may be exercised within 12 months of the termination date, after which time all vested options expire. In the event that employment ceases due to death or disability or in the event of retirement, unvested options will not forfeit and may be exercised when vested. For options issued in 2015 and prior years, an employee's unvested options are forfeited upon termination of employment resulting from notice provided by the employee to the Company, or upon termination of employment by the Company for cause. The stock option program permits granting of stock options and/or stock appreciation rights; however to date only stock options have been granted.

There is no cash value of the options at grant, and the fair value of the stock options granted in 2019 was determined at the grant date using a binomial model as CHF 17.02 (in 2018 as CHF 27.27) per option. The assumptions used for the fair value calculation of options can be found on page 125. Stock options inherently incentivize shareholder value creation, since employees will receive no value unless the Basilea share price increases after the grant date.

Any value, income or other benefit derived from any stock option is not considered part of the participant's salary or compensation for the purposes of calculating any pension or retirement benefits.

### Indirect benefits

The Company contributes to the pension plan and maintains certain disability insurance for the members of the Management Committee. New members may be eligible for reimbursement of relocation costs, compensation for lost benefits or stock granted by a prior employer, and limited reimbursement of international school for children.

### Loans and credits

The Company did not grant any loans, quasi-loan credits or guarantees to members of the Board of Directors or of the Management Committee in 2019 or 2018.

### Employment conditions

The notice period of the employment agreements for the members of the Management Committee is 12 months and, during the notice period, variable compensation may be received, depending on Company and individual performance. Such compensation would be within the contractually established range for such member, as explained above. Members of the Management Committee are subject to the Standard Basilea Terms and Conditions for Basilea employees. Basilea has no contractual termination payment obligations to members of the Management Committee.

For further information on the compensation for the members of the Management Committee, please refer to the section "Disclosure of the compensation for the members of the Management Committee" on page 83.

## Forward-looking compensation topics

In order for its Management Committee compensation approach to remain aligned to best practices and the interests of its shareholders, Basilea's Compensation Committee continuously evaluates Basilea's Management Committee compensation practices against market trends and discusses the use of alternative remuneration methods.

In its 2018 compensation report, Basilea announced that its compensation committee had decided to explore the possibility of introducing a Performance Share Units (PSU)-based long term incentive plan to replace the existing stock option-based plan in response to feedback from shareholders and proxy advisors. Work on this was ongoing throughout 2019 alongside specialists from HCM International Ltd., in order to evaluate the implications of such a plan and to establish the principles to ensure the plan would optimally incentivize the company leadership for shareholder value creation. The anticipated timeline of a first PSU grant in 2021 is considered realistic. To facilitate this implementation, an amendment to Basilea's Articles of Association will be proposed at the 2020 AGM to allow for PSUs to be granted as a vehicle under the company's long term incentive plan.

# Compensation disclosure

## Disclosure of the compensation for the Board of Directors

The total compensation of the members of the Board in calendar years 2019 and 2018 are outlined below:

| In CHF 2019 | Board-membership | Audit Committee | Compensation Committee | Corporate Governance Committee | Fixed compensation | Committee membership fees | Meeting attendance fees | Social security and other fringe benefits[2] | Total |
|---|---|---|---|---|---|---|---|---|---|
| Domenico Scala | Chair | Chair | | | 238 363 | 7 875 | 46 875 | 36 825 | 329 938 |
| Thomas Werner | Vice Chair | | • | Chair | 150 382 | 10 500 | 31 250 | 24 788 | 216 920 |
| Martin Nicklasson | • | • | Chair | | 150 382 | 10 500 | 31 250 | 38 042 | 230 174 |
| Nicole Onetto | • | | | • | 150 382 | 5 250 | 31 250 | - | 186 882 |
| Ronald Scott [1] | • | | | • | 87 723 | 3 063 | 25 000 | 14 902 | 130 688 |
| Steven D. Skolsky | • | • | • | | 150 382 | 10 500 | 31 250 | - | 192 132 |
| **Total** | | | | | **927 614** | **47 688** | **196 875** | **114 557** | **1 286 734** |

1 Ronald Scott, the former CEO, continued to receive compensation during the remaining term of his employment contract in 2019. For his board contribution compensation is paid on a pro-rated basis since June 2019. Please refer to the disclosure of compensation to former Management Committee members for further information.

2 Includes the Company's and the Board members' contributions to social security, etc., where such contributions occur.

| In CHF 2018 | Board-membership | Audit Committee | Compensation Committee | Corporate Governance Committee | Fixed compensation | Committee membership fees | Meeting attendance fees | Social security and other fringe benefits[4] | Total |
|---|---|---|---|---|---|---|---|---|---|
| Domenico Scala | Chair | Chair | | | 238 363 | 7 875 | 46 875 | 36 825 | 329 938 |
| Thomas Werner | Vice Chair[1] | | • | Chair[1] | 150 382 | 9 188 | 31 250 | 24 631 | 215 451 |
| Martin Nicklasson | • | • | Chair | | 150 382 | 10 500 | 31 250 | 39 771 | 231 903 |
| Nicole Onetto | • | | | • | 150 382 | 5 250 | 31 250 | - | 186 882 |
| Ronald Scott [2] | • | | | • | - | - | - | - | - |
| Steven D. Skolsky | • | •[1] | • | | 150 382 | 9 188 | 31 250 | - | 190 820 |
| Thomas M. Rinderknecht [3] | • | • | | • | 37 596 | 2 625 | - | 14 154 | 54 375 |
| Daniel Lew [3] | • | | | • | 37 596 | 1 313 | - | 8 743 | 47 652 |
| **Total** | | | | | **915 083** | **45 939** | **171 875** | **124 124** | **1 257 021** |

1 Since April 18, 2018
2 Since April 18, 2018; Ronald Scott, the former CEO, continues to receive compensation during the remaining term of his employment contract. No additional compensation was paid for his board contribution. Please refer to the disclosure of compensation of the members of the Management Committee for further information.
3 Until April 18, 2018
4 Includes the Company's and the Board members' contributions to social security, etc., where such contributions occur.

# Disclosure of the compensation for the members of the Management Committee

| In CHF | Cash compensation | Cash compensation variable | Stock options [6] | Social security and other fringe benefits [7] | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Chief Executive Officer David Veitch | 583 437 | 334 846 | 389 350 | 124 404 | 1 432 037 |
| **Total Management Committee [1]** | **2 079 805** | **914 831** | **1 119 525** | **509 591** | **4 623 752** |
| **2018** | | | | | |
| Chief Executive Officer David Veitch [2] | 529 377 | 348 242 | 485 761 | 142 295 | 1 505 675 |
| **Total Management Committee [3]** | **3 294 735[4]** | **1 681 106[5]** | **2 376 062** | **830 580** | **8 182 483** |

1 Includes the compensation of the previous CFO who left the company on April 30, 2019.
2 Includes the compensation of David Veitch as CEO since April 19, 2018 and the compensation from January 1, 2018 until April 18, 2018 in his previous role as CCO.
3 Includes the compensation of the new members as of the date on which they joined the Management Committee as well as the compensation of the members who left the Management Committee in 2017 or 2018 and continued to receive compensation during the remaining term of their employment contract. Ronald Scott, who was the CEO until April 18, 2018 and the member of the Management Committee with the highest individual compensation, continues to receive compensation during the remaining term of his employment contract. His total compensation for 2018 amounts to CHF 1,760,440, comprised of cash compensation of CHF 579,098; cash compensation variable of CHF 405,369; stock options with a total fair value as of the grant date of CHF 623,829; and social security and other fringe benefits of CHF 152,144.
4 CHF 303,893 of compensation of new Management Committee members was funded out of the supplementary amount pursuant to article 25 para. 3 of the Articles of Association (which can be found on www.basilea.com/articles-of-association) and used as follows: Marc Engelhardt, CMO, CHF 101,298, Adesh Kaul, CCDO, CHF 67,532 and Gerrit Hauck, CTO, CHF 135,063.
5 Includes a cash bonus true-up of CHF -27,332 between actual pay-out and accrued cash bonus in 2017 and in addition, a replacement award granted to Gerrit Hauck, CTO, with a fair value at grant of CHF 129,876. The award vests in 2019 and 2020, subject to vesting and performance conditions.
6 Based on the grant-date fair value per stock option of CHF 17.02 (2019) and CHF 27.27 (2018) using a binomial valuation model.
7 Includes employers' contributions to pension plans, social security, life insurance etc.

### Payments to former Management Committee members

During 2019 a total of CHF 727,866 was paid to former members of the Management Committee for the duration of their respective contractual notice periods, in line with the conditions of their employment contracts. No severance payments were made.

# Granting of stock options

The development of stock option holdings for the total Management Committee and the CEO in 2019:

| For year 2019 | Number of vested stock options at the beginning of the year | Number of unvested stock options at the beginning of the year | Number of stock options granted during the year | Number of stock options exercised during the year | Number of stock options expired during the year | Number of vested stock options at the end of the year | Number of unvested stock options at the end of the year |
|---|---|---|---|---|---|---|---|
| Chief Executive Officer David Veitch | 19 208 | 42 006 | 22 876 | - | - | 27 289 | 56 801 |
| **Total Management Committee[1]** | **141 532** | **156 812** | **65 777** | **-** | **32 545** | **168 254** | **163 322** |

1 Includes the stock options of the current members of the Management Committee as well as the stock options of the members who left the Management Committee during the period. Stock options of former members who left the Management Committee in 2018 are not included.

## Table of Contents

# Financial Report

## Financial Review

### Overview

The following discussion of the financial condition and results of the operations of Basilea Pharmaceutica Ltd. ("Basilea") and its subsidiaries (the "Company") should be read in conjunction with the consolidated financial statements, which have been prepared in accordance with U.S. GAAP, and the related notes thereto included in this annual report. This discussion contains forward-looking statements which are based on assumptions about the Company's future business that involve risks and uncertainties. The Company's actual results may differ materially from those anticipated in these forward-looking statements.

Basilea Pharmaceutica Ltd., through its operating company Basilea Pharmaceutica International Ltd. ("Basilea International"), is a commercial stage biopharmaceutical company, focusing on the development of products that address the medical challenges in the therapeutic areas of oncology and infectious diseases.

The Company recognized operating income of CHF 134.4 million in 2019 (2018: CHF 132.6 million). Operating income in 2019 included CHF 114.3 million (2018: CHF 82.0 million) from Basilea's two marketed products, the antifungal Cresemba (isavuconazole) and the antibiotic Zevtera (ceftobiprole) and none (2018: CHF 23.9 million) contract revenue related to the agreement with Stiefel, a GSK company, for Toctino. Moreover, operating income included other revenue in the amount of CHF 19.6 million (2018: CHF 26.5 million) and revenue from R&D services in the amount of CHF 0.3 million (2018: CHF 0.2 million).

In 2019, the Company invested CHF 102.7 million (2018: CHF 104.9 million) in research and development activities related to its antibiotic ceftobiprole, its oncology drug candidates derazantinib, lisavanbulin (BAL101553) and BAL3833, the antifungal isavuconazole and further projects in the Company's research portfolio.
Selling, general and administrative expenses including costs for the commercialization of Cresemba and Zevtera amounted to CHF 30.1 million in 2019 (2018: CHF 31.4 million).

The cash and cash equivalents and investments amounted to CHF 161.0 million as of December 31, 2019, compared to CHF 223.9 million at year-end 2018.

# Results of operations

The following table outlines the Company's consolidated results of operations for the fiscal years 2019 and 2018:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Product revenue | 50.9 | 26.2 |
| Contract revenue | 63.5 | 79.7 |
| Revenue from R&D services | 0.3 | 0.2 |
| Other revenue | 19.6 | 26.5 |
| **Total revenue*** | **134.4** | **132.6** |
| Cost of products sold | (18.9) | (20.3) |
| Research & development expenses, net | (102.7) | (104.9) |
| Selling, general & administrative expenses | (30.0) | (31.4) |
| **Total operating expenses** | **(151.6)** | **(156.7)** |
| **Operating loss** | **(17.2)** | **(24.1)** |
| Interest income | 0.0 | 0.0 |
| Interest expense | (6.4) | (6.6) |
| Other financial income | 1.6 | 2.2 |
| Other financial expenses | (1.9) | (3.7) |
| Other components of net periodic pension cost | 1.5 | 1.0 |
| Income taxes | 0.0 | (0.2) |
| **Net loss** | **(22.4)** | **(31.4)** |

Note: Consistent rounding was applied.
*Revenue included CHF 45.6 million (2018: CHF 55.4 million) revenue recognized for upfront, development and regulatory milestone payments received in prior years from partners.

### Revenue

Operating income included product revenue in the amount of CHF 50.9 million (2018: CHF 26.2 million) and contract revenue in the amount of CHF 63.5 million (2018: CHF 79.7 million). Product revenue mainly resulted from sales to Pfizer of CHF 43.1 million (2018: CHF 21.8 million).
Contract revenue from Astellas of CHF 38.7 million (2018: CHF 41.5 million) resulted from recognized deferred revenue of CHF 10.7 million (2018: CHF 10.7 million) in connection with the upfront payment of CHF 67.5 million in 2010, the regulatory milestones of CHF 12.0 million in 2014 and CHF 30.0 million in 2015, from none sales milestone payment (2018: CHF 10.0 million) and from royalty payments of CHF 28.0 million (2018: CHF 20.8 million).
In 2019, the Company recognized none contract revenue from Stiefel (2018: CHF 23.9 million) related to the upfront payment of CHF 224.1 million in 2012.
Furthermore, the Company recognized contract revenue from Pfizer of CHF 21.0 million (2018: CHF 8.5 million) related to royalty payments of CHF 9.0 million (2018: CHF 5.6 million) and sales milestone payments of CHF 12.0 million (2018: none).
Finally, the Company recognized contract revenue in the amount of CHF 3.8 million (2018: CHF 5.8 million) from upfront, sales and regulatory milestone payments from other distribution and license agreements.
In other revenue, the Company recognized CHF 18.5 million in 2019 related to its agreement with BARDA (2018: CHF 25.9 million).
Moreover, the Company recognized revenue from research and development in the amount of CHF 1.1 million (2018: CHF 0.2 million).

### Cost of products sold

The Company recognized cost of products sold of CHF 18.9 million (2018: CHF 20.3 million) for Cresemba and Zevtera.

### Research and development expenses, net

Research and development expenses amounted to CHF 102.7 million (2018: CHF 104.9 million), representing 68% of total operating expenses (2018: 67%).

Research and development expenses in 2019 were mainly related to activities for the U.S. phase 3 program of the antibiotic ceftobiprole, the phase 2 development of oncology drug candidate derazantinib, the phase 1/2a development of oncology drug candidate lisavanbulin, costs for the pediatric programs for ceftobiprole and isavuconazole as well as further compounds in the Company's research portfolio.

The decrease of CHF 2.2 million as compared to 2018 is mainly driven by the ceftobiprole U.S. phase 3 program.

Payments which the Company makes or receives related to its co-development arrangement with Astellas for isavuconazole are recorded in research and development expenses. The research and development expenses in 2019 also included stock-based compensation expenses of CHF 1.4 million (2018: CHF 2.7 million).

Research and development expenses primarily consist of expenses for third-party services in connection with clinical studies and research projects, costs for producing substance to be used in such trials and projects, personnel expenses for the research and development groups of the Company, and depreciation of equipment used for its research and development activities. In addition, research and development expenses may contain expenses for producing pharmaceutical material which may be used for commercialization and was produced prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected.

### Selling, general and administrative expenses

Selling, general and administrative expenses amounted to CHF 30.0 million (2018: CHF 31.4 million). Selling, general and administrative expenses included costs related to the general management of the company, the commercialization of isavuconazole and ceftobiprole and stock-based compensation of CHF 1.6 million (2018: CHF 3.6 million).

The decrease of CHF 1.4 million as compared to 2018 is mainly due to lower administrative expenses.

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

As of December 31, 2019, the Company had subsidiaries in Germany and the United Kingdom.

### Net financial income/expenses, other components of net periodic pension cost

Net financial expenses, excluding interest, amounted to CHF 0.3 million (2018: Net financial expenses of CHF 1.5 million) and other components of net periodic pension cost to CHF 1.5 million (2018: CHF 0.9 million).

Net interest expenses amounted to CHF 6.4 million (2018: CHF 6.6 million).

### Income taxes

Due to the losses incurred to date and the insufficient evidence related to the ability to realize deferred tax assets, the Company has not recognized any deferred tax assets as of December 31, 2019 and December 31, 2018. The Company incurred income taxes of CHF 0.0 million in 2019 and CHF 0.2 million in 2018 related to its operations in certain jurisdictions outside of Switzerland.

## Liquidity and capital resources

As of the date of inception of Basilea, the Company had available cash funds in the amount of CHF 206.0 million as a result of an initial capital contribution from Roche. In June 2003, the Company performed a capital increase, in which the Company raised net proceeds of CHF 20.7 million through the issuance of new shares in a private placement. In March 2004, the Company issued 2.1 million registered shares in connection with its initial public offering and raised net proceeds of CHF 192.8 million. Beginning in 2005, the Company received non-refundable upfront and milestone payments under a license agreement with Johnson & Johnson in the total amount of CHF 114.4 million. In March 2007, the Company issued 1.4 million registered shares in connection with a secondary offering and realized net proceeds of CHF 310.1 million. In February 2010, the Company received a non-refundable net upfront payment under its licence, co-development and co-promotion agreement with Astellas in the amount of CHF 67.5 million. In December 2010, the Company was awarded CHF 126.9 million compensation in arbitration against Johnson & Johnson related to ceftobiprole, including milestones, other damages and interest. In July 2012, the Company received an initial payment of CHF 224.1 million under the agreement with Stiefel related to Toctino. In June 2013, the Company distributed CHF 5.00 per share corresponding to CHF 48.0 million from capital contribution reserves following shareholder approval at the annual general meeting. In September 2014 and March 2015, the Company received non-refundable milestone payments of CHF 12.0 million and CHF 30.0 million, respectively, from Astellas. In December 2015, the Company received CHF 194.7 million net of issuance costs from the issuance of convertible bonds. In 2019, the Company received non-refundable milestone payments of CHF 22.6 million (2018: CHF 5.1 million) from distribution and licensing partners.

The cash used by the Company in 2019 was primarily related to its operating activities, in particular the development programs as well as commercial activities.

The cash and cash equivalents and investments, available as of December 31, 2019, amounted to CHF 161.0 million (December 31, 2018: CHF 223.9 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, 2019, CHF 20.0 million were invested in short-term bank deposits and CHF 30.0 million in long-term bank deposits denominated in Swiss Franc.

The Company has not entered and has not planned to enter into any commitments for any material investments other than for investments in the normal course of the business. The financial needs of Basilea's wholly-owned and fully consolidated subsidiaries are exclusively covered by the Company.
None of the subsidiaries had any significant third-party debt outstanding as of December 31, 2019 and 2018.

## Critical accounting policies

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. The preparation of the financial statements requires management to make estimates and assumptions, which have an effect on the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and on the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and management's knowledge of current events and actions the Company may undertake in the future, however, actual results ultimately may differ from those estimates.

The license agreement with Pfizer consists of three deliverables: grant of an exclusive commercialization license, obligation to supply isavuconazole to Pfizer during the supply service period and execution of the pediatric investigation plan (PIP) studies. The Company determined that the grant of the exclusive commercial license and obligation to supply isavuconazole to Pfizer represents one combined performance obligation, whereas the PIP studies represent a separate one. In 2017, the Company received a non-refundable upfront payment of CHF 70.0 million. The entire non-refundable upfront payment was allocated to the combined performance obligation for the grant of the exclusive commercial license and obligation to supply isavuconazole to Pfizer, as for the PIP studies a separate pricing exists. The non-refundable upfront payment was deferred and is recognized as product revenue as each unit of isavuconazole is sold to Pfizer based on the standalone selling price of each unit during the supply service period.

The original license agreement was amended to extend the territory to China (including Hong Kong and Macao) and sixteen countries in the Asia Pacific region.

Any future milestone payments are recognized as contract revenue when towards satisfying its identified performance obligation. Royalty revenue is recognized when earned as the license is the predominant item of the contract.

As the Company acts as principal for the sale of the product during the supply service period, the sales of the product to Pfizer are recorded gross and recognized in product revenue upon delivery.

The license agreement with Astellas consists of several deliverables: the co-development services, the commercial-related manufacturing services, the grant of the license to Astellas, the European PIP studies and participation in the joint steering or coordination committee (the Committee). The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting, with the European PIP studies and the commercial-related manufacturing services consisting of two others. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting since they do not have value to Astellas on an individual stand-alone basis. The commercial-related manufacturing services and the European PIP studies are other units of accounting since they have value to Astellas and there is evidence of the stand-alone selling price for these obligations in the arrangement.

In 2010, the Company received an upfront payment of CHF 67.5 million net. The entire upfront payment was allocated to the unit of accounting composed of co-development services, the grant of the license, the participation in the Committee and the European PIP studies. The related revenue is recognized over the period where the performance obligation is satisfied, being the period over which the

services are rendered. The period during which the Company has to satisfy its contractual performance obligation is expected to be until October 2020.

The Company also received, respectively were eligible to receive, non-refundable regulatory milestone payments in the total amount of CHF 42.0 million from Astellas. The regulatory milestone payments were deferred and recognized in contract revenue as the Company satisfies its contractual performance obligation. The sales milestones were fully recognized upon achievement as contract revenue.

The agreement with BARDA for the phase 3 development of ceftobiprole aiming to gain regulatory approval in the United States is considered as part of the Company's ongoing major operations. Hence, other revenue is recorded when recoverable costs are incurred.

In a license agreement with Asahi Kasei Pharma Corporation, the Company granted to Asahi Kasei Pharma an exclusive license to develop, register and commercialize isavuconazole in Japan. In addition to the license, the Company has an obligation to manufacture and supply the product for clinical trials and to provide materials, documentation and support. Because the separation criteria is not met, the license and the ongoing documentation and information transfer obligation are accounted for as one unit of accounting and the entire upfront payment was allocated to the unit of accounting. The related revenue is recognized over the period over which the ongoing documentation and information transfer obligation is provided up to submission of a new drug application (NDA), expected to be in the fourth quarter 2021. The commercial manufacturing service is not a deliverable because the service is dependent on the clinical results, the approval of the NDA, and the agreement of specific commercial manufacturing terms. Further milestone payments will be recognized as contract revenue upon satisfaction of the criteria associated with the milestone. Royalty revenue will be recognized when earned. The Company received a non-refundable upfront payment of CHF 7.0 million. The upfront payment was deferred and is recognized as contract revenue over the remaining service period, expected to be until the fourth quarter of 2021 in line with the period over which the Ongoing Documentation and Information Transfer Obligation is provided up to submission of the NDA.

The Company received upfront payments under other distribution- and license agreements for isavuconazole and ceftobiprole which were deferred and are recognized as contract revenue over the remaining performance period, approximately until 2032.

Expenses relating to the Company's products sold consisting of the manufacturing cost, capacity reservation costs, shipping and handling costs are presented in cost of products sold.

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company recorded total expenses related to stock-based compensation of CHF 3.0 million in 2019 (2018: CHF 6.3 million).

Research and development costs are expensed as incurred. Costs of research and development equipment with alternative future use are capitalized and depreciated over its respective useful life. Payments that the Company makes or receives related to its co-development arrangement for isavuconazole are recorded in research and development expenses. Costs related to the manufacturing of inventories which occurred after the receipt of regulatory approval or evidence being available that regulatory approval can reasonably be expected, are capitalized.

The Company expenses costs as research and development expenses related to manufacturing of inventories when incurred prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected. If regulatory approval is subsequently obtained, the recorded expenses are not reversed. Accordingly, the cost of products sold do not and will not include manufacturing costs for material, which was produced prior to obtaining regulatory approval, when the respective commercial material is sold.

In 2015, the Company received total net proceeds from the sale of the Convertible Senior Unsecured Bonds of CHF 194.7 million, after deducting issuance costs of CHF 5.3 million. The Convertible Senior Unsecured Bonds are accounted for at amortized costs. The Convertible Senior Unsecured Bonds were issued bearing interest at a fixed rate of 2.75% per year. In 2019 and 2018, the Company recognized interest expense of CHF 5.5 million for contractual coupon interest and CHF 0.8 million for accretion of the issuance costs. The remaining un-amortized debt issuances costs of CHF 3.0 million will be accreted over the remaining term of the Convertible Senior Unsecured Bonds, which is approximately 3 years.

The Company assesses deferred taxes regularly and provides for a valuation allowance on deferred tax assets if it is more likely than not that deferred tax assets are not realized. As a consequence, the Company has recorded a valuation allowance on net deferred tax assets in the amount of CHF 73.2 million as of December 31, 2019 mainly due to the history of operating losses and the uncertainty related to the ability to realize such deferred tax assets.

Please refer to the consolidated financial statements of the Company included elsewhere in this annual report for further information on the Company's accounting policies.

## Foreign currency exchange rate risk

The functional currency of the Company is the Swiss Franc. Besides the expenses, which are denominated in Swiss Francs, the Company also incurs expenses in foreign currencies, especially in Euro, US Dollars, British Pounds, Canadian Dollars, Chinese Yuan Renminbi and Japanese Yen. Although the Company believes that the current exposure to foreign currency risk is not significant, it cannot be excluded that 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.

## Subsequent events

There were no subsequent events through February 13, 2020, the date on which the financial statements were available to be issued.

# Report of the statutory auditor
## to the General Meeting of Basilea Pharmaceutica Ltd.
## Basel

## Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Basilea Pharmaceutica Ltd. (the Company), which comprise the consolidated balance sheet, statement of operations, statement of comprehensive income / loss, statement of cash flows, statement of changes in shareholders' equity (deficit) and notes, for the year ended December 31, 2019.

### Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2019 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

## Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How we addressed the matter |
|---|---|
| **Revenue recognition of the up-front payment related to the license agreement with Pfizer entered in 2017**<br><br>In June 2017, the Company entered into a license agreement with Pfizer Inc. (Pfizer) for isavuconazole which closed on July 19, 2017. Based on the agreement Pfizer has the right to exclusively commercialize isavuconazole in and manufacture it for Europe (excluding the Nordics), Russia, Turkey and Israel.<br><br>Under the terms of the agreement, the Company received a non-refundable upfront payment of CHF 70 million. Management concluded that the up-front payment is for the combined performance obligation related to the license and obligation to supply isavuconazole during the supply service period, and recognises the respective product revenue over time in line with the satisfaction of the combined performance obligation.<br><br>We consider the revenue recognition of the up-front payment for the period to be a key audit matter given the judgments and estimates involved in determining the stand-alone selling price and the remaining supply service period used to recognize revenue.<br><br>Refer to note 1 Summary of significant accounting policies –Revenue recognition and note 10 Agreements of the consolidated financial statements. | We specifically focused on the revenue recognition pattern applied in 2019 to the remaining deferred balance of the non-refundable CHF 70 million upfront consideration which the Company received in 2017.<br><br>We interviewed management to gain an understanding of the current manufacturing process to determine the relevance of the supply obligation of the contract.<br><br>We assessed the method used and inputs applied by management to recognise the upfront payment as product revenue.<br><br>We found the judgments and estimates made by Management related to revenue recognition of the upfront payment to be reasonable. |

## Report on other legal requirements

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

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

PricewaterhouseCoopers AG

Bruno Rossi

Audit expert
Auditor in charge

Kathryn Dobbins

Basel, February 13, 2020

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# Consolidated Financial Statements

## Basilea Pharmaceutica Ltd. and subsidiaries

**Consolidated balance sheets as of December 31, 2019 and 2018**
**(in CHF thousands, except for number of shares)**

| | Footnote reference | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 109 024 | 173 034 |
| Short-term investments | 6 | 20 000 | 50 000 |
| Restricted cash | | 2 020 | 874 |
| Accounts receivable | 5 | 6 242 | 3 757 |
| Other receivables | 8 | 22 053 | 30 962 |
| Inventories | 9 | 18 569 | 14 411 |
| Other current assets | | 6 952 | 1 700 |
| **Total current assets** | | **184 860** | **274 738** |
| **Non-current assets** | | | |
| Tangible assets, net | 2 | 5 162 | 6 424 |
| Intangible assets, net | 3 | 372 | 372 |
| Long-term investments | 6 | 30 000 | - |
| Other non-current assets | 18 | 1 073 | 217 |
| **Total non-current assets** | | **36 607** | **7 013** |
| **TOTAL ASSETS** | | **221 467** | **281 751** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable | | 6 765 | 6 399 |
| Deferred revenue | 10 | 32 873 | 25 025 |
| Accruals and other current liabilities | 12, 18 | 35 856 | 35 260 |
| **Total current liabilities** | | **75 494** | **66 684** |
| **Non-current liabilities** | | | |
| Convertible senior unsecured bonds | 11 | 197 740 | 196 982 |
| Deferred revenue, less of current portion | 10 | 16 471 | 69 945 |
| Other non-current liabilities | 17, 18 | 24 722 | 14 827 |
| **Total non-current liabilities** | | **238 933** | **281 754** |
| **Total liabilities** | | **314 427** | **348 438** |
| Commitments and contingencies | 21 | | |
| **SHAREHOLDERS' EQUITY (DEFICIT)** | | | |
| Share capital[1] | 15 | 11 882 | 11 879 |
| Treasury shares[2] | 15 | (5 963) | (7 235) |
| Additional paid-in capital | | 927 342 | 924 194 |
| Accumulated other comprehensive loss | 15 | (24 555) | (16 281) |
| Accumulated deficit: | | | |
| Loss carried forward | | (979 244) | (947 892) |
| Net loss for the year | | (22 422) | (31 352) |
| **Total shareholders' equity (deficit)** | | **(92 960)** | **(66 687)** |
| **TOTAL LIABILITIES AND EQUITY (DEFICIT)** | | **221 467** | **281 751** |

1 As of December 31, 2019, 11,881,945 shares (December 31, 2018: 11,878,556) were issued and 10,773,904 shares (December 31, 2018: 10,744,704) outstanding with a par value of CHF 1.00 per share.
2 As of December 31, 2019, 1,108,041 shares (December 31, 2018: 1,133,852) with a par value of CHF 1.00.

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

# Basilea Pharmaceutica Ltd. and subsidiaries

**Consolidated statements of operations for the years ended December 31, 2019 and 2018 (in CHF thousands, except per share amounts)**

| | Footnote reference | 2019 | 2018 |
|---|---|---|---|
| Product revenue | 4 | 50 938 | 26 197 |
| Contract revenue | 4, 10 | 63 523 | 79 703 |
| Revenue from research & development services | 4 | 325 | 192 |
| Other revenue | 4 | 19 595 | 26 463 |
| **Total revenue** | | **134 381** | **132 555** |
| | | | |
| Cost of products sold | | (18 868) | (20 299) |
| Research & development expenses, net | | (102 662) | (104 942) |
| Selling, general & administrative expenses | | (30 051) | (31 409) |
| **Total cost and operating expenses** | | **(151 581)** | **(156 650)** |
| | | | |
| **Operating loss** | | **(17 200)** | **(24 095)** |
| Interest income | | 28 | 25 |
| Interest expense | 11 | (6 424) | (6 553) |
| Other financial income | | 1 583 | 2 191 |
| Other financial expenses | | (1 904) | (3 666) |
| Other components of net periodic pension cost | | 1 535 | 938 |
| **Loss before taxes** | | **(22 382)** | **(31 160)** |
| Income taxes | 13 | (40) | (192) |
| **Net loss** | | **(22 422)** | **(31 352)** |
| | | | |
| **Loss per share** | 16 | **2019** | 2018 |
| Basic loss per share, in CHF | | (2.08) | (2.89) |
| Diluted loss per share, in CHF | | (2.08) | (2.89) |

# Basilea Pharmaceutica Ltd. and subsidiaries

**Consolidated statements of comprehensive income/loss for the years ended December 31, 2019 and 2018 (in CHF thousands)**

| | Footnote reference | 2019 | 2018 |
|---|---|---|---|
| **Net loss** | | **(22 422)** | **(31 352)** |
| | | | |
| Currency translation adjustments | | (183) | (633) |
| Unrecognized pension costs | | (8 890) | 2 325 |
| Amortization of unrecognized pension costs | | 801 | 1 231 |
| **Other comprehensive loss/income, net of tax** | 15 | **(8 272)** | **2 923** |
| | | | |
| **Comprehensive loss** | | **(30 694)** | **(28 429)** |

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

# Basilea Pharmaceutica Ltd. and subsidiaries

## Consolidated statements of cash flows for the years ended December 31, 2019 and 2018 (in CHF thousands)

| | Footnote reference | 2019 | 2018 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net loss | | (22 422) | (31 352) |
| Adjustments to reconcile net loss to net cash used in/provided by operating activities: | | | |
| Depreciation and amortization | | 1 639 | 1 852 |
| Stock-based compensation | | 3 048 | 6 251 |
| Interest and accretion of debt issuance cost | 11 | 758 | 758 |
| Change in operating assets/liabilities: | | | |
| Accounts receivable | | (2 457) | 1 054 |
| Other receivables | | 8 909 | (20 947) |
| Inventories | | (4 142) | 741 |
| Accounts payable | | 378 | 2 051 |
| Deferred revenue | | (45 626) | (52 437) |
| Accruals and other current liabilities | | 693 | 10 513 |
| Other operating cash flow items | | (4 614) | 2 306 |
| **Net cash used in operating activities** | | **(63 836)** | **(79 210)** |
| | | | |
| **Cash flow from investing activities** | | | |
| Payments for short-term investments | 6 | (20 000) | - |
| Maturities of short-term investments | 6 | 50 000 | 60 000 |
| Payments for long-term investments | 6 | (30 000) | - |
| Investments in tangible assets | 2 | (294) | (419) |
| Investments in intangible assets | 3 | (110) | (190) |
| **Net cash used in/provided by investing activities** | | **(404)** | **59 391** |
| | | | |
| **Cash flow from financing activities** | | | |
| Net proceeds from exercise of stock options | 14 | 37 | 249 |
| Net proceeds from treasury shares | | 1 272 | (6 235) |
| **Net cash provided by/used in financing activities** | | **1 309** | **(5 986)** |
| | | | |
| **Effect of exchange rate changes on cash, cash equivalents and restricted cash** | | **67** | **(1 011)** |
| | | | |
| **Net change in cash, cash equivalents and restricted cash** | | **(62 864)** | **(26 816)** |
| **Cash, cash equivalents and restricted cash, beginning of period** | | **173 908** | **200 724** |
| **Cash, cash equivalents and restricted cash, end of period** | | **111 044** | **173 908** |
| | | | |
| **Supplemental information** | | | |
| Cash paid for interest | | 5 666 | 5 795 |
| Cash paid for income taxes | | 141 | 413 |

The following table shows the components of cash, cash equivalents and restricted cash as of December 31, 2019 and 2018:

| In CHF thousands | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | 109 024 | 173 034 |
| Restricted cash | 2 020 | 874 |
| **Total cash, cash equivalents and restricted cash** | **111 044** | **173 908** |

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

# Basilea Pharmaceutica Ltd. and subsidiaries

**Consolidated statements of changes in shareholders' equity (deficit)
for the years ended December 31, 2019 and 2018
(in CHF thousands, except for number of shares)**

| | Footnote reference | Share capital | | Treasury shares | | Additional paid-in capital | Accumulated other comprehensive income/loss | Accumulated deficit | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | | Number of shares | Amount | Number of shares | Amount | | | | |
| **Balance at December 31, 2017** | | **11 871 656** | **11 872** | **(1 000 000)** | **(1 000)** | **917 701** | **(19 204)** | **(950 809)** | **(41 440)** |
| Opening balance adjustment (ASC 606 implementation) | 1 | - | - | - | - | - | - | 2 917 | 2 917 |
| Net loss | | - | - | - | - | - | - | (31 352) | (31 352) |
| Other comprehensive income | | - | - | - | - | - | 2 923 | - | 2 923 |
| Treasury shares transactions | | - | - | (133 852) | (6 235) | - | - | - | (6 235) |
| Exercise of stock options, net | | 6 900 | 7 | - | - | 242 | - | - | 249 |
| Stock-based compensation, net | | - | - | - | - | 6 251 | - | - | 6 251 |
| **Balance at December 31, 2018** | | **11 878 556** | **11 879** | **(1 133 852)** | **(7 235)** | **924 194** | **(16 281)** | **(979 244)** | **(66 687)** |
| Net loss | | - | - | - | - | - | - | (22 422) | (22 422) |
| Other comprehensive income | | - | - | - | - | - | (8 272) | - | (8 272) |
| Treasury shares transactions | | - | - | 25 811 | 1 272 | - | - | - | 1 272 |
| Exercise of stock options, net | | 3 389 | 3 | - | - | 100 | - | - | 103 |
| Stock-based compensation, net | | - | - | - | - | 3 048 | - | - | 3 048 |
| **Balance at December 31, 2019** | | **11 881 945** | **11 882** | **(1 108 041)** | **(5 963)** | **927 342** | **(24 553)** | **(1 001 666)** | **(92 958)** |

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

# Basilea Pharmaceutica Ltd. and subsidiaries

**Notes to the consolidated financial statements**
**(all amounts in CHF unless stated otherwise)**

## 1 Summary of significant accounting policies

### Business purpose and history

Basilea Pharmaceutica Ltd., Basel, Switzerland (Basilea), together with its subsidiaries (together, the Company), is a commercial stage biopharmaceutical company focusing on the development of products that address the medical challenges in the therapeutic areas of oncology and anti-infectives. The Company was founded in October 2000.

Basilea owns 100% of the shares of BPh Investitionen Ltd., Baar, Switzerland, a subholding company, which holds a 100% investment in Basilea Pharmaceutica China Ltd., Haimen, China, which supports the Company's key research and development projects with medicinal chemistry, analytical development and process research and development.

Supporting its commercial organization, the Company has operating subsidiaries in the United Kingdom and Germany. All subsidiaries are wholly-owned and fully consolidated.

### Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements are presented in Swiss Francs (CHF).

### Principles of consolidation

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

### Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions which have an effect on the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and on the reported amounts of revenues and expenses during the reporting period. Management evaluates these estimates on an ongoing basis, including those related to revenue recognition, accrued expenses, stock-based compensation, pension accounting and income taxes. These estimates are based on historical experience and management's knowledge of current events and actions the Company may undertake in the future; however, actual results ultimately may differ from those estimates.

### Fair value measurements

The Company applies the Accounting Standard Codification (ASC) 820 "Fair Value Measurements and Disclosures". ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an

asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In measuring fair value, the Company evaluates valuation approaches such as the market approach, the income approach and the cost approach. A three-level valuation hierarchy, which prioritizes the inputs to valuation approaches that are used to measure fair value, is based upon whether such inputs are observable or unobservable.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the Company. The three-level hierarchy for the inputs to valuation approaches is briefly summarized as follows:

Level 1— Observable inputs such as quoted prices (unadjusted) for identical instruments in active markets;
Level 2— Observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-derived valuations whose significant inputs are observable for substantially the full term of the assets or liabilities; and
Level 3— Unobservable inputs that reflect the Company's estimate of assumptions that market participants would use in pricing the asset or liability.

The Company’s financial instruments consist mainly of short-term and long-term financial assets and liabilities, including cash and cash equivalents, short-term and long-term investments, accounts receivable, other receivables, other current assets, accounts payable, accruals and other current liabilities and the Company’s convertible senior unsecured bonds.

The fair value of the financial instruments included in working capital approximate their carrying value due to the short-term nature of these positions. The carrying values of the long-term investments approximate their fair values, since they bear interest at rates close to the prevailing market rates.

Financial instruments measured on a basis other than fair value are mostly comprised of the Company’s convertible senior unsecured bonds and are presented in the table below in terms of fair value. The fair value was estimated based on quoted market prices:

**Estimated fair value**

| In CHF million | 2019 | 2018 |
|---|---|---|
| Convertible senior unsecured bonds (Level 1) | 201.9 | 181.7 |

### Cash and cash equivalents

The Company considers cash equivalents to be highly liquid investments which are readily convertible to cash with original maturities of not more than three months.

### Restricted cash

Restricted cash includes bank accounts reserved for the purchase of treasury shares.

### Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses from the settlement of such foreign currency balances and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized as a component of other financial income or other financial expenses in the statement of operations.

For consolidation purposes, income, expenses and cash flows are translated at the average exchange rate during the period. Assets and liabilities are translated at the period-end exchange rate. The resulting translation adjustment is recorded as other comprehensive income/loss in shareholders' equity (deficit).

### Short- and long-term investments

Short-term investments include time deposits with banks with original maturities of more than three months and remaining maturities of up to twelve months. Long-term investments include time deposits with banks with original maturities of more than twelve months. These investments are carried at nominal value which approximates fair value. They are classified as level 2 instruments in the fair value hierarchy according to ASC 820. Gains and losses resulting from such investments are included as a component of other financial income or other financial expenses in the statement of operations.

### Accounts receivable and other receivables

Accounts receivable and other receivables are recorded at net realizable value after consideration of an allowance for doubtful accounts. The Company maintains allowances for estimated uncollectible receivables based on historical experience and specifically identified at-risk accounts. The adequacy of the allowance is evaluated on an ongoing and periodic basis and adjustments are made in the period in which a change in condition occurs. Other receivables mainly include various prepayments as well as unbilled revenue, which consists of revenue earned but not yet invoiced.

### Inventories

Costs related to the manufacturing of inventories are expensed as research and development expenses when incurred prior to obtaining regulatory approval or evidence being available that regulatory approval for respective product can reasonably be expected. If regulatory approval is subsequently obtained, the recorded expenses are not reversed.

Costs related to the manufacturing of inventories which occurred after the receipt of regulatory approval for respective product or evidence being available that regulatory approval can reasonably be expected are capitalized. Inventories are valued at the lower of cost and net realizable value. Cost is determined based on the first-in first-out principle. If inventory costs exceed the net realizable value, a provision is recorded. In addition, provisions are recorded due to obsolescence or lack of demand.

### Tangible assets

Tangible assets are recorded at cost less accumulated depreciation and impairment. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets of approximately 20 years for buildings, 5 years for research & development equipment, 3 years for furniture and office equipment and 3 years for IT hardware and equipment. Leasehold improvements are depreciated over the shorter of 5-10 years or the lease term. Land is recorded at cost and is not depreciated. Land-use rights are depreciated over the term of the granted right.

Expenditures for major renewals and improvements that extend the asset life are capitalized, while expenditures for maintenance and repairs are charged to the statement of operations as incurred.

The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the related accounts, and resulting gains or losses are reflected in the statement of operations.

### Intangible assets

Intangible assets with finite lives are recorded at cost less accumulated amortization and impairment. Intangible assets with finite lives consist of external direct costs of materials and services consumed in developing or obtaining internal use software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which is 3 years for software.

Expenditures for maintenance are charged to the statement of operations as incurred.

The cost and related accumulated amortization of assets sold or otherwise disposed of are removed from the related accounts, and resulting gains or losses are reflected in the statement of operations.

### Impairment of long-lived assets

Long-lived assets are reviewed for impairment indicators throughout the year. Whenever events or changes in circumstances indicate that the carrying amounts of long-lived assets held for use, including tangible assets as well as intangible assets, may not be recoverable, the Company assesses such long-lived assets for impairment.

If the assessment indicates that a long-lived asset is not recoverable (i.e. the carrying amount is higher than the future projected undiscounted cash flows), its carrying amount would be reduced to the fair value.

### Convertible senior unsecured bonds

The convertible senior unsecured bonds were initially measured as a liability based on the proceeds received and are presented net of issuance costs incurred. The issuance costs are amortized as interest expense over the life of the debt instrument resulting in the accretion of the liability of the convertible senior unsecured bonds until maturity.

### Treasury shares

Treasury shares are recognized at the acquisition costs of the shares. Shares issued from treasury are recognized using the first-in first-out method.

### Leases

Periods presented prior to 2019 are presented under ASC 840. During this period tangible assets acquired through capital lease arrangements are recorded at the lower of the present value of the minimum lease payments or fair value. These assets are depreciated over the shorter of the useful life of the assets or the lease term. Payments under operating lease arrangements are recognized on a straight-line basis over the lease term.

*Adoption of ASC Topic 842, Leases*

In February 2016, the Financial Accounting Standards Board (FASB) issued a new accounting standard that amends the guidance for the accounting and disclosure of leases. This new standard requires that lessees recognize the assets and liabilities that arise from leases on the balance sheet, including leases classified as

operating leases and disclose qualitative and quantitative information about leasing arrangements. The FASB subsequently issued additional amendments to address issues arising from the implementation of the new lease standard.

On January 1, 2019, the Company adopted ASC 842, Leases, using the modified-retrospective method. This approach provides a method for recording existing leases at adoption date of January 1, 2019. The Company used the adoption date as the date of initial application, and thus comparative-period financial information is not presented for periods prior to the adoption date. In addition, for each asset class, the Company elected the package of practical expedients permitted under the transition guidance within the new standard which allowed the Company to not reassess prior conclusions about lease identification, lease classification and initial direct costs and elected to use the short-term lease exemption that allows the Company to expense short-term leases on a straight line basis over their lease term, consistent with ASC 840.

At inception of a contract, the Company determines whether an arrangement is or contains a lease. For all leases, the Company determines the classification as either operating or financing. Operating leases are included in other non-current assets, accruals and other current liabilities and other non-current liabilities in the Company's Consolidated Balance Sheets.

The Company has one lease which is for rented office space. The Company recognized an operating Right-of-use (ROU) asset and lease liability because the asset could be identified and the Company has the right to control the asset. There are no financing ROU assets to be recognized for the financial year ending on December 31, 2019. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments under the lease. Lease recognition occurs at the commencement date. ROU assets also include any lease payments made prior to the commencement date and exclude lease incentives received. In determining the present value of the lease payments, the implicit rate in the lease agreement is used when readily determinable. Alternatively, when the implicit rate is not determinable, the incremental borrowing rate is used based on the information available at the commencement date. The company determined the impact of discounting was not material to the present value of the lease payments.

For its operating lease, the Company's lease expense is recorded on a straight-line basis over the lease term.

The Company elected for real estate leases to not separate the nonlease components from their related lease components.

### Revenue recognition

*Adoption of ASC Topic 606, Revenue from Contracts with Customers*

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. As the expected performance period for the global agreement with Stiefel related to Toctino® ended in August 2018, the Company deemed the agreement as substantially completed and therefore, excluded this agreement from the ASC 606 adoption. The Company recorded a net increase to opening retained earnings and a decrease to deferred revenue of CHF 2.9 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact related to the regulatory milestones under the license agreement with Astellas related to isavuconazole. The impact to contract revenues and net loss as a result of applying ASC 606 for the financial year ending December 31, 2018 was a decrease, respectively

increase of CHF 1.0 million. The corresponding impact to the basic and diluted loss per share was an increase of CHF 0.10.

*Revenue recognition*
Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The following table presents the Company's revenue disaggregated by revenue source. Sales and usage-based taxes are excluded from revenues:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Product revenue | 50.9 | 26.2 |
| Contract revenue | 63.5 | 79.7 |
| Revenue from research & development services | 0.3 | 0.2 |
| Other revenue: | | |
| BARDA revenue | 18.5 | 25.9 |
| Others | 1.2 | 0.6 |
| **Total** | **134.4** | **132.6** |

Revenue is measured at the amount of consideration the Company received or expects to receive in exchange for transferring goods or providing services. The Company derives its revenues primarily from products and contractual arrangements. The Company determines revenue recognition through the following steps:
– Identification of the contract, or contracts, with a customer
– Identification of the performance obligations in the contract
– Determination of the transaction price
– Allocation of the transaction price to the performance obligations in the contract
– Recognition of revenue when, or as, the Company satisfies a performance obligation

Product revenue
Product revenue is recognized net of any sales and value added taxes and sales deductions based on contractually agreed payment terms. The control passes according to contractual shipment terms. The amount of consideration the Company receives and revenue the Company recognizes varies based on estimated rebates, discounts, returns and charge backs. The Company adjusts its estimate of revenue at the earlier of when the most likely amount of consideration the Company expects to receive changes or when the consideration becomes fixed. Sales returns are generally estimated and recorded based on historical sales and returns information. Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field or potential other reasons, and the returns reserve is based on historical return trends by product and by market as a percent of gross revenues.

Contract revenue
To determine the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. For certain contracts, the Company provides a service of combining a license and related

tasks into a single performance obligation. Hence, the entire contract is accounted for as one performance obligation. The Company may, however, promise to provide a distinct license with distinct services within a contract, in which case the Company separates the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. Non-refundable upfront payments and substantive development and sales milestones will be recognized over the remaining performance period based on the Company's progress towards satisfying its identified performance obligation. The Company infrequently sells licenses with observable standalone sales. In these cases the observable standalone sales are used to determine the standalone selling price. More frequently, the Company sells a unique license for a specific drug, and in these cases the Company typically uses the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Following the guidance in ASC 808 “Collaborative Arrangements”, the Company presents the results of activities for which it acts as the principal on a gross basis and reports any payments received from (or made to) other collaborators based on other applicable GAAP. The Company’s accounting policy for its qualifying collaborative agreements is to evaluate amounts due from (or owed to) its collaborators based on the nature of each separate activity.

Revenue from research & development services
Revenue from research and development services provided by the Company is recorded as earned based on the performance requirements of the underlying contracts. The costs related to these services are primarily included in research and development expenses.

Other revenue
Other revenue includes realizable amounts under the contract with the Biomedical Advanced Research and Development Authority (BARDA) related to the Company’s ceftobiprole U.S. phase 3 development program. The Company considers the arrangement to be part of its ongoing major operations. Revenue from this contract is recognized when recoverable costs are incurred.

Arrangements with multiple performance obligations
Contracts with customers may include multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines the standalone selling prices based on its overall pricing objectives, taking into consideration market conditions and other factors, including the value of the contracts and customer geographic locations or using expected cost plus margin.

Practical expedients and exemptions
The Company excludes from the transaction price all sales taxes that are assessed by a governmental authority and that are imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer (for example, sales, use, value added, and some excise taxes).

The Company applies the general variable consideration guidance to estimate the transaction price if the license to the intellectual property is not the predominant item. With regard to royalties where the license is the sole or predominant item to which the royalty relates, for example when the customer would ascribe significantly more value to the license than to other goods or services provided under an arrangement the sale- and usage-based royalty exemption applies and royalties are recognized once earned.

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less and contracts for which the Company recognizes revenue at the amount to which the Company has the right to invoice for services performed.

### Cost of products sold

Expenses relating to the Company's products sold consisting of the manufacturing cost including manufacturing licenses, capacity reservation costs and shipping and handling costs are presented in cost of products sold.

### Research & development expenses

Research and development costs are expensed as incurred. No amount was capitalized in any period presented. Costs of research and development equipment with alternative future uses are capitalized and depreciated over the equipment's useful life.

Research and development expenses primarily include costs for third-party services in connection with clinical studies and research projects, costs for producing substance to be used in such studies and projects, personnel expenses for the Company's research and development groups, and depreciation of equipment used for research and development activities. In addition, research and development expenses contain expenses for producing pharmaceutical material which may be used for commercialization subject to regulatory approval, and which was produced prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected.

Payments that the Company makes or receives related to its co-development arrangement for isavuconazole are recorded in research and development expenses, net and in contract revenue respectively, for its mark-up earned since the Company is acting as an agent in the arrangement.

### Stock-based compensation

The Company applies ASC 718 "Compensation – Stock Compensation" related to its stock-based compensation awards. According to ASC 718, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award taking into consideration an estmation for expected forfeitures.

The stock-based compensation expenses are allocated over the vesting period of the award. For awards which consist of portions with different vesting periods, the compensation expense is recognized pro rata for each portion of the award over the respective vesting period of such portion.

### Income taxes

The Company applies the asset and liability method for the determination of provisions for income taxes. The income taxes for the reporting period consist of the current taxes (taxes paid and taxes payable) plus the change in the deferred taxes for the respective period. Deferred taxes represent the estimated future tax consequences of temporary differences between the amounts of assets and liabilities

recognized for financial reporting purposes and such amounts recognized for tax purposes. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Interest and penalties in connection with income taxes are recorded as income taxes.

### Earnings/Loss per share

Basic earnings/loss per share is calculated by dividing net income/loss by the weighted-average number of shares outstanding during the period, without consideration for common stock equivalents.

Diluted earnings/loss per share include the effect of all potential shares, consisting of stock options using the treasury-stock method, as well as shares issuable upon conversion of the convertible senior unsecured bonds, determined on an "if-converted" basis. For purposes of the loss per share calculation, potentially dilutive securities consisting of stock options and the convertible senior unsecured bonds are considered to be potential shares and, for each loss period presented in these consolidated financial statements, are excluded in the calculation of diluted net loss per share because their effect would be antidilutive.

### Pension plans

The Company applies ASC 715 “Compensation – Retirement Benefits“ related to its pension plan. According to ASC 715, the projected benefit obligation for defined benefit pension plans is calculated annually by independent actuaries using the projected unit credit method. The projected benefit obligation at period end represents the actuarial present value of the estimated future payments required to settle the obligation that is attributable to employee services rendered before that date.

The Company records net gains/losses, consisting of actuarial gains/losses, curtailment gains/losses and differences between expected and actual returns on plan assets, in other comprehensive income/loss. Such net gains/losses are amortized to the consolidated statements of operations to the extent that they exceed 10% of the greater of projected benefit obligations or pension assets. The Company further records prior service costs/credits from plan amendments in other comprehensive income/loss in the period of the respective plan amendment and amortizes such amounts to the consolidated statement of operations over the future service period of the plan participants.

The Company records the service cost component of the net benefit costs with the other employee compensation costs within the result from operations. The other components will be reported separately outside of the result of operations.

### Certain risks and uncertainties

The Company is subject to risks common to companies in its industry including but not limited to: uncertainty of results of clinical trials for its compounds; ability to achieve regulatory approval for its compounds; acceptance of Company’s products by the market in case they obtained regulatory approval; ability to market its products; ability to manufacture its products at reasonable costs; protection of proprietary technology and intellectual property; development of new technological innovations by its competitors; dependence on key personnel; dependence on key suppliers; changes in foreign currency rates and compliance with governmental and other regulations.

### New accounting pronouncements

As new accounting pronouncements are released, the Company reviews such pronouncements for the potential impact on the Company’s financial statements.

The new accounting pronouncements below may have an impact on the financial statements of the Company.

In November 2018, the FASB issued ASU No. 2018-18, "Collaborative Arrangements" (Topic 808) - Clarifying the interaction between Topic 808 and Topic 606: the amendment provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606. In addition, the amendment provides more comparability in the presentation of revenue for certain transactions between collaborative arrangement participants.

The amendments in this update will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2019, whereby early adoption is permitted in any interim or annual period. The implementation of this accounting pronouncement did not have a significant impact on these consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, "Compensation-Retirement Benefits-Defined Benefit Plans-General" (Subtopic 715-20). The amendment modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendment is effective for fiscal years ending after December 15, 2020 and must be applied retrospectively to all periods presented. The Company does currently not expect that the adoption of this guidance will have a material impact on the financial statements.

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

The following accounting pronouncements were effective for reporting periods beginning after December 15, 2018:

ASU No. 2016-02, "Leases" (Topic 842) – the impact of implementation of this accounting pronouncement is included within this footnote.

## 2 Tangible assets

| In CHF million | Land/Land-use rights | Buildings | Equipment | Total |
|---|---|---|---|---|
| **2019** | | | | |
| **Cost** | | | | |
| January 1, 2019 | 1.5 | 19.0 | 24.5 | 45.0 |
| Additions | 0.0 | 0.0 | 0.3 | 0.3 |
| Disposals | 0.0 | 0.0 | (1.0) | (1.0) |
| Currency effect | 0.0 | 0.0 | (0.1) | (0.1) |
| December 31, 2019 | 1.5 | 19.0 | 23.7 | 44.2 |
| **Accumulated depreciation** | | | | |
| January 1, 2019 | 0.0 | 15.2 | 23.4 | 38.6 |
| Additions | 0.0 | 1.0 | 0.5 | 1.5 |
| Disposals | 0.0 | 0.0 | (1.0) | (1.0) |
| Currency effect | 0.0 | 0.0 | (0.1) | (0.1) |
| December 31, 2019 | 0.0 | 16.2 | 22.8 | 39.0 |
| **Net book value as of December 31, 2019** | **1.5** | **2.8** | **0.9** | **5.2** |
| **2018** | | | | |
| **Cost** | | | | |
| January 1, 2018 | 1.5 | 19.1 | 24.5 | 45.1 |
| Additions | 0.0 | 0.0 | 0.3 | 0.3 |
| Disposals | 0.0 | 0.0 | (0.1) | (0.1) |
| Currency effect | 0.0 | (0.1) | (0.2) | (0.3) |
| December 31, 2018 | 1.5 | 19.0 | 24.5 | 45.0 |
| **Accumulated depreciation** | | | | |
| January 1, 2018 | 0.0 | 14.3 | 23.0 | 37.3 |
| Additions | 0.0 | 1.0 | 0.7 | 1.7 |
| Disposals | 0.0 | 0.0 | (0.1) | (0.1) |
| Currency effect | 0.0 | (0.1) | (0.2) | (0.3) |
| December 31, 2018 | 0.0 | 15.2 | 23.4 | 38.6 |
| **Net book value as of December 31, 2018** | **1.5** | **3.8** | **1.1** | **6.4** |

### 3 Intangible assets

The intangible assets as of December 31, 2019 and 2018 consist of software for internal use:

| In CHF million | 2019 | 2018 |
|---|---|---|
| **Cost** | | |
| **January 1** | **5.2** | **5.0** |
| Additions | 0.1 | 0.2 |
| Disposals | - | - |
| Currency effect | 0.0 | 0.0 |
| **December 31** | **5.3** | **5.2** |
| | | |
| **Accumulated amortization** | | |
| **January 1** | **4.8** | **4.7** |
| Additions | 0.1 | 0.1 |
| Disposals | - | - |
| Currency effect | 0.0 | 0.0 |
| **December 31** | **4.9** | **4.8** |
| | | |
| **Net book value as of December 31** | **0.4** | **0.4** |

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

| Amount in CHF million | |
|---|---|
| 2020 | 0.2 |
| 2021 | 0.1 |
| 2022 | 0.1 |
| 2023 | - |
| Thereafter | - |
| **Total** | **0.4** |

### 4 Segment and geographic information

The Company operates in one segment, which is the discovery, development and commercialization of innovative pharmaceutical products. The Company's CEO, who is the chief operating decision maker (CODM) of the Company, reviews the statement of operations of the Company on a consolidated basis and makes decisions and manages the operations of the Company as a single operating segment.

The geographical allocation of the long-lived assets of the Company is presented in the following table:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Switzerland | 4.4 | 5.4 |
| China | 0.8 | 1.0 |
| **Total** | **5.2** | **6.4** |

As of December 31, 2019 the Company recorded an operating lease ROU asset of CHF 0.9 million in other non-current assets. The ROU asset is geographical allocated to Switzerland and not presented in the table above.

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

| In CHF million | 2019 |
|---|---|
| Republic of Ireland | 64.7 |
| Japan | 40.2 |
| USA | 18.6 |
| Uruguay | 3.9 |
| Other | 7.0 |
| **Total** | **134.4** |

| In CHF million | 2018 |
|---|---|
| Japan | 43.0 |
| Republic of Ireland | 30.6 |
| USA | 25.9 |
| UK | 23.9 |
| Other | 9.2 |
| **Total** | **132.6** |

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

In 2019, the Company recognized total revenue in the amount of CHF 64.7 million (2018: CHF 30.6 million) with Pfizer Inc., CHF 38.7 million (2018: CHF 41.7 million) with Astellas and CHF 18.5 million (2018: CHF 25.9 million) with BARDA.

### 5 Accounts receivable

The accounts receivable primarily consist of receivables from product revenue as well as receivables related to activities for isavuconazole for Astellas. As of December 31, 2019, the Company recorded an allowance for estimated uncollectible receivables of CHF 0.0 million (December 31, 2018: CHF 0.0 million).

### 6 Short- and long-term investments

The short-term investments as of December 31, 2019 contain short-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 20.0 million (December 31, 2018: CHF 50.0 million). The long-term investments as of December 31, 2019 contain long-term investments with banks, denominated in Swiss Francs, in the amount of CHF 30.0 million (December 31, 2018: none).

### 7 Cash and cash equivalents

Cash and cash equivalents consisted of the following components:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Cash | 52.5 | 37.4 |
| Short-term time deposits | 56.5 | 135.6 |
| **Total** | **109.0** | **173.0** |

As of December 31, 2019, the Company had outstanding bank guarantees in the amount of CHF 1.0 million (December 31, 2018: CHF 1.1 million).

## 8 Other receivables

The following table shows the components of other receivables as of December 31, 2019 and 2018:

| In CHF million | 2019 | 2018 |
|---|---|---|
| VAT receivables | 5.3 | 3.2 |
| Royalty receivables (see Note 10 Agreements) | 12.8 | 9.1 |
| Contractual milestone receivables (see Note 10 Agreements) | 0.6 | 10.3 |
| Receivables from BARDA (see Note 10 Agreements) | 2.2 | 7.8 |
| Other | 1.2 | 0.6 |
| **Total** | **22.1** | **31.0** |

## 9 Inventories

The following table shows the components of inventories as of December 31, 2019 and 2018:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Raw materials | 6.2 | 2.1 |
| Semi-finished products | 26.3 | 24.5 |
| Finished products | 0.6 | 2.8 |
| Inventory provisions | (14.5) | (15.0) |
| **Total** | **18.6** | **14.4** |

The Company owns manufacturing material valued at cost which was partly produced prior to obtaining regulatory approval for ceftobiprole and isavuconazole. As ceftobiprole and isavuconazole obtained regulatory approval in 2013 and 2015 respectively, the ceftobiprole and isavuconazole inventory is presented gross in the inventory table above. Inventory provisions in the total amount of CHF 8.0 million reflect that material was produced prior to approval. The Company intends to use such material to manufacture products for commercialization. In addition, as of December 31, 2019, the Company recorded additional provisions for inventory in the total amount of CHF 6.5 million.

## 10 Agreements

### License agreement with Pfizer related to isavuconazole

In June 2017, the Company entered into a license agreement with Pfizer Inc. for isavuconazole. The transaction was completed on July 19, 2017. Under the agreement Pfizer Inc. has the right to exclusively commercialize the drug in Europe (excluding the Nordics), Russia, Turkey and Israel (the Territory) and to manufacture isavuconazole for the Territory. In November 2017, the original license agreement was amended (the Amendment) to extend the Territory to China (including Hong Kong and Macao) and 16 countries in the Asia Pacific region (the extended Territory). The Amendment was completed on January 10, 2018.

Under the terms of the original agreement, the Company was eligible for a non-refundable upfront payment of CHF 70 million and will be eligible to receive up to USD 427 million in additional non-refundable milestone payments upon achievement of pre-specified regulatory and sales milestones. Under the terms of the Amendment, the Company was eligible for an additional non-refundable upfront payment of USD 3 million and will be eligible to receive up to USD 223 million in additional non-refundable milestone payments upon achievement of pre-specified regulatory and commercial milestones related to the extended Territory. In addition, the Company will also receive royalties in the mid-teen range on Pfizer Inc.'s sales in the Territories.

The original agreement consists of three deliverables: grant of an exclusive commercial license, obligation to supply isavuconazole to Pfizer Inc. during the supply service period (the Supply Service Term) and execution of the pediatric investigation plan (PIP) studies. The Company determined that the grant of the exclusive commercial license and obligation to supply isavuconazole to Pfizer Inc. represents one combined performance obligation, whereas the PIP studies represent a separate one.

The Amendment consists of two deliverables: grant of an exclusive commercial license and services to support the Clinical Trial Application (CTA) for China. The Company determined that the grant of the exclusive commercial license and obligation to support the CTA for China represent one combined performance obligation.

In 2017, the Company received a non-refundable upfront payment of CHF 70.0 million from Pfizer Inc. The execution of the PIP studies is covered by a separate contractual milestone reflecting its standalone selling price. The non-refundable upfront payment was deferred and is recognized as product revenue as each unit of isavuconazole is sold to Pfizer Inc. based on the estimated standalone selling price of each unit during the Supply Service Term. The Company concluded that the Amendment results in a separate performance obligation based on the contract modification which is treated as a separate contract.

In 2018, under the Amendment, the Company received a non-refundable upfront payment of USD 3.0 million (CHF 2.9 million) from Pfizer Inc. The entire non-refundable upfront payment was allocated to the combined performance obligation for the grant of the exclusive commercial license and obligation to support the CTA for China. The non-refundable upfront payment was fully recognized as contract revenue in 2018 upon fulfilling the performance obligation.

As the Company acts as principal for the sale of the product during the Supply Service Term, the sales of product to Pfizer Inc. will be recorded gross and recognized in product revenue upon delivery. Any future milestone payments will be recognized as contract revenue over the remaining performance period based on the progress towards satisfying its identified performance obligation. Royalty revenue will be recognized when earned as the license is the predominant item of the contract.

As of December 31, 2019, the Company presented deferred revenue of CHF 20.7 million (December 31, 2018: CHF 52.4 million) on its balance sheet, of which CHF 20.7 million (December 31, 2018: CHF 11.1 million) is presented as current liabilities. The Company expects to recognize the revenue over the next six months.

In 2019, the Company recognized CHF 43.1 million (2018: CHF 21.8 million) as product revenue related to the upfront payment for the Territory and product sales to Pfizer Inc., royalty revenue of CHF 9.0 million (2018: CHF 5.6 million), no contract revenue was recognized for the extended Territory (2018: CHF 2.9 million). In January and November 2019, the Company recognized sales milestone payments of USD 5.0 million (CHF 5.0 million) and USD 7.0 million (CHF 7.0 million) as contract revenue.

### License agreement with Astellas related to isavuconazole

In February 2010, the Company entered into a license, co-development and co-promotion agreement with Astellas Pharma Inc. (Astellas) for isavuconazole.

Under this agreement, the Company was eligible for a non-refundable upfront payment of CHF 75 million and non-refundable milestone payments of up to CHF 478 million based on the achievement of milestones related to regulatory filing, regulatory approval and commercialization of isavuconazole. In addition, the Company was also eligible for double-digit tiered royalty payments.

The agreement was amended in February 2014, providing the Company full rights to isavuconazole in all markets outside of the U.S. and Canada in return for foregoing the Company's right to co-promote the product in the U.S. and Canada, its right to receive payments related to co-promotion, and EU milestone payments. In addition, the amended agreement contains the Company's obligation to execute the European PIP studies. Hence, the Company determined that the amendment was a modification with an adjustment of an existing contract to be accounted for prospectively. The agreement was further amended in August 2015, providing the Company full rights to isavuconazole in all markets outside the U.S. The Company determined that the amendment in August 2015 was not a significant modification. The Company and Astellas continue to coordinate their development and manufacturing activities and each company is responsible for commercial activities in its respective territory.

Under the terms of the agreement as amended, the Company continued to be entitled to receive regulatory milestone payments of total CHF 42 million, sales milestone payments of up to CHF 290 million and royalty payments from Astellas relating to its territory. The Company received, respectively was eligible to receive, total CHF 42.0 million regulatory milestone payments in 2014 and 2015 and sales milestone payments of CHF 10.0 million and CHF 5.0 million in 2018 and 2017 from Astellas. The achievement and timing of further sales milestones depend on the sales progress of the product in the future.

The agreement is a multiple-element arrangement with several deliverables, mainly the grant of an exclusive license, compensation for co-payment of development services, participation in the joint steering committee or coordination committee (the Committee), development-related manufacturing services and the European PIP studies. The arrangement provides a separate pricing for commercial-related manufacturing services and sale of clinical supplies.

Astellas' responsibilities are primarily related to managing the clinical and non-clinical development, particularly the pivotal phase 3 studies. The Company is primarily responsible to manage the manufacturing process development, the European PIP studies, as well as the manufacturing and procurement of clinical supplies related to the co-development services. With respect to the Committee, the Company is required to participate in those committee meetings, whereby it oversees the development, regulatory activities directed towards marketing approval, manufacturing and commercialization phases.

The agreement consists of several deliverables: the co-development services, the commercial-related manufacturing services, the grant of the license to Astellas, the European PIP studies and participation in the Committee. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting, with the European PIP studies and the commercial-related manufacturing services consisting of two others. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting since they do not have value to Astellas on an

individual stand-alone basis. The commercial-related manufacturing services and the European PIP studies are other units of accounting since they have value to Astellas and there is evidence of the stand-alone selling price for these obligations in the arrangement. The entire upfront payment was allocated to the units of accounting composed of the co-development services, the grant of the license, the participation in the Committee and the European PIP studies. The related revenue is recognized over the period where the performance obligation is satisfied, being the period over which the services are rendered. The period during which the Company has to satisfy its contractual performance obligations is expected to be until October 2020.

In 2010, the Company received a non-refundable net upfront payment of CHF 67.5 million (gross payment of CHF 75.0 million less withholding tax of CHF 7.5 million) from Astellas. This net upfront payment was recognized as deferred revenue. The upfront payment covered the grant of an exclusive license, compensation for co-development services and the participation in the Committee. As of December 31, 2019, the Company presented deferred revenue of CHF 3.8 million (December 31, 2018: CHF 8.3 million) on its balance sheet, of which CHF 3.8 million (December 31, 2018: CHF 4.5 million) is presented as current liabilities. In 2019 and 2018, the Company recognized CHF 4.5 million as contract revenue related to this upfront payment for the grant of license.

In September 2014, the U.S. Food and Drug Administration (FDA) accepted the filing of Astellas' New Drug Application (NDA) for isavuconazole, seeking approval of isavuconazole for the treatment of invasive aspergillosis and invasive mucormycosis in adults. Based on this acceptance, the Company received a non-refundable milestone payment of CHF 12.0 million from Astellas. This milestone payment was recognized as deferred revenue. The milestone payment covered the grant of an exclusive license, compensation for co-development services, the participation in the Committee and the European PIP studies. As of December 31, 2019, the Company presented deferred revenue of CHF 1.5 million (December 31, 2018: CHF 3.3 million) on its balance sheet, of which CHF 1.5 million (December 31, 2018: CHF 1.8 million) is presented as current liabilities. In 2019, the Company recognized CHF 1.8 million as contract revenue related to this additional milestone payment received upon acceptance of filing (2018: CHF 1.8 million).

In March 2015, the FDA approved Astellas' NDA for the use of isavuconazole for patients 18 years of age and older in the treatment of invasive aspergillosis and invasive mucormycosis. Based on the approval, the Company received a non-refundable milestone payment of CHF 30.0 million from Astellas. This milestone payment was recognized as deferred revenue. The milestone payment covered the grant of an exclusive license, compensation for co-development services, the participation in the Committee and the European PIP studies. As of December 31, 2019, the Company presented deferred revenue of CHF 3.7 million (December 31, 2018: CHF 8.1 million) on its balance sheet, of which CHF 3.7 million (December 31, 2018: CHF 4.4 million) is presented as current liabilities. In 2019, the Company recognized CHF 4.4 million as contract revenue related to this additional milestone payment received upon approval (2018: CHF 4.4 million).

In December 2018 and October 2017, the Company was eligible, respectivelly received sales milestone payments of CHF 10.0 million and CHF 5.0 million from Astellas as certain thresholds of net sales of isavuconazole in the U.S. were exceeded. The Company fully recognized these sales milestones of CHF 10.0 million and CHF 5.0 million as contract revenue in 2018 and 2017.

In 2019, the Company recognized CHF 10.7 million (2018: CHF 20.7 million) as contract revenue related to the upfront and milestone payments and recognized

additional contract revenue in the total amount of CHF 28.0 million (2018: CHF 20.8 million) comprising CHF 28.0 million (2018: CHF 20.8 million) related to royalties and CHF 0.0 million (2018: CHF 0.0 million) related to services provided by the Company to Astellas related to isavuconazole.

In 2019, the Company reported CHF 2.0 million (2018: CHF 2.2 million) research and development expenses for isavuconazole net of cost reimbursements from Astellas of CHF 0.1 million (2018: CHF 0.2 million) in research and development expenses, net since the Company does not have the risks and rewards as principal based on the terms of the arrangement and the nature of the activities carried out, and therefore acts as an agent for these transactions.

### License agreement with Asahi Kasei Pharma related to isavuconazole

In March 2016, the Company entered into a development and commercialization agreement with Asahi Kasei Pharma Corporation (Asahi Kasei Pharma) to develop, register and commercialize Basilea's antifungal drug isavuconazole in Japan. Asahi Kasei Pharma is responsible for conducting clinical studies necessary to apply for a marketing authorization for isavuconazole in Japan for the treatment of invasive aspergillosis and mucormycosis and for applying for such authorization. Once isavuconazole is authorized, the Company will perform the commercial manufacturing services and Asahi Kasei Pharma will commercialize the product in Japan. Asahi Kasei Pharma will purchase the product for commercialization from the Company.

Under the terms of the agreement, the Company granted Asahi Kasei Pharma an exclusive license to develop, register and commercialize isavuconazole in Japan. The Company was eligible for a non-refundable upfront payment of CHF 7 million and will be eligible to receive up to approximately CHF 60 million of additional payments upon achievement of regulatory and commercial milestones. In addition, the Company will also be eligible for double-digit tiered royalty payments on sales in Japan.

In addition to the license, the agreement states that the Company has an obligation to manufacture and supply the product for clinical studies and to provide materials, documentation and support (together the Ongoing Documentation and Information Transfer Obligation). Because the separation criterion is not met, the license and the Ongoing Documentation and Information Transfer Obligation are accounted for as one unit of accounting and the entire upfront payment was allocated to the unit of accounting. The related revenue is recognized over the period over which the Ongoing Documentation and Information Transfer Obligation is provided up to submission of the NDA.

The Company concluded that the commercial manufacturing service is not a deliverable because the service is dependent on the clinical results, the approval of the NDA, and the agreement of specific commercial manufacturing terms. The further milestone payments will be recognized as contract revenue upon satisfaction of the criteria associated with the milestone. Royalty revenue will be recognized when earned.

In 2016, the Company received a non-refundable upfront payment of CHF 7.0 million from Asahi Kasei Pharma. This upfront payment was deferred and is recognized as contract revenue over the remaining service period, expected to be until the fourth quarter of 2021 in line with the period over which the Ongoing Documentation and Information Transfer Obligation is provided up to submission of the NDA. As of December 31, 2019, the Company presented deferred revenue of CHF 2.6 million (December 31, 2018: CHF 4.0 million) on its

balance sheet, of which CHF 1.3 million (December 31, 2018: CHF 1.3 million) is presented as current liabilities.

In 2019 and 2018, the Company recognized CHF 1.3 million as contract revenue related to this upfront payment.

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

In September 2017, the Company entered into a development, manufacturing and commercialization agreement with Shenzhen China Resources Gosun Pharmaceuticals Co. Ltd. (Gosun) to develop, manufacture and commercialize Basilea's antibiotic ceftobiprole in China, Hong Kong and Macao (the Territory). Gosun is responsible for conducting clinical studies necessary to apply for a marketing authorization for ceftobiprole in the Territory and for applying for such authorization. Once ceftobiprole is authorized, Basilea will initially supply the product to Gosun at a transfer price and will be eligible for tiered double-digit royalties on product sales once Gosun manufactures ceftobiprole itself.

Under the terms of the agreement, the Company granted Gosun an exclusive license to develop, register, commercialize and manufacture ceftobiprole in the Territory. The Company was eligible for a non-refundable upfront payment of CHF 3 million and will be eligible to receive up to approximately CHF 145 million of additional payments upon achievement of regulatory and commercial milestones.

In addition to the license, the agreement states that the Company has an obligation to manufacture and supply the product for clinical studies and to provide materials, documentation and support (Ongoing Clinical Supply and Information Transfer Obligation). Because the separation criterion is not met, the license and the Ongoing Clinical Supply and Information Transfer Obligation are accounted for as one unit of accounting and the entire upfront payment was allocated to one unit of accounting. The related revenue is recognized over the performance period, being the period over which the Ongoing Clinical Supply and Information Transfer Obligation is provided up to the grant of the imported drug license (IDL) or the approval of a domestic drug application (DDA).

The Company concluded that the commercial manufacturing service is not a deliverable because the service is dependent on the clinical results and the grant of the IDL or approval of the DDA. Thus, any future milestone payments will be recognized as contract revenue upon satisfaction of the criteria associated with the specific milestone. Royalty revenue will be recognized when earned.

In 2017, the Company received a non-refundable net upfront payment of CHF 2.7 million (gross payment of CHF 3.0 million less withholding tax and stamp duty of CHF 0.3 million) from Gosun. The upfront payment was deferred and is recognized as contract revenue over the remaining service period, expected to be until the first quarter of 2022 in line with the period over which the Ongoing Clinical Supply and Information Transfer Obligation is provided up to grant of the IDL or approval of DDA. As of December 31, 2019, the Company presented deferred revenue of CHF 1.4 million (December 31, 2018: CHF 2.0 million) on its balance sheet, of which CHF 0.6 million (December 31, 2018: CHF 0.6 million) is presented as current liabilities.

In 2019, the Company recognized CHF 0.6 million (2018: CHF 0.6 million) as contract revenue related to this upfront payment.

### Distribution agreements

In 2017 and 2016, the Company entered into exclusive distribution agreements for Basilea's antifungal isavuconazole and antibiotic ceftobiprole with Avir Pharma Inc. for Canada, Grupo Biotoscana S.L. (GBT) for Latin and South America and Unimedic Pharma AB (Unimedic) for the Nordic countries, respectively. In 2017, the Company also entered into an exclusive distribution agreement for Basilea's antibiotic ceftobiprole with Correvio Pharma Corp. (Correvio) for Europe (excluding the Nordic countries) and Israel. In addition, the Company expanded its existing distribution agreement for ceftobiprole in 2016 with Hikma Pharmaceuticals LLC (Hikma) for the Middle East and North Africa for isavuconazole.

Under these distribution agreements, the Company was eligible for non-refundable upfront payments of CHF 19.4 million and is eligible for sales milestone payments of up to CHF 132.7 million related to the commercialization of isavuconazole and ceftobiprole in these territories. In addition, the Company will sell the products to these distributors for the commercialization in the territories, and will recognize the related revenue in product revenue.

In 2017 and 2016, the Company received non-refundable upfront payments of CHF 6.3 million and CHF 12.1 million, respectively, in connection with these distribution agreements. In 2015, the Company received a non-refundable upfront payment of CHF 1.0 million. Thereof, CHF 6.3 million and CHF 12.0 million were recorded as deferred revenue in 2017 and 2016, respectively. In 2015, CHF 1.0 million was recorded as deferred revenue. The deferred revenue is recognized as contract revenue over the remaining performance period, approximately until 2032. As of December 31, 2019, the Company presented deferred revenue of CHF 15.7 million (December 31, 2018: CHF 16.8 million) on its balance sheet, of which CHF 1.3 million (December 31, 2018: CHF 1.3 million) is presented as current liabilities.

In July 2018 and October 2017, the Company received regulatory milestone payments of CHF 2.0 million, each, from GBT. The Company fully recognized these regulatory milestone payments of CHF 2.0 million, each, as contract revenue in 2018 and 2017.

In 2019, the Company recognized CHF 1.2 million (2018: CHF 3.9 million) as contract revenue related to these payments and product revenue in the total amount of CHF 7.8 million (2018: CHF 4.4 million) related to these distribution agreements. In December 2019, the Company recognized sales milestone payments of EUR 0.3 million (CHF 0.3 million) from Correvio and CHF 0.3 million from Unimedic as contract revenue.

### Global agreement with Stiefel related to Toctino®

In July 2012, the Company granted a license to know-how and transferred the assets and the business related to Toctino (alitretinoin) to Glaxo Group Limited, a division of Glaxo Smith Kline plc, referred to herein as Stiefel, a GSK Company. The Company received an initial payment of GBP 145.6 million (CHF 224.1 million) from Stiefel. Existing Toctino distribution agreements were assigned to Stiefel.

In January 2016, the Company was informed by Stiefel that it had elected to discontinue its U.S. alitretinoin program. Therefore, the Company is no longer eligible to receive further payments upon FDA approval of the product in the U.S. and corresponding participation in U.S. net sales under the agreement with Stiefel. Stiefel continues to commercialize alitretinoin outside the U.S. In March 2017, the Company received the U.S. alitretinoin rights back from Stiefel.

The agreement consists of two deliverables: grant of the license to the know-how and the transfer of the Toctino assets and business. In July 2012, the Company received an initial payment of CHF 224.1 million (GBP 145.6 million). The Company determined that the value of the business was insignificant and, as a result, allocated no value to the business. The entire consideration was allocated to the license of the know-how, and was deferred and is recognized as contract revenue over the expected period during which the Company has to satisfy its performance obligations until August 2018. The Company's substantial ongoing obligations towards Stiefel are to provide operational, technical and scientific support including the furnishing of information and discussion of topics related to preparation of market authorization applications, other regulatory activities, post-launch monitoring and safety requirements, commercialization, commercial supply chain, and manufacturing process and requirements related to the API and drug product. As of December 31, 2019, the Company presented no deferred revenue (December 31, 2018: none) on its balance sheet.

In 2019, the Company recognized no contract revenue related to this upfront payment (2018: CHF 23.9 million).

### Contract with BARDA for ceftobiprole U.S. phase 3 development program

In April 2016, the Company entered into a contract with BARDA for the clinical phase 3 development of ceftobiprole aiming to gain regulatory approval for the drug in the U.S. As of December 31, 2019, the Company was awarded a total amount of USD 94.9 million (December 31, 2018: USD 94.8 million) under this contract to support the phase 3 development of ceftobiprole. As of December 31, 2019, the Company received a total of USD 24.2 million or CHF 24.1 million, respectively (December 31, 2018: USD 20.8 million or CHF 20.4 million, respectively) in payments from BARDA under the contract. The Company considers the arrangement to be part of its ongoing major operations. Hence, other revenue is recorded when recoverable costs are incurred.

In 2019, the Company recognized CHF 18.5 million (2018: CHF 25.9 million) as other revenue related to the BARDA contract.

### License agreement with ArQule Inc. related to derazantinib

In April 2018, the Company entered into a license agreement with ArQule Inc. for the oncology drug candidate ARQ 087 (derazantinib). The exclusive license is worldwide, excluding China, Hong Kong, Macau and Taiwan.

Under the terms of the agreement, ArQule Inc. grants the Company rights to research, develop, manufacture and exclusively commercialize derazantinib worldwide, excluding China, Taiwan, Hong Kong and Macau. The Company made an upfront payment to ArQule Inc. of USD 10.0 million (CHF 9.6 million) upon execution of the agreement. ArQule Inc. is eligible to regulatory and sales milestone payments of up to USD 326 million upon reaching certain clinical, regulatory and commercial milestones as well as to staggered single to double-digit royalties on sales upon commercialization.

In 2019, the Company recognized CHF 26.1 million (2018: CHF 18.3 million) in research and development expenses, net related to this agreement.

## 11 Convertible senior unsecured bonds

On December 23, 2015, the Company issued CHF 200 million aggregate principal amount of convertible senior unsecured bonds which were sold to existing shareholders and certain institutional investors (Holders). The Company received total net proceeds from the sale of the convertible senior unsecured bonds of approximately CHF 194.7 million, after deducting issuance costs of CHF 5.3 million. The

convertible senior unsecured bonds are accounted for at amortized cost. The following table shows the carrying amount of the convertible senior unsecured bonds as of December 31, 2019 and 2018:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Convertible senior unsecured bonds | 197.7 | 197.0 |

The convertible senior unsecured bonds were issued bearing interest at a fixed rate of 2.75% per year (payable semi-annually in arrears on December 23 and June 23 of each year) and will mature on December 23, 2022 (Maturity Date), unless earlier redeemed or converted. Holders may convert their convertible senior unsecured bonds at their option into shares up to and including the earlier of seven trading days before the Maturity Date, or ten trading days prior to an early redemption. In the event of conversion of the convertible senior unsecured bonds, the Company will deliver shares of the Company's common stock. The conversion ratio is initially approximately 39.6504 shares per bond representing CHF 5,000, the principal amount of one bond (equivalent to an initial conversion price of CHF 126.1020 per share of the Company's common stock). For all convertible senior unsecured bonds together the current number of underlying shares is 1,586,017 shares. The conversion ratio and the corresponding conversion price will be subject to adjustment upon the occurrence of certain events, but will not be adjusted for any accrued and unpaid interest. If the Company undergoes a fundamental change, Holders may require the Company to purchase for cash all or part of their convertible senior unsecured bonds at a purchase price equal to 100% of the principal amount of the convertible senior unsecured bonds to be purchased, plus accrued and unpaid interest. In addition, if certain make-whole fundamental changes occur, the Company will, in certain circumstances, adjust the conversion price for any convertible senior unsecured bonds converted in connection with such make-whole fundamental change. The convertible senior unsecured bonds will be redeemable at the Company's option on or after January 7, 2021, if the volume weighted average price of a share on each of at least 20 out of 30 consecutive trading days ending not earlier than five trading days prior to the giving of the notice of redemption is at least 130% of the prevailing conversion price; or at any time if less than 15% of the aggregate principal amount is outstanding.

Total issuance costs of CHF 5.3 million related to the convertible senior unsecured bonds include legal fees and other issuance-related costs and were deducted from the proceeds of the convertible senior unsecured bonds. The Company will accrete the issuance costs as interest expense over the contractual term of the convertible senior unsecured bonds.

For the years ended December 31, 2019 and 2018, the Company recognized interest expense of CHF 5.5 million for contractual coupon interest and CHF 0.8 million for accretion of the issuance costs. The remaining unamortized debt issuances costs of CHF 2.3 million will be accreted over the remaining term of the convertible senior unsecured bonds, which is approximately 3 years.

The amortization table related to the convertible senior unsecured bonds as of December 31, 2019 is as follows:

| Amount in CHF million | |
|---|---|
| 2020 | 6.3 |
| 2021 | 6.3 |
| 2022 | 206.1 |
| **Total minimum payments, including unamortized issuance costs** | **218.7** |
| Less amount representing interest | (18.7) |
| **Convertible senior unsecured bonds, gross** | **200.0** |
| Unamortized issuance costs on convertible senior unsecured bonds | (2.3) |
| **Convertible senior unsecured bonds, including unamortized issuance costs** | **197.7** |

In accordance with ASC 260, Earnings per Share, the issuance of the convertible senior unsecured bonds requires the use of the "if-converted" basis when calculating the Company's dilutive net income (loss) per share. Net income is adjusted to exclude, or add-back, all convertible senior unsecured bonds related earnings effects including interest charges and amortization of debt issuance costs. Weighted average shares are adjusted using the conversion ratio as if the convertible senior unsecured bonds had been converted at the date of issuance which corresponds to 1,586,017 shares of common stock. See Note 16 to these consolidated financial statements for a computation of diluted loss per share.

### 12 Accruals and other current liabilities

Accruals and other current liabilities as of December 31, 2019 and 2018 consisted of the following:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Accrued research & development expenses | 14.8 | 15.2 |
| Accrued personnel and compensation costs | 8.0 | 8.3 |
| Accrued sales and marketing expenses | 0.6 | 3.2 |
| Accrued payables for goods received | 4.8 | 2.1 |
| VAT Payables | 1.1 | 1.7 |
| Other current liabilities | 6.6 | 4.8 |
| **Total accruals and other current liabilities** | **35.9** | **35.3** |

The other current liabilities include liabilities to employees and accrued invoices for services provided but not invoiced.

### 13 Income taxes

As of December 31, 2019, the Company has tax loss carry forwards of CHF 422.2 million as (December 31, 2018: CHF 585.6 million) of which CHF 283.4 million will expire within the next five years and CHF 138.8 million will expire between six and eight years. In 2019, tax loss carry forwards of CHF 85.9 million expired.

The significant components of net deferred taxes as of December 31, 2019 and 2018 are shown in the following table:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Deferred tax assets: | | |
| Net benefit from tax loss carry forwards[1] | 54.3 | 87.8 |
| Deferred revenue | 6.8 | 19.6 |
| Stock-based compensation cost | 10.8 | 16.1 |
| Other, net | 1.3 | 1.4 |
| Valuation allowance | (73.2) | (124.9) |
| **Net deferred taxes** | **0.0** | **0.0** |

1 As of December 31, 2019 the position includes CHF 1.4 million (December 31, 2018: 2.2 million) related to windfall tax benefits from stock-based compensation that would be credited to shareholders' equity, if realizable.

The Company has established a valuation allowance in 2019 and 2018 to reduce the net deferred taxes, as the Company deemed it to be not more likely than not that the future deferred tax assets would be realized in the future based on the lack of sufficient positive evidence in the jurisdictions related to the realization of the deferred tax assets.

In 2019, the Company revised its estimated annual effective tax rate to reflect a change in the statutory rate for Switzerland from 20% to 13%, effective January 1, 2019, resulting from legislation that was enacted on March 2, 2019. As a result, income tax expenses reported for the period ended on December 31, 2019 included the effects of the change in the tax law. The deferred taxes, and the respective allowance to deferred taxes have decreased by CHF 43.5 million due to the application of the new rates.

The effective tax rate for 2019 was 0.2 % (2018: 0.6 %). The following table shows the income taxes in 2019 and 2018:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Current tax expenses | 0.0 | (0.2) |
| **Total income tax expenses** | **0.0** | **(0.2)** |

The current tax expenses in 2019 and 2018 are solely related to foreign taxable income.

The expected tax rate for 2019 was 12.4 % (2018: 15.9 %). The following table shows the reconciliation between expected and effective tax rate:

| In percent | 2019 | 2018 |
|---|---|---|
| Expected tax rate [1] | 12.4 | 15.9 |
| Effect of not-taxable differences [2] | 0.0 | 0.1 |
| Valuation allowance on deferred tax assets | (12.2) | (15.4) |
| **Effective tax rate** | **0.2** | **0.6** |

1 Weighted average tax rate of Basilea and its subsidiaries.
2 Items not deductible for tax purposes and items that are tax deductible, but do not represent expenses for financial reporting purposes.

Basilea and its subsidiaries file income tax returns in Switzerland and in foreign jurisdictions. Basilea's income tax position in Switzerland is finally assessed up to the fiscal year 2018.

As of December 31, 2019 and 2018, there were no unrecognized tax benefits. The Company did not incur any significant interest or penalties in connection with income taxes in the years 2019 and 2018.

### 14 Stock-based compensation

The Company established a stock option plan effective on December 13, 2000 to incentivize executives and certain employees with an opportunity to obtain stock options on registered shares of Basilea. Starting with the options granted in 2018, the stock option plan was amended to allow for gross and/or net settlement of stock options. The net share settlement of stock options will help to ensure that the maximum potential dilution related to all outstanding options remains below 10% of the share capital on a fully diluted basis at the issuance of each new grant.

The shareholders approved conditional capital necessary for the issuance of shares upon the exercise of stock options, of which CHF 1.9 million remain available as of December 31, 2019. CHF 1.5 million of this remaining available

conditional capital is reserved for stock options, which were issued and outstanding as of December 31, 2019.

Each stock option entitles the participant to the purchase of one registered share at the strike price pursuant to the terms of the stock option plan. At the end of the option term, all unexercised stock options expire without value.

The vesting periods of the stock options outstanding as of December 31, 2019, which represent the requisite service periods, range from one to four years with contractual terms of the stock options being ten years. The stock option plan foresees accelerated vesting if there is a change of control as defined by the stock option plan.

The following table summarizes the activity under the Company stock option plan:

| | Weighted average exercise price (in CHF) | Number of options |
|---|---|---|
| **Balance at December 31, 2017** | **80.08** | **1 504 445** |
| Options granted | 67.50 | 199 501 |
| Options forfeited | 79.88 | (32 061) |
| Options exercised | 36.59 | (6 900) |
| Options expired | 73.03 | (193 290) |
| **Balance at December 31, 2018** | **79.51** | **1 471 695** |
| Options granted | 45.80 | 204 148 |
| Options forfeited | 72.91 | (51 420) |
| Options exercised | 30.86 | (3 389) |
| Options expired | 73.00 | (101 624) |
| **Balance at December 31, 2019** | **75.75** | **1 519 410** |

The following table provides information on the stock options outstanding and the stock options exercisable as of December 31, 2019:

| | Options exercisable plus options expected to vest[1] | Options exercisable |
|---|---|---|
| Number of options | 1 398 311 | 925 403 |
| Weighted average exercise price, in CHF | 77.05 | 81.42 |
| Weighted average remaining contractual life, in years | 5.5 | 4.2 |

1 Number of options considers expected forfeitures.

Based on (a) the stock options exercisable as of December 31, 2019, including stock options expected to vest in the future and (b) the stock options exercisable as of December 31, 2019, the aggregate intrinsic values of such number of options were CHF 2.8 million and CHF 2.8 million, respectively. The exercise prices of the options granted in 2019 and 2018 equalled the market price of the shares at the respective grant date.

The weighted average grant-date fair value of options granted in 2019 was CHF 17.02 per option (2018: CHF 27.27). The total aggregate intrinsic value of stock options exercised during 2019 was CHF 0.1 million (2018: CHF 0.2 million).

The fair value of the stock options granted in 2019 and 2018 was determined at the grant date using a binomial model. The weighted average assumptions used for these determinations are outlined in the table below:

| | 2019 | 2018 |
|---|---|---|
| Risk-free interest rate | 0.06% | 0.46% |
| Expected term of stock options | 7 to 8 years | 7 to 8 years |
| Expected volatility | 36% | 38% |
| Expected dividend | - | - |

The expected volatility was determined based on the indicative historic volatility of Basilea's share price. The expected term of stock options granted was determined based on management's best estimate of assumed future exercise patterns, considering both the historic exercise patterns and the expected future development of the Company.

The unrecognized compensation cost as of December 31, 2019 related to stock options amounts to CHF 4.1 million and is expected to be recognized over a weighted average period of 2.1 years.

The Company recorded total stock-based compensation expenses of CHF 3.0 million in 2019 related to its stock-based compensation award programs (2018: CHF 6.3 million), of which CHF 1.4 million was recorded in research & development expenses (2018: CHF 2.7 million) and CHF 1.6 million as part of selling, general & administrative expenses (2018: CHF 3.6 million) in the statement of operations.

### 15 Shareholders' equity

As of December 31, 2019, Basilea had 11,881,945 registered shares (Namenaktien) issued with a par value of CHF 1.00 per share. As of December 31, 2018, Basilea had 11,878,556 registered shares with a par value of CHF 1.00 per share issued.

In 2019, a total of 3,389 stock options were exercised, using conditional capital, which resulted in the issuance of 3,389 registered shares with a par value of CHF 1.00 per share. In 2018, a total of 6,900 stock options were exercised resulting in the issuance of 6,900 registered shares with a par value of CHF 1.00 per share.

The Company had a total approved conditional capital of CHF 2,518,196 as of December 31, 2019 for the issuance of a maximum of 2,518,196 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,878,196 (1,878,196 registered shares with a par value of CHF 1.00 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1.00 each, available for the potential conversion of the outstanding convertible senior unsecured bonds.

As of December 31, 2019, the Company held treasury shares in the total amount of CHF 6.0 million (December 31, 2018: CHF 7.2 million), comprising of 1,000,000 registered shares with a par value of CHF 1.00 per share held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and further 108,041 registered shares with a par value of CHF 1.00 per share.

By shareholder approval at the 2016 ordinary general meeting of shareholders, Basilea was authorized to increase its share capital by a maximum of CHF 1,000,000 by issuing a maximum of 1,000,000 registered shares with a par value of CHF 1.00 per share. By shareholder approval at the 2017 ordinary general meeting of shareholders, the authorization was increased to CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares with a par value of CHF 1.00 per share. By shareholder approval at the 2019 ordinary general meeting of shareholders, this authorization was extended until April 2021.

Changes in accumulated other comprehensive income/loss as of December 31, 2019 and 2018:

| In CHF million | Currency translation adjustment | Unrecognized pension cost | Total |
|---|---|---|---|
| **December 31, 2017** | **(0.9)** | **(18.3)** | **(19.2)** |
| Change during the period | (0.6) | 3.5 | 2.9 |
| **Total change during the period** | **(0.6)** | **3.5** | **2.9** |
| **December 31, 2018** | **(1.5)** | **(14.8)** | **(16.3)** |
| Change during the period | (0.3) | (8.0) | (8.3) |
| **Total change during the period** | **(0.3)** | **(8.0)** | **(8.3)** |
| **December 31, 2019** | **(1.8)** | **(22.8)** | **(24.6)** |

### 16 Earnings/Loss per share

The calculation of the basic and diluted loss per share in 2019 and 2018 is shown in the table below:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| **Numerator** | | | | |
| Net loss, in CHF million | (22.4) | (22.4) | (31.4) | (31.4) |
| Net loss for loss per share calculation, in CHF million | (22.4) | (22.4) | (31.4) | (31.4) |
| **Denominator** | | | | |
| Weighted average shares outstanding, including actual conversion of stock options | 10 755 724 | 10 755 724 | 10 837 918 | 10 837 918 |
| Incremental shares according to treasury stock method for assumed conversion of stock options | - | - | - | - |
| Shares issuable upon conversion of convertible senior unsecured bonds | - | - | - | - |
| Weighted average shares outstanding, including actual and assumed conversion of stock options | 10 755 724 | 10 755 724 | 10 837 918 | 10 837 918 |
| **Loss per share in CHF** | **(2.08)** | **(2.08)** | **(2.89)** | **(2.89)** |

As of December 31, 2019, there were 1,309,461 stock options outstanding with a weighted-average exercise price of CHF 82.55 and 1,586,017 shares issuable upon conversion of convertible senior unsecured bonds, which were not included in the calculation of loss per share for 2019, as the effect of such stock options and shares would have been anti-dilutive.

As of December 31, 2018, there were 1,167,770 stock options outstanding with a weighted-average exercise price of CHF 89.42 and 1,586,017 shares issuable upon conversion of convertible senior unsecured bonds, which were not included in the

calculation of loss per share for 2018, as the effect of such stock options and shares would have been anti-dilutive.

### 17 Pension plan

The Company joined a collective pension plan operated by an insurance company as of January 1, 2012, which covers the employees of Basilea Pharmaceutica International Ltd., Basel, Switzerland. The regulations under the former pension foundation were fully integrated in the collective pension plan. The pension plan is fully reinsured and provides a guaranteed minimum return.

Both, the Company and the participants provide monthly contributions to the pension plan which are based on the covered salary. The respective saving parts of premium are credited to employees' accounts. In addition, interest is credited to employees' accounts at the rate provided in the plan. The pension plan provides retirement benefits as well as benefits on long-term disability and death.

The pension plan qualifies as a defined benefit plan in accordance with U.S. GAAP.

The following table provides information on the pension plan for the years 2019 and 2018:

| In CHF million | 2019 | 2018 |
|---|---|---|
| Service cost | 4.0 | 4.0 |
| Interest cost | 0.7 | 0.5 |
| Expected return on plan assets | (1.3) | (1.1) |
| Amortization of pension related net loss | 1.1 | 1.5 |
| Amortization of prior service cost | (0.3) | (0.3) |
| Settlements | 1.0 | 1.1 |
| Gross benefit expense | 5.2 | 5.7 |
| Participant contributions | (1.2) | (1.1) |
| Net periodic pension cost | 4.0 | 4.6 |

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

| In CHF million | 2019 | 2018 |
|---|---|---|
| **Projected benefit obligation, beginning of period** | **71.9** | **73.5** |
| Service cost | 4.0 | 4.0 |
| Interest cost | 0.7 | 0.5 |
| Benefits paid, net | (1.6) | (1.4) |
| Settlements | (3.4) | (4.8) |
| Actuarial (gain)/loss | 10.4 | 0.1 |
| **Projected benefit obligation, end of period** | **82.0** | **71.9** |
| | | |
| **Plan assets, beginning of period** | **57.2** | **57.2** |
| Actual return on plan asset | 1.8 | 2.5 |
| Employer contributions | 2.8 | 2.6 |
| Participant contributions | 1.2 | 1.1 |
| Benefits paid, net | (1.6) | (1.4) |
| Settlements | (3.4) | (4.8) |
| **Plan assets, end of period** | **58.0** | **57.2** |
| | | |
| **Accrued pension liability** | **(24.0)** | **(14.7)** |

As of December 31, 2019, the Company recorded an accrued pension liability of CHF 24.0 million in other non-current liabilities (December 31, 2018: CHF 14.7 million).

The collective pension plan operated by an insurance company invests its plan assets mainly in cash and cash equivalents, equity funds, equity securities, corporate bonds, government bonds, real estate funds classified as Level 1 and Level 2 under the fair value hierarchy. The pension assets are measured at fair value.

The Company records net gains/losses, consisting of actuarial gains/losses, curtailment gains/losses and differences between expected and actual returns on plan assets, in other comprehensive income/loss.

As of December 31, 2019, the accumulated other comprehensive income/loss includes unrecognized pension cost of CHF 22.8 million, consisting of a net loss of CHF 23.8 million, determined using actuarial assumptions, and a prior service cost of CHF (1.0) million, that have not yet been recognized as a component of net periodic pension cost. As of December 31, 2018, the accumulated other comprehensive income/loss included unrecognized pension cost of CHF 14.8 million, consisting of a net loss of CHF 16.1 million and a prior service cost of CHF (1.3) million, that have not yet been recognized as a component of net periodic pension cost. The Company expects that a net amount of CHF 1.7 million will be reclassified from accumulated other comprehensive income/loss and recognized as a component of net periodic pension cost in 2020 as a result of the amortization of the pension-related net loss and the amortization of the prior service cost.

The following table shows the components of unrecognized pension cost in accumulated other comprehensive income/loss that have not yet been recognized as components of net periodic pension cost:

| In CHF million | 2019 | 2018 |
|---|---|---|
| **Net loss, beginning of period** | **(16.1)** | **(19.9)** |
| Other gain/loss during the period | (9.8) | 1.2 |
| Amortization of pension related net loss | 1.1 | 1.5 |
| Settlements | 1.0 | 1.1 |
| Net loss, end of period | (23.8) | (16.1) |
| | | |
| **Prior service cost, beginning of period** | **1.3** | **1.6** |
| Amortization of prior service cost | (0.3) | (0.3) |
| Prior service cost end of period | 1.0 | 1.3 |
| | | |
| **Total unrecognized pension cost, end of period** | **(22.8)** | **(14.8)** |

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

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 0.40% | 1.00% |
| Rate of increase in compensation level | 1.50% | 1.50% |
| Expected long-term rate of return on plan assets | 1.65% | 2.25% |

The assumption of the expected long-term rate of return on plan assets was based on the long-term historical rates of returns for the different investment categories which were adjusted, where appropriate, to reflect financial market developments.

The accumulated benefit obligation (ABO) as of December 31, 2019 and 2018 amounts to CHF 75.9 million and CHF 66.7 million respectively.

The investment risk is borne by the insurer and the reinsurer respectively, and the investment decision is taken by the board of trustees of the collective insurance.

The expected amount of employer contributions to the Company's defined benefit pension plan in 2020 is CHF 2.8 million.

The following table provides information on all estimated future undiscounted benefit payments under the Company's pension plan for each of the next five years and the aggregate for the five years thereafter. Besides the retirement benefit payments, these amounts also include payments resulting from death, disability and transfers-out of transportable amounts during the relevant period.

Potential payments transferred into the pension plan resulting from hiring of employees are excluded from the amounts below:

| Amount in CHF million | |
|---|---|
| 2019 | 4.0 |
| 2020 | 4.2 |
| 2021 | 3.7 |
| 2022 | 3.5 |
| 2023 | 3.6 |
| 2024 – 2028 | 20.4 |

In addition to the defined benefit plan described above, the Company recognized no expenses related to defined contribution plans of Basilea's subsidiaries in 2019 (2018: none).

### 18 Lease commitments

The Company entered into operating lease contracts for office space. The aggregate minimum operating lease payments are expensed on a straight-line basis over the term of the related lease. The total expenses under operating leases were CHF 0.4 million for the year ending on December 31, 2019.

As of January 1, 2019, an operating lease ROU asset of CHF 1.3 million in other non-current assets and a lease liability of CHF 1.3 million in other liabilities (thereof CHF 0.4 million as current position) was recorded. For the year ending on December 31, 2019, the depreciation of the operating lease ROU asset as presented in the statement of operations amounts to CHF 0.4 million. The lease payment resulted in a decrease of the lease liability by CHF 0.4 million. There are approximately three years of the lease term remaining.

The future minimum payments as of December 31, 2019 for operating leases with initial or remaining non-cancellable terms in excess of one year are as follows:

| Amount in CHF million | |
|---|---|
| 2020 | 0.4 |
| 2021 | 0.3 |
| 2022 | 0.2 |
| 2023 | 0.0 |
| 2024 | - |
| **Total** | **0.9** |

### 19 Concentration of risk

The Company is generally subject to credit risk related to financial investments. The Company mitigates such credit risk by investing the funds only with counterparties, which are rated as high quality investment grade by a major rating agency or are fully guaranteed by Swiss cantons at the time of the Company's investment. As of December 31, 2019 the investments were invested short-term and amounted to CHF 20.0 million and long-term amounted to CHF 30.0 million with one bank. As of December 31, 2018, all investments were invested short-term with one bank and amounted to CHF 50.0 million.

The cash and cash equivalents as of December 31, 2019, amounted to CHF 109.0 million, of which CHF 104.6 million were held with three different banks. The cash and cash equivalents as of December 31, 2018 amounted to CHF 173.0 million, of which CHF 163.3 million were held with three different banks. As of December 31, 2019, the highest total amount of cash and cash equivalents and investments held at one bank amounted to CHF 52.3 million. As of December 31, 2018, the highest total amount of cash and cash equivalents and long-term investments held at one bank amounted to CHF 72.3 million.

The Company is also subject to credit risk related to accounts receivable. The highest total amount of accounts receivable with an individual counterparty as of December 31, 2019, is from Pfizer Inc. in the amount of CHF 4.3 million in connection with the license agreement related to isavuconazole. As of December 31, 2018, the highest total amount of accounts receivable with an individual counterparty is from Pfizer Inc. in the amount of CHF 2.7 million in connection with the license agreement related to isavuconazole.

### 20 Related party transactions

The accounts receivable, accounts payable and accruals and other current liabilities do not include positions due to or from related parties as of December 31, 2019 and 2018.

In 2019 and 2018, the Company paid no fees to its board members for consulting services.

### 21 Commitments and contingencies

The Company entered into various purchase commitments for services and materials as well as for equipment as part of the ordinary business. In the opinion of management, these commitments are not in excess of current market prices in all material respects, reflect normal business operations and will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

As of December 31, 2019, there are no significant contingencies.

### 22 Subsequent events

The Company has evaluated subsequent events through February 13, 2020, the date on which the financial statements were available to be issued.

# Report of the statutory auditor
## to the General Meeting of Basilea Pharmaceutica Ltd.
## Basel

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Basilea Pharmaceutica Ltd., which comprise the balance sheet, statement of operations and notes, for the year ended December 31, 2019.

### Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements for the year ended December 31, 2019 comply with Swiss law and the company's articles of incorporation.

## Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How we addressed the matter |
|---|---|
| **Recoverability of investments in subsidiaries and accounts receivables affiliates**<br><br>Basilea Pharmaceutica Ltd. reports net investments in subsidiaries of CHF 207 million and accounts receivables affiliates of CHF 352 million. The balance includes subordinated accounts receivables of a subsidiary of CHF 330 million.<br><br>In 2019 the carrying value of the investment was increased by CHF 128 million representing the reversal of the impairment recognised in 2018.<br><br>We consider the recoverability of the carrying value of these balances to be a key audit matter given their magnitude and based on the significant judgement and estimates involved in determining the carrying value of the investment and the accounts receivables affiliates.<br><br>Refer to note 1 Summary of significant accounting policies and note 2 Investments to the financial statements. | We assessed whether the recoverability of the carrying value of the investments in subsidiaries and the accounts receivables affiliates is supported as per December 31, 2019.<br><br>We considered the market capitalization of the Group at the balance sheet date as a relevant measure of the value of the investments in subsidiaries and accounts receivables affiliates.<br><br>We obtained external assessments from management supporting the value of the Group. We assessed the adequacy of such information to corroborate management's assumptions relating to the carrying value of the investments in subsidiaries and the accounts receivables affiliates.<br><br>We obtained Management's valuation of the Group. We assessed the adequacy of the key parameters of the valuation being the forecasted cash flow and the discount rate. We discussed the key assumptions applied in the valuation with the Audit Committee.<br><br>We read the minutes of the meetings of the Board of Directors and discussed its contents and the strategic initiatives with Management and the Audit Committee focusing on the relevant judgments relating to the future value of the development projects and the current contractual agreements.<br><br>We consider the principle used by management for the purpose of supporting the carrying value of the investments in subsidiaries and accounts receivables affiliates to be a reasonable basis. |

## Report on other legal requirements

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Bruno Rossi

Audit expert
Auditor in charge

Kathryn Dobbins

Basel, February 13, 2020

# Financial statements of Basilea Pharmaceutica Ltd.

## Basilea Pharmaceutica Ltd.

**Balance sheets as of December 31, 2019 and 2018 (in CHF thousands)**

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 45 814 | 47 807 |
| Restricted cash | 2 020 | 874 |
| Accounts receivable: | | |
| Affiliates | - | 349 044 |
| Other receivables | 68 | 55 |
| **Total current assets** | **47 902** | **397 780** |
| | | |
| **Non-current assets** | | |
| Accounts receivable: | | |
| Affiliates | 352 225 | - |
| Investment in subsidiaries, net | 207 450 | 79 314 |
| **Total non-current assets** | **559 675** | **79 314** |
| | | |
| **TOTAL ASSETS** | **607 577** | **477 094** |
| | | |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Payables, affiliates [1] | 790 | 263 |
| Other current liabilities | 1 113 | 1 113 |
| Accruals | 143 | 36 |
| **Total current liabilities** | **2 046** | **1 412** |
| | | |
| **Non-current liabilities** | | |
| Convertible senior unsecured bonds [1] | 197 740 | 196 982 |
| **Total non-current liabilities** | **197 740** | **196 982** |
| **Total liabilities** | **199 786** | **198 394** |
| | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital [2] | 11 882 | 11 879 |
| General reserve: | | |
| Reserve from capital contributions | 420 547 | 420 382 |
| Treasury shares [3] | (5 963) | (7 235) |
| Accumulated deficit | (146 326) | (11 890) |
| Net profit / loss | 127 651 | (134 436) |
| **Total shareholders' equity** | **407 791** | **278 700** |
| | | |
| **TOTAL LIABILITIES AND EQUITY** | **607 577** | **477 094** |

1 Interest-bearing.
2 As of December 31, 2019, 11,881,945 shares (December 31, 2018: 11,878,556) were issued and 10,773,904 shares (December 31, 2018: 10,744,704) outstanding with a par value of CHF 1.00 per share.
3 As of December 31, 2019, 1,108,041 (December 31, 2018: 1,133,852) shares with a par value of CHF 1.00.

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

# Basilea Pharmaceutica Ltd.

**Statements of operations for the years ended December 31, 2019 and 2018 (in CHF thousands)**

| | 2019 | 2018 |
|---|---|---|
| Administrative expenses | (671) | (592) |
| Reversal of Impairment/Impairment | 128 136 | (128 136) |
| **Total operating income/expenses** | **127 465** | **(128 728)** |
| | | |
| **Operating profit/loss** | **127 465** | **(128 728)** |
| Financial income | 6 660 | 1 544 |
| Financial expenses | (6 474) | (7 252) |
| **Profit/Loss before taxes** | **127 651** | **(134 436)** |
| Income taxes | - | - |
| **Net profit/loss** | **127 651** | **(134 436)** |

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

# Basilea Pharmaceutica Ltd.

**Notes to the financial statements as of December 31, 2019**

## 1 Summary of significant accounting policies

### General information

The financial statements have been prepared in accordance with the Swiss Code of Obligations.

Basilea Pharmaceutica Ltd. (the Company) was founded on October 17, 2000 and has its registered seat in Basel, Switzerland. In 2019 and 2018, the Company had no employees.

### Cash and cash equivalents

The Company considers cash equivalents to be highly liquid investments which are readily convertible to cash with original maturities of not more than three months.

### Accounts receivable

Accounts receivable and other receivables are recorded at net realizable value after consideration of an allowance for doubtful accounts. The Company generally maintains allowances for estimated uncollectible receivables based on historical experience and specifically identified at-risk accounts. The adequacy of the allowance is evaluated on an ongoing and periodic basis and adjustments are made in the period in which a change in condition occurs. The Company did not record a valuation allowance as of December 31, 2019 and 2018. As per December 31, 2019 Management re-assessed the duration of the accounts receivables and classified them as non-current as they are expected to be settled after 12 months.

### Investment in subsidiaries

Investments in subsidiaries include those companies in which the Company has an interest of more than 20%. The investments are valued at acquisition cost less valuation allowances. Valuation allowances are recorded as impairment in the statement of operations to reflect the recoverable value of the group at the balance sheet date.

As per December 31, 2019 Management re-assessed the investment value and concluded that the previously recognized valuation allowance is no longer needed. An impairment reversal was recorded.

### Convertible senior unsecured bonds

In December 2015, the Company issued a convertible senior unsecured bond in the amount of CHF 200.0 million due on December 23, 2022. The bond carries a coupon of 2.75% per annum and the conversion price is CHF 126.1020. The convertible senior unsecured bonds were issued at 100% of the principal amount and will also mature at 100% of that amount on December 23, 2022, unless previously redeemed, converted or repurchased and cancelled.

### Treasury shares

Treasury shares are recognized at the acquisition costs of the shares. Shares issued from treasury are recognized using the first-in first-out method.

### Financial Income

This position includes interest income on receivables from group companies and on bank balances.

### Financial expenses

Financial expenses mainly include transaction cost and interest related to the convertible senior unsecured bonds issued in 2015.

## 2 Investments

As of December 31, 2019, the Company holds the following investments[1]:

| Company | Location | Ownership interest/ Voting rights | Share capital | Purpose |
|---|---|---|---|---|
| Basilea Pharmaceutica International Ltd. | Switzerland, Basel | 100% | CHF 10 000 000 | Research, development, manufacturing, marketing, distribution |
| Basilea Medical Ltd. | UK, Rickmansworth | 100% | GBP 200 000 | Marketing authorization holder (EU), regulatory services |
| Basilea Pharmaceuticals Ltd. | UK, Rickmansworth | 100% | GBP 700 000 | Distribution |
| Basilea Pharmaceutica Deutschland GmbH | Germany, Lörrach | 100% | EUR 25 000 | Distribution |
| BPh Investitionen Ltd. | Switzerland, Baar | 100% | CHF 131 950 | Holding company |

1 The Company subordinated accounts receivable from an affiliate in the amount of CHF 330.0 million (2018: CHF 200.0 million).

In addition to the direct investments, the Company indirectly holds 100% of Basilea Pharmaceutica China Ltd., Haimen, China, which supports the Company's key research and development projects with medicinal chemistry, analytical development and process research and development.

## 3 Share capital

As of December 31, 2019, the Company had 11,881,945 registered shares (Namenaktien) issued with a par value of CHF 1.00 per share. As of December 31, 2018, the Company had 11,878,556 registered shares with a par value of CHF 1.00 per share issued.

In 2019, a total of 3,389 stock options were exercised, using conditional capital, which resulted in the issuance of 3,389 registered shares with a par value of CHF 1.00 per share. In 2018, a total of 6,900 stock options were exercised resulting in the issuance of 6,900 registered shares with a par value of CHF 1.00 per share.

The Company had a total approved conditional capital of CHF 2,518,196 as of December 31, 2019 for the issuance of a maximum of 2,518,196 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,878,196 (1,878,196 registered shares with a par value of CHF 1.00 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1.00 each, available for the potential conversion of the outstanding convertible senior unsecured bonds.

As of December 31, 2019, the Company held treasury shares in the total amount of CHF 6.0 million (December 31, 2018: CHF 7.2 million), comprising of 1,000,000 registered shares with a par value of CHF 1.00 per share held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and further 108,041 registered shares with a par value of CHF 1.00 per share.

The following table provides information on the Company's treasury shares transactions:

| | Average price (in CHF) | Number of shares |
|---|---|---|
| **December 31, 2017** | **1.00** | **1 000 000** |
| Purchases | 55.16 | 301 997 |
| Sales | 56.69 | (168 145) |
| **December 31, 2018** | **5.40** | **1 133 852** |
| Purchases | 44.54 | 354 339 |
| Sales | 44.53 | (380 150) |
| **December 31, 2019** | **5.38** | **1 108 041** |

By shareholder approval at the 2016 ordinary general meeting of shareholders, the Company was authorized to increase its share capital by a maximum of CHF 1,000,000 by issuing a maximum of 1,000,000 registered shares with a par value of CHF 1.00 per share. By shareholder approval at the 2017 ordinary general meeting of shareholders, the authorization was increased to CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares with a par value of CHF 1.00 per share. By shareholder approval at the 2019 ordinary general meeting of shareholders, this authorization was extended until April 2021.

### 4 Shareholdings and stock options

As of December 31, 2019, the shareholdings in the Company of members of the Board of Directors and the Management Committee are outlined below:

| | Number of shares |
|---|---|
| Domenico Scala, Chairman | 390 |
| Thomas Werner, Vice-Chairman | - |
| Marc Engelhardt, Chief Medical Officer | - |
| Gerrit Hauck, Chief Technology Officer | - |
| Adesh Kaul, Chief Financial Officer since April 11, 2019 | 500 |
| Donato Spota, Chief Financial Officer until April 10, 2019* | 1 000 |
| Laurenz Kellenberger, Chief Scientific Officer | 500 |
| Martin Nicklasson, Director | - |
| Nicole Onetto, Director | - |
| Ronald Scott, Director | 7 750 |
| Steven D. Skolsky, Director | - |
| David Veitch, Chief Executive Officer | 1 300 |

* Number of shares as of April 10, 2019

As of December 31, 2018, the shareholdings in the Company of members of the Board of Directors and the Management Committee are outlined below:

| | Number of shares |
|---|---|
| Domenico Scala, Chairman | 390 |
| Thomas Werner, Vice-Chairman | - |
| Günter Ditzinger, Chief Technology Officer until April 30, 2018* | 580 |
| Marc Engelhardt, Chief Medical Officer | - |
| Gerrit Hauck, Chief Technology Officer since May 1, 2018 | - |
| Adesh Kaul, Chief Corporate Development Officer | 500 |
| Laurenz Kellenberger, Chief Scientific Officer | 500 |
| Martin Nicklasson, Director | - |
| Nicole Onetto, Director | - |
| Ronald Scott, Chief Executive Officer | 7 750 |
| Steven D. Skolsky, Director | - |
| Donato Spota, Chief Financial Officer | 1 000 |
| David Veitch, Chief Commercial Officer | 1 300 |

* Number of shares as of April 30, 2018

The following table shows the holdings of stock options in the Company of members of the Board of Directors and the Management Committee as of December 31, 2019:

| | Number of vested stock options | Number of unvested stock options | Total number of stock options |
|---|---|---|---|
| Domenico Scala, Chairman | 4 150 | - | 4 150 |
| Thomas Werner, Vice-Chairman | 4 150 | - | 4 150 |
| Marc Engelhardt, Chief Medical Officer | 19 825 | 30 626 | 50 451 |
| Gerrit Hauck, Chief Technology Officer | - | 10 373 | 10 373 |
| Adesh Kaul, Chief Financial Officer since April 11, 2019 | 6 600 | 31 384 | 37 984 |
| Donato Spota, Chief Financial Officer until April 10, 2019* | 47 557 | - | 47 557 |
| Laurenz Kellenberger, Chief Scientific Officer | 66 983 | 34 138 | 101 121 |
| Martin Nicklasson, Director | 2 401 | - | 2 401 |
| Nicole Onetto, Director | - | - | - |
| Ronald Scott, Director | 90 802 | 63 936 | 154 738 |
| Steven D. Skolsky, Director | 7 600 | - | 7 600 |
| David Veitch, Chief Executive Officer | 27 289 | 56 801 | 84 090 |

* Number of options as of April 10, 2019.

The following table shows the holdings of stock options in the Company of members of the Board of Directors and the Management Committee as of December 31, 2018:

| | Number of vested stock options | Number of unvested stock options | Total number of stock options |
|---|---|---|---|
| Domenico Scala, Chairman | 4 150 | - | 4 150 |
| Thomas Werner, Vice-Chairman | 4 150 | - | 4 150 |
| Günter Ditzinger, Chief Technology Officer until April 30, 2018* | 20 498 | 26 322 | 46 820 |
| Marc Engelhardt, Chief Medical Officer | 15 800 | 23 775 | 39 575 |
| Gerrit Hauck, Chief Technology Officer since May 1, 2018 | - | - | - |
| Adesh Kaul, Chief Corporate Development Officer | 4 200 | 21 800 | 26 000 |
| Laurenz Kellenberger, Chief Scientific Officer | 59 028 | 32 425 | 91 453 |
| Martin Nicklasson, Director | 2 401 | - | 2 401 |
| Nicole Onetto, Director | - | - | - |
| Ronald Scott, Director | 75 506 | 69 700 | 145 206 |
| Steven D. Skolsky, Director | 9 880 | - | 9 880 |
| Donato Spota, Chief Financial Officer | 43 296 | 36 806 | 80 102 |
| David Veitch, Chief Executive Officer | 19 208 | 42 006 | 61 214 |

* Number of options as of April 30, 2018.

### 5 Significant shareholders

The following table shows the ownership percentage of shareholders which held a significant percentage of shares of the Company as of December 31, 2019 and 2018 according to the share register of the Company:

| | Ownership of outstanding shares | |
|---|---|---|
| | **December 31, 2019** | December 31, 2018 |
| RBC Investor + Treasury Services | 4.5% | 5.8% |

The ownership percentages in the table above are based on 11,871,945 shares outstanding as of December 31, 2019 and 11,878,556 shares outstanding as of December 31, 2018.

In addition, the Company received no notification in accordance with the Swiss Federal Act on Stock Exchanges and Securities related to shareholdings of more than 5% (the significant shareholdings were disclosed on the basis of the number of total out- standing shares according to the entry in the Commercial Register at that time).

**Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2019:**

| In CHF thousands | Proposed by the Board of Directors |
|---|---|
| Accumulated deficit beginning of the year | (146 326) |
| Net profit of the year | 127 651 |
| **Balance to be carried forward** | **(18 675)** |

**Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2018:**

| In CHF thousands | Proposed by the Board of Directors |
|---|---|
| Accumulated deficit beginning of the year | (11 890) |
| Net loss of the year | (134 436) |
| **Balance to be carried forward** | **(146 326)** |

At the ordinary general meeting of shareholders on April 10, 2019, the shareholders of the Company approved to carry forward the loss of CHF 146.3 million.

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# Annual general meeting

The annual general meeting of shareholders for the financial year 2019 will take place on April 8, 2020, in Basel, Switzerland.

The Annual Report 2019 of Basilea Pharmaceutica Ltd. consists of a business review, the corporate governance section, the compensation report, and the financial report. The Annual Report is published in English and German. In case of discrepancies the English version prevails.



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