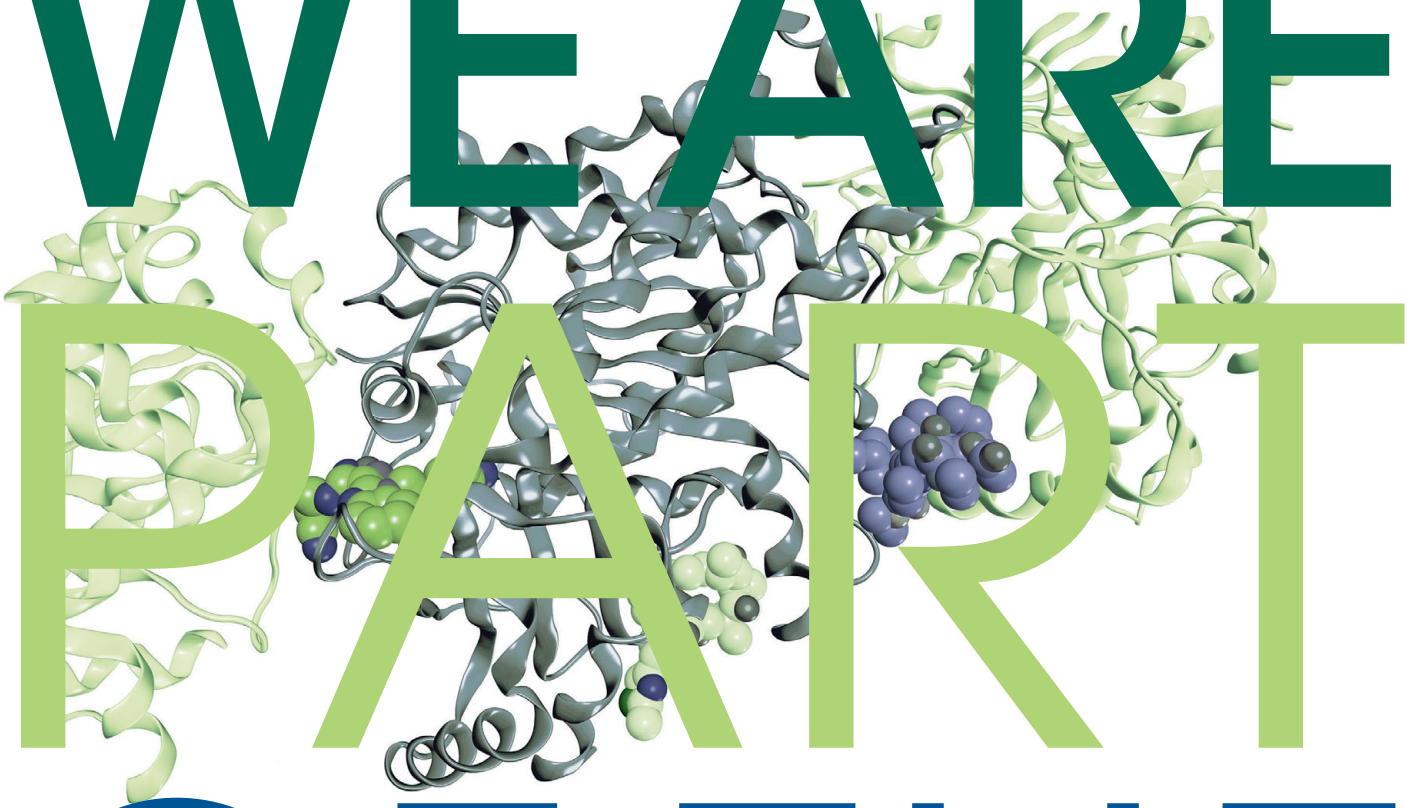
ANNUAL REPORT 2014

basilea
PHARMACEUTICA

WE ARE PART OF THE SOLUTION



BASILEA IN BRIEF

OUR COMPANY

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

Basilea employs approximately 230 people in Switzerland and China.

OUR VISION

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

▶ www.basilea.com

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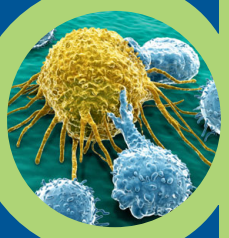

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2014 OVERVIEW

KEY EVENTS

CORPORATE

- Basilea's U.S. and Canadian isavuconazole co-promotion rights swapped with Astellas for full isavuconazole rights outside of the U.S. and Canada; Basilea entitled to receive outstanding milestone payments totaling up to CHF 362 million and royalty payments from Astellas relating to the U.S. and Canadian territories
- Zevtera® (ceftobiprole medocaril) commercial roll-out commenced in Germany with additional countries to follow in 2015

FINANCIALS

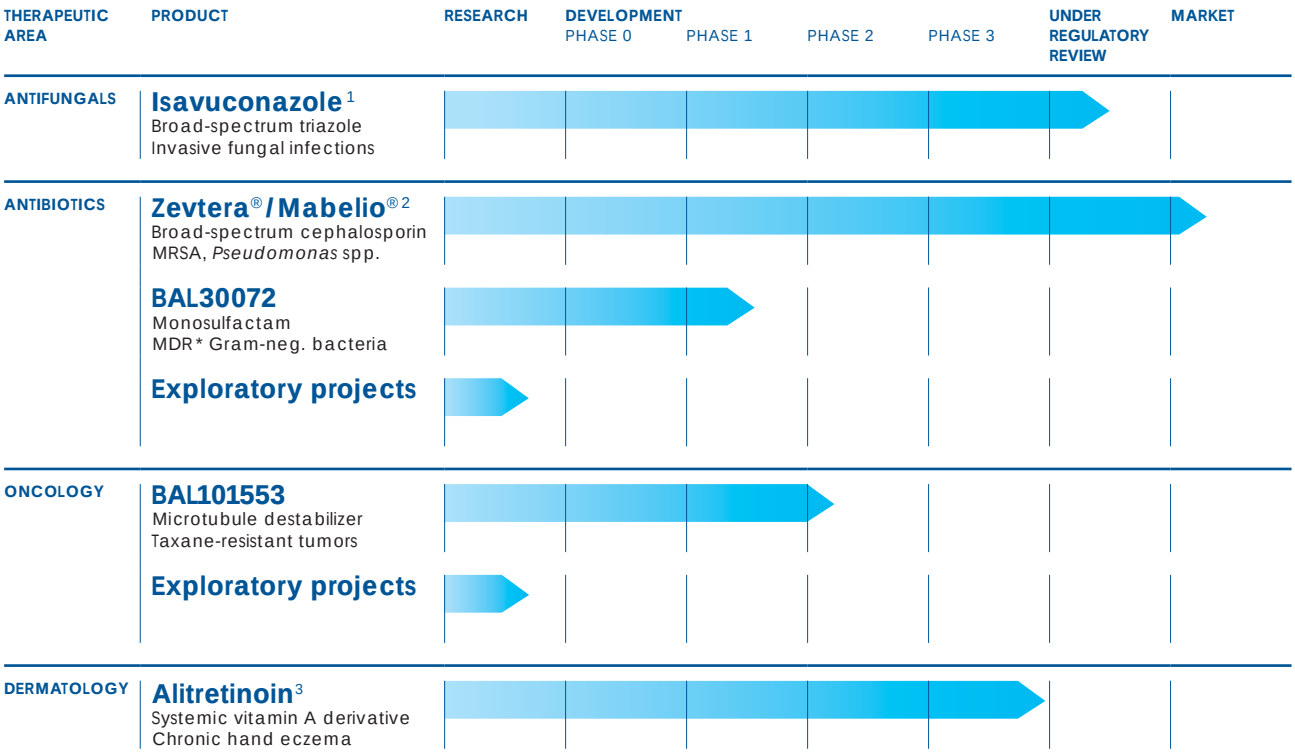
- Focused investments in the development and commercialization of our key value drivers
- Year-end 2014 cash and short-term investments of CHF 226.1 million

KEY PROGRAM UPDATES

- In January 2015, U.S. FDA Anti-Infective Drugs Advisory Committee recommended approval of isavuconazole for the treatment of invasive aspergillosis and mucormycosis
- Approval of Zevtera® (ceftobiprole medocaril) in Switzerland
- Launch of Zevtera® (ceftobiprole medocaril) in Germany
- U.S. orphan drug designation granted to isavuconazole for the treatment of invasive candidiasis
- Astellas' U.S. New Drug Application (NDA) seeking approval for the treatment of invasive aspergillosis and invasive mucormycosis accepted by U.S. FDA for review; in accordance with Prescription Drug User Fee Act (PDUFA), date of March 8, 2015 designated for completion of review by FDA
- Basilea's Marketing Authorization Application (MAA) seeking approval of isavuconazole for the treatment of invasive aspergillosis and mucormycosis accepted for review by European Medicines Agency (EMA)
- U.S. FDA Qualified Infectious Disease Product (QIDP) designations granted to isavuconazole for the treatment of invasive mucormycosis and invasive candidiasis
- European orphan drug designation for isavuconazole in the treatment of invasive aspergillosis and mucormycosis
- Oncology drug candidate BAL101553 commenced phase 2a study in advanced or recurrent solid tumors following successful completion of phase 1 study
- U.S. FDA confirmed that additional phase 3 data would be required for potential U.S. regulatory filing of ceftobiprole in pneumonia
- Gram-negative antibiotic drug candidate BAL30072 phase 1 combination study with meropenem initiated under agreement with the Biomedical Advanced Research and Development Authority (BARDA), a division within the U.S. Department of Health and Human Services
- First evidence of BAL101553's antitumor activity in phase 1 study presented at the American Society of Clinical Oncology (ASCO) annual meeting
- Ceftobiprole early clinical benefit data in pneumonia, isavuconazole efficacy and safety data from SECURE study, and *in-vitro* data on synergy between BAL30072 and carbapenems presented at the European Congress of Clinical Microbiology and Infectious Diseases (ECCMID)

BASILEA – ADDRESSING RESISTANCE

- Isavuconazole European MAA submitted by Basilea and U.S. NDA submitted by Astellas for the treatment of invasive aspergillosis and mucormycosis; candidemia phase 3 study ongoing
- Ceftobiprole approved for the treatment of community-acquired pneumonia and hospital-acquired pneumonia (excluding ventilator-associated pneumonia) in adults in 13 European countries[2]
- Ceftobiprole launched in Germany
- Innovative early-stage pipeline from Basilea's research: anti-Gram-negative antibiotic BAL30072 in phase 1 and microtubule-destabilizing oncology compound BAL101553 in phase 2a clinical development



[1] Partnered with Astellas Pharma Inc., Basilea has exclusive commercial rights outside of the U.S. and Canada
[2] Zevtera®/Mabelio® (ceftobiprole medocaril) has received national licenses for the treatment of adult patients with community- and hospital-acquired pneumonia, excluding ventilator-associated pneumonia, in Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Norway, Spain, Sweden, Switzerland and the United Kingdom; reimbursement and pricing authorization in several countries including Spain is ongoing. Ceftobiprole is not approved by the U.S. FDA and not registered in the USA.
[3] Participation with Stiefel/GSK; Basilea eligible for a milestone payment related to the launch of alitretinoin in the U.S. and participation in future U.S. product sales
* Multidrug-resistant

DEAR SHAREHOLDERS

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

Basilea forged forward in 2014, achieving important milestones. We became a fully integrated company in 2014 with a commercial focus on the hospital aiming to create further shareholder value through pharmaceutical product launches and sales.

The proliferation of "superbug" – pathogens that are increasingly resistant to established antibiotics – is a health threat worldwide. Fungal infections are also on the rise due to the increasing number of immunocompromised patients often associated with cancer. Resistance or non-response to currently available cancer drugs also remains a major medical challenge.

In 2014, we continued to focus our efforts on new anti-infective and cancer therapies aiming at overcoming resistance to current medical treatments. The year saw increasing concern over the challenge of growing resistance to current therapies expressed by governments, scientific organizations, and regulatory bodies around the world. Basilea is one of the few fully integrated companies focused on this serious medical need.

Towards the end of 2014 we began commercializing our hospital antibiotic ceftobiprole for the treatment of severe pneumonia under the brand name Zevtera in Germany. We are excited to be able to provide physicians with a simplified empiric treatment option with Zevtera's broad-spectrum activity, including treatment of MRSA and *Pseudomonas*, reducing the need for combination treatments.

We are excited to be able to provide physicians with a simplified empiric treatment option with Zevtera's broad-spectrum activity, including treatment of MRSA and *Pseudomonas*, reducing the need for combination treatments.

In July 2014, we submitted a European Marketing Authorization Application, and our partner Astellas Pharma Inc. submitted a U.S. New Drug Application, both seeking approval for isavuconazole in the treatment of severe invasive mold infections. The FDA Anti-Infective Drugs Advisory Committee's positive recommendation to approve isavuconazole for the treatment of invasive aspergillosis and mucormycosis in January 2015 was a first encouraging step in the regulatory process. A decision by the U.S. health authorities is expected in March 2015, under the priority review process, while a decision by the European authorities is anticipated in the fourth quarter 2015.
A potential approval of isavuconazole in 2015 would provide Basilea with the unique opportunity to launch a second hospital anti-infective in Europe.

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We are also pleased to report on the progress made in our early development programs during 2014. Based on encouraging phase 1 data, we initiated a phase 2a study in June with our cancer compound BAL101553. The phase 2a study of BAL101553, an i.v. and orally available, dual-action microtubule-destabilizing small molecule, is in solid tumor patients refractory to conventional cancer therapy.

Also in June, we initiated a phase 1 clinical study with our Gram-negative antibiotic BAL30072 in combination with meropenem, an antibiotic of the carbapenem class. Combination with meropenem may add synergistic coverage to the potent activity of BAL30072 against a broad range of difficult-to-treat multidrug-resistant Gram-negative pathogens. In addition we brought forward a number of innovative antibiotic and oncology research programs to contribute to our clinical pipeline.

Looking forward, in 2015 we will roll out the launch of Zevtera in additional key European markets and advance collaborations to commercialize ceftobiprole in further markets around the world. We are increasing the awareness of invasive fungal disease and current treatment algorithms in the medical community while anticipating regulatory decisions for isavuconazole in 2015.
The ongoing phase 3 study evaluating isavuconazole in the treatment of invasive yeast infections is expected to have top-line data available in the second half of 2015.

We are pleased that we were able to deliver on important milestones in 2014 and look forward to an exciting 2015. We appreciate your support, which allows us to continue our mission of bringing important new therapies overcoming resistance to patients.

Basel, January, 2015

Martin Nicklasson, PhD
Chairman of the Board

Ronald Scott
Chief Executive Officer

Zevtera

SIMPLIFIED

EMPIRIC

TREATMENT

BROAD-SPECTRUM

ACTIVITY

FEATURE: LAUNCHING CEFTOBIPROLE INTO THE EUROPEAN MARKET

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

David Veitch, you recently joined Basilea. What made you decide to join Basilea?
Basilea is among very few companies that remain dedicated to antibacterial discovery, research, development and commercialization, whilst most pharmaceutical companies have abandoned antibiotics altogether. It is clear the world needs new antibiotics for the treatment of severe bacterial infections to save the lives of patients suffering from diseases such as hospital-acquired pneumonia. It is therefore both exciting and important that we are now introducing our new antibiotic ceftobiprole to treat such patients.

Furthermore, in the space of about a year Basilea may have the unique opportunity to launch a second hospital product, isavuconazole, in Europe in the event of a regulatory approval. Isavuconazole, a novel triazole, will be for the treatment of life-threatening invasive fungal infections.

When you look at both these products that we launch now and hopefully in the near future, combined with our pipeline, which has the potential to deliver important new medicines to the hospital market, this makes me believe Basilea can make a meaningful difference to patients and their physicians. This was a key reason for me joining Basilea.

Your first goal will be the launch of Zevtera/Mabelio. What medical need will be addressed with this new antibiotic?
Methicillin-resistant *Staphylococcus aureus* (MRSA) accounts for up to 40% of all hospital-acquired pneumonia cases, depending on the country. In MRSA pneumonia, reported treatment failure rates are high and have been attributed in part to inadequate initial antibiotic therapy.

Ceftobiprole provides physicians with a first-line empiric treatment option with its broad-spectrum activity, including activity against MRSA and *Pseudomonas* spp., potentially reducing the need for using combinations of antibiotics. This can be an advance in the empirical

David Veitch, Chief Commercial Officer

"**CEFTOBIPROLE** PROVIDES PHYSICIANS WITH A FIRST-LINE EMPIRIC TREATMENT OPTION IN PATIENTS WITH **HOSPITAL-ACQUIRED PNEUMONIA** WITH ITS **BROAD-SPECTRUM ACTIVITY** POTENTIALLY REDUCING THE NEED FOR A COMBINATION TREATMENT."

Hospital-acquired pneumonia (HAP) is estimated to **increase** the average length of the **hospital stay** by **7 to 9 days.**[1]

treatment of hospital-acquired pneumonia, particularly when the treating physician believes the patient is likely to have an infection caused by MRSA and *Pseudomonas* spp.

Ceftobiprole is the only single agent with activity against MRSA and *Pseudomonas* spp. that is approved in certain European countries for the treatment of community-acquired pneumonia and hospital-acquired pneumonia (excluding ventilator-associated pneumonia).

Infectious disease specialists, intensive care unit specialists, pulmonologists and microbiologists confirm the growing need for first-line broad-spectrum antibacterial medicines that also cover resistant bacteria. Ceftobiprole has the potential to help fill this need.

Which patients benefit most from ceftobiprole?
In our clinical trials, ceftobiprole alone was as effective as standard antibiotic combination therapies in patients suffering from hospital-acquired pneumonia. Based on its bactericidal activity it has the potential to be particularly effective in specific infections caused by MRSA. With its additional activity against *Pseudomonas* spp. ceftobiprole has the potential for the treatment of infections likely to have been caused by MRSA and *Pseudomonas* spp. MRSA pneumonia is associated with an increased risk of mortality and morbidity, as well as an increased length of hospital stay, so early effective treatment of MRSA is very important.

"Experts confirm the growing need for first-line broad-spectrum antibacterial medicines that also cover resistant bacteria."

Why did you decide to go with a contract sales organization rather than building your own sales force?
We have initially opted to commercialize our products in Europe through Quintiles. The agreement with Quintiles allows us to launch Zevtera/Mabelio more quickly and cost-effectively and to optimize our resources on a country-by-country basis.

Following the launch of ceftobiprole in Germany, what are the likely next launches?
We will continue to roll-out ceftobiprole in Italy, France and UK in 2015. In Spain, our value dossier is being assessed by the pricing and

reimbursement agency, so the plan is to launch following the successful completion of that process.

"We will continue to roll-out ceftobiprole in Italy, France and UK in 2015."

Any launches beyond the top five European markets?

To maximize the commercial potential of Zevtera/Mabelio we are submitting marketing authorizations in additional European countries under the Repeat Use Procedure in order to begin to commercialize in selected countries following approval. In geographies outside Europe that refer to the European dossier, such as Australia, South America and Asia we are also seeking regulatory approvals and are considering potential license and distribution partnerships.

What is the commercial potential of ceftobiprole?

We believe ceftobiprole has a competitive product profile as compared to existing antibiotics. However, hospitals need to test the effectiveness of any new antibiotic against the pathogens prevalent in their hospital. When they have observed the local effectiveness, then ceftobiprole becomes an alternative. This process means initial sales of hospital antibiotics in Europe typically show a slow start that then accumulate steadily over time as more hospitals realize the effectiveness of a new antibiotic.

MRSA rates are above **25 percent** in seven of the 30 countries of the European Union and the European Economic Area.[2]

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CEFTOBIPROLE

ISAVUCONAZOLE

BAL30072

BAL101553

OUR **PORTFOLIO**

ANTIBIOTICS

ZEVTERA®/MABELIO® (CEFTOBIPROLE MEDOCARIL)

Pneumonia remains a serious and frequent infection particularly when acquired in hospitals. Hospital-acquired pneumonia is one of the leading causes of death in patients with hospital-acquired infections, with mortality rates of 20–50%.[1, 2] Methicillin-resistant *Staphylococcus aureus* (MRSA) is an important cause of pneumonia, accounting for 20–40% of hospital-acquired pneumonia.[3]

MRSA is an important cause of pneumonia, accounting for 20–40% of hospital-acquired pneumonia.

Community-acquired pneumonia is a common condition with up to 60% of the patients requiring hospital admission and intravenous antibiotics.[4]

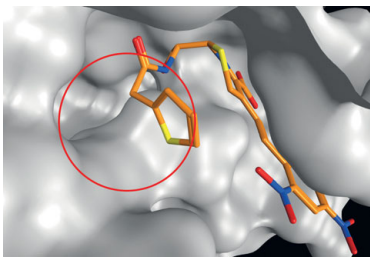
Early initiation of appropriate antibiotic therapy is a key factor for the successful treatment of severe pneumonia. Studies have shown that inappropriate initial therapy of severe infections including MRSA is associated with an increased risk of mortality and morbidity, and prolonged hospital stay.[5, 6, 7]

Zevtera®/Mabelio® (ceftobiprole medocaril) is the only antibiotic monotherapy that is approved in certain European countries[8] for the treatment of adults with community-acquired pneumonia and hospital-acquired pneumonia (excluding ventilator-associated pneumonia) with activity against MRSA and Gram-negative pathogens including *Pseudomonas* spp. It is a new generation cephalosporin antibiotic with rapid bactericidal activity against Gram-positive and Gram-negative bacteria associated with pneumonia.[9]

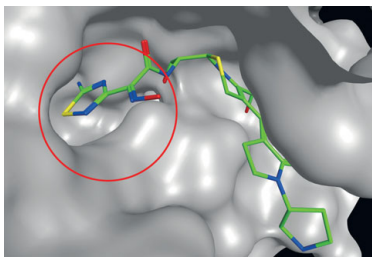
Because of its broad-spectrum activity, ceftobiprole may offer a simplified monotherapy option relative to combination therapies for the initial empirical treatment when the causative organism of an infection is not known.

Ceftobiprole is administered intravenously and is the active moiety of the prodrug ceftobiprole medocaril. Because of its broad-spectrum activity, ceftobiprole may offer a simplified monotherapy option relative to combination therapies for the initial empirical treatment when the causative organism of an infection is not known. Retrospective analyses of phase 3 study data indicate a more rapid effect with ceftobiprole compared with a standard antibiotic combination in the treatment of hospital-acquired pneumonia.[10, 11] Such early improvement of the patient's overall clinical condition may translate into additional benefits, especially in an intensive care unit setting, such as the potential for earlier mobilization or discharge of the patient to the general ward.

In July 2014, Basilea entered into an agreement with Quintiles for the commercialization of ceftobiprole in key European countries. Ceftobiprole was launched in the German market



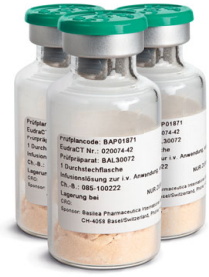
Model compound of earlier generation cephalosporins **does not** completely **occupy the binding** pocket of PBP2a.[12]



Ceftobiprole **fits** into the **binding pocket** of MRSA-specific protein **PBP2a**.[13]

at the end of 2014, focusing on the high unmet medical need for the empirical treatment of hospital-acquired pneumonia where MRSA is suspected. Launches in additional European markets are planned in 2015.

Ceftobiprole is approved in twelve European countries.[8] In addition, approval in Switzerland was granted at the end of 2014. The European regulatory dossier will serve as a basis for further regulatory submissions in other regions of the world. Basilea owns the worldwide rights to ceftobiprole and is in discussions with potential regional partners.



Infections caused by multidrug-resistant Gram-negative bacteria present a growing challenge to successful antibiotic therapy.

BAL30072

Infections caused by multidrug-resistant Gram-negative bacteria present a growing challenge to successful antibiotic therapy. The most important resistance problems are encountered in *Acinetobacter* spp., *Pseudomonas aeruginosa* and Enterobacteriaceae, with increasing levels of resistance observed towards all major anti-Gram-negative antibiotics, including beta-lactams, fluoroquinolones and aminoglycosides. A matter of major concern is the emergence of bacterial strains with newly acquired resistance mechanisms, especially extended-spectrum beta-lactamases and carbapenemases that can degrade many of the workhorse beta-lactam antibiotics that are used today in the hospital setting for the treatment of Gram-negative infections.[1] BAL30072 is an investigational phase 1 stage intravenous (i.v.) monosulfactam antibiotic with bactericidal activity against many clinically relevant multidrug-resistant Gram-negative bacteria.

BAL30072 demonstrated *in-vitro* and *in-vivo* coverage of a broad spectrum of Gram-negative pathogens including multidrug-resistant *Acinetobacter baumannii*, *Pseudomonas aeruginosa*, and Enterobacteriaceae. BAL30072 is stable towards many types of beta-lactamases, including CTX-M extended-spectrum beta-lactamases and the KPC and NDM types of carbapenemases which are spreading rapidly worldwide.

Synergistic or additive activity of BAL30072 with antibiotics from the carbapenem class against recent clinical isolates of difficult-to-treat Gram-negative bacteria has been shown *in-vitro*.[2, 3, 4]

In June 2014, Basilea initiated a phase 1 clinical study to evaluate the safety, tolerability, and pharmacokinetics of multiple-ascending i.v. doses of BAL30072 alone and in combination with meropenem, a carbapenem antibiotic. Completion of the phase 1 combination study is anticipated for the first half of 2015.

The loss of effective antibiotics will undermine our ability to **fight infectious diseases** and manage the infectious complications common in vulnerable patients undergoing chemotherapy for cancer, dialysis for renal failure, and surgery, especially organ transplantation.[5]

Synergistic or additive activity of BAL30072 with antibiotics from the carbapenem class against recent clinical isolates of difficult-to-treat Gram-negative bacteria has been shown *in-vitro*.

The development of BAL30072 is conducted under a contract with the U.S. Biomedical Advanced Research and Development Authority (BARDA), a division within the U.S. Department of Health and Human Services. Under the contract, upon achieving development milestones, BARDA could provide development funding for BAL30072 of up to USD 89 million.

ANTIFUNGALS

ISAVUCONAZOLE

The expansion of the immunocompromised patient population – including cancer patients with chemotherapy-induced neutropenia and transplant patients receiving immunosuppressive therapy – has led to an increased incidence of invasive fungal infections.

The expansion of the immunocompromised patient population, including cancer patients, has led to an increased incidence of invasive fungal infections.

Invasive fungal infections are debilitating and often life-threatening. Fungi commonly involved include *Aspergillus* (molds), *Candida* (yeasts), and increasingly *Mucorales*. For example, invasive aspergillosis is estimated to occur in 20% of patients who have received intensive chemotherapy for leukemia.[1]

There is a high medical need to address the limitations of current therapies, most importantly the gaps in the antifungal spectrum, side effects and limited dosing flexibility.

Isavuconazole (drug substance: isavuconazonium sulfate) is an investigational once-daily intravenous and oral broad-spectrum antifungal for the potential treatment of life-threatening invasive fungal infections. It has broad *in-vitro* and *in-vivo* activity against yeasts and molds, including often fatal molds causing mucormycosis.[2] In clinical studies to date, isavuconazole achieved predictable drug levels and exhibited high oral bioavailability, suggesting the potential for reliable dosing.[3]

In August 2014, the European Medicines Agency (EMA) accepted for review Basilea's isavuconazole Marketing Authorization Application (MAA) for the treatment of invasive aspergillosis and mucormycosis in adults. It is anticipated that the review will be completed in the fourth quarter of 2015. In September 2014, Astellas received notification from the U.S. FDA that it had accepted for filing the New Drug Application (NDA) for isavuconazole for the treatment of invasive aspergillosis and invasive mucormycosis in adults. In accordance with the FDA Prescription Drug User Fee Act (PDUFA), the FDA designated the date of March 8, 2015 for the completion of its review. The FDA announced a January 22, 2015 public meeting of the Anti-Infective Drugs Advisory Committee to discuss the isavuconazole NDA.

The MAA and the NDA are supported by data from the SECURE and VITAL phase 3 studies. The SECURE study evaluated the safety and efficacy of once-daily isavuconazole versus twice-daily voriconazole in the primary treatment of invasive fungal disease caused by *Aspergillus* species or other filamentous fungi. The VITAL study assessed isavuconazole in the treatment of aspergillosis patients with pre-existing renal impairment or patients with invasive fungal disease caused by emerging and often fatal molds such as *Mucorales*, yeasts, or dimorphic fungi.

In the SECURE study, isavuconazole successfully demonstrated non-inferiority to voriconazole on the primary endpoint of all-cause mortality at day 42. The treatment-emergent adverse events for isavuconazole were statistically fewer relative to voriconazole with respect to hepatobiliary, skin and eye disorders. In addition, isavuconazole showed statistically fewer study drug-related adverse events relative to voriconazole. In both treatment groups, the most common treatment-emergent adverse events were nausea, vomiting, pyrexia (fever) and diarrhea.[4]

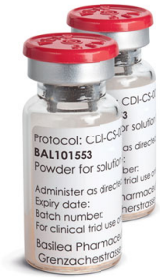
In the SECURE study, the treatment-emergent adverse events for isavuconazole were statistically fewer relative to voriconazole with respect to hepatobiliary, skin and eye disorders.

Invasive fungal infections are a main cause of morbidity and mortality in cancer patients undergoing intensive chemotherapy regimens.[5]

The third isavuconazole phase 3 study ACTIVE evaluates the safety and efficacy of intravenously (i.v.) and orally administered isavuconazole versus i.v. caspofungin followed by oral voriconazole in the treatment of invasive *Candida* infections. Enrolment into the study is anticipated to be completed by early 2015.

Isavuconazole was designated a Qualified Infectious Disease Product (QIDP) by the U.S. FDA under the U.S. Generating Antibiotics Incentives Now (GAIN) Act for the treatment of invasive aspergillosis, mucormycosis, and candidiasis. In addition, it has EU and U.S. orphan drug status for invasive aspergillosis and mucormycosis and U.S. orphan drug designation for invasive candidiasis. In addition, QIDP and orphan drug designations provide certain benefits including extended market exclusivity upon approval.

Isavuconazole is being co-developed with Astellas Pharma Inc. Basilea holds full rights to isavuconazole in markets outside of the U.S. and Canada where Astellas is the exclusive license holder.

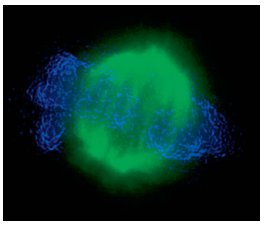


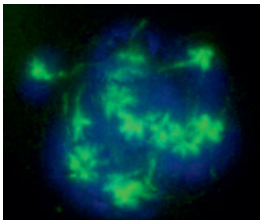
ONCOLOGY

BAL101553

Resistance to currently available anti-cancer drugs remains a major challenge in the treatment of cancer. There is an increasing medical need for novel agents with new mechanisms of action to overcome drug resistance.

The anti-cancer drug candidate BAL101553 is a novel small-molecule, dual action microtubule-destabilizing agent (MTA) which can be administered intravenously and orally. BAL101553 is the water-soluble prodrug of the active moiety BAL27862.





above: control cell
below: BAL27862-treated tumor cell
BAL27862 is the active moiety of prodrug BAL101553.

In preclinical studies, a **significant enhancement of antitumor activity** of BAL101553 in combination with trastuzumab, a widely-used therapeutic antibody for the treatment of breast cancer, was observed. BAL101553 has a **profound anti-tumor effect** in treatment-refractory models of human cancer alone and in combination with radiotherapy.

The agent directly attacks tumor cells by destabilizing microtubules that form an intracellular network essential for cell division.[1] In addition, it disrupts tumor blood vessels, thus depriving the tumor of nutrition.[1, 2] It has shown broad *in-vitro* anti-proliferative activity in a panel of tumor models including many that are, as a result of diverse resistance mechanisms, not responsive to standard microtubule-targeting agents such as taxanes or *vinca*-alkaloids.[3]

In preclinical studies, BAL101553 showed potent antitumor activity in diverse drug-refractory cancer models alone and in combination. Specifically, a significant enhancement of antitumor activity of BAL101553 in combination with trastuzumab, a widely-used therapeutic antibody for the treatment of breast cancer, was observed.[3] A recent study showed that BAL101553 has a profound anti-tumor effect in treatment-refractory models of human cancer alone and in combination with radiotherapy. This was demonstrated for both intravenous and orally administrated treatment.[4]

In a phase 1 study, the maximum tolerated dose was determined, and first evidence of clinical antitumor activity was observed. Among 19 evaluable patients, one patient

showed a partial response for more than two years, and during the study five patients showed stable disease. Analysis of pre- and post-treatment biopsies confirmed the effect of BAL101553 on proliferation and vascularization.[5] Drug-related events included injection site reactions, nausea, vomiting, diarrhea, peripheral neuropathy, and well-manageable, transient hypertension. Reversible gait disturbance together with reversible peripheral sensory neuropathy, were dose-limiting events. Full phase 1 data were presented at the 2014 American Society of Clinical Oncology (ASCO) annual meeting in June.

A phase 2a study was initiated in July 2014, assessing the safety, tolerability, and antitumor activity through pharmacodynamic and objective tumor response assessments at two dose levels of BAL101553. The study will include adult patients with different advanced solid tumor types in order to facilitate the selection of tumor indications to be included in future expanded phase 2 studies. The study includes the evaluation of potential patient stratification biomarkers which might facilitate selection of patient populations most likely to respond. Phase 2a top-line data are expected in 2015.

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5 T. Welte, M. W. Pletz. Antimicrobial treatment of nosocomial meticillin-resistant *Staphylococcus aureus* (MRSA) pneumonia: current and future options. International Journal of Antimicrobial Agents 2010 (36), 391-400

6 A. F. Shorr et al. Inappropriate therapy for methicillin-resistant *Staphylococcus aureus*: resource utilization and cost implications. Critical Care Medicine 2008 (36), 2335-2340

7 A. P. MacGowan. Clinical implications of antimicrobial resistance for therapy. Journal of Antimicrobial Chemotherapy 2008 (62), Suppl. 2, ii105–ii114

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5 S. Mousset et al. Treatment of invasive fungal infections in cancer patients - updated recommendations of the Infectious Diseases Working Party (AGIHO) of the German Society of Hematology and Oncology (DGHO). Annals of Hematology 2014 (93), 13-32

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2 F. Bachmann, H. A. Lane. Dual mechanism of action of the novel microtubule-targeting drug BAL27862 (active moiety of the prodrug BAL101553): targeting tumor and vascular cells. EORTC-NCI-AACR Symposium 2012, abstract #421

3 F. Bachmann et al. BAL101553 (prodrug of BAL27862): A unique microtubule destabilizer active against drug refractory breast cancers alone and in combination with trastuzumab. American Association for Cancer Research (AACR) Annual Meeting 2014, abstract #831

4 A. Broggini-Tenzer et al. The novel microtubule-destabilizing drug BAL101553 (prodrug of BAL27862) sensitizes a treatment refractory tumor model to radiation therapy. EORTC-NCI-AACR Symposium 2014, abstract #202

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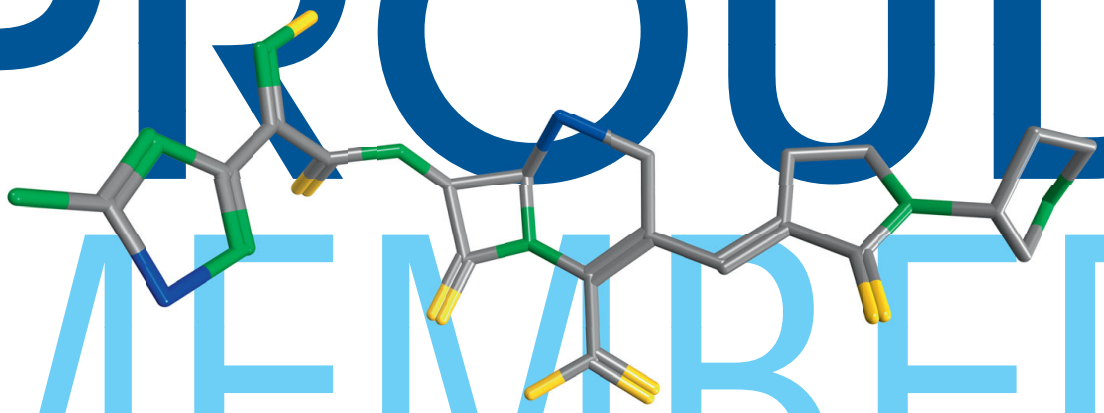
PROUD MEMBER BASILEA CONTRIBUTION CHEMICAL SYNTHESIS



OUR RESEARCH SITE IN **CHINA**

Basilea Pharmaceutica China Ltd. ("Basilea China") is a wholly-owned subsidiary of Basilea Pharmaceutica Ltd., located near Shanghai in the Haimen Technological Development Zone, Jiangsu Province of the People's Republic of China. Basilea China supports Basilea's key R&D projects with chemical synthesis, analytical development and process research and development. In addition, Basilea China provides a range of custom chemical synthesis and analytical services on a fee-for-service basis to third parties including Chinese and international pharmaceutical companies.

Basilea China supports Basilea's key R&D projects with chemical synthesis, analytical development and process research and development.

Basilea China was founded in 2002 as one of the first foreign investment biotech companies in China. Basilea China operates a quality and environmental management system which is compliant with ISO 9001:2008 and ISO 14001:2004 requirements and which has been successfully audited on a regular basis, including in 2014 by the British Standards Institution (BSI). It has been repeatedly recognized for its operational excellence. This includes the award of the *High-tech Enterprise* status on the national level (2008, 2011, 2014) and on the provincial (2006) level. In 2013, the company was awarded the *Bronze Medal for Outstanding Contributions*, an award recognizing its contribution to the local economy and society. In addition, from 2007 through 2013, the company was granted the "A" class of safety operation and received the *Best Safety Performance* award from the local government. Basilea China was also presented the *Top-ten service company award of Nantong city* in 2009–2012.

"**WE ARE PROUD** TO PROVIDE VALUABLE **CHEMISTRY CONTRIBUTIONS** TO THE BASILEA **R&D** GROUP."

Irvin Zhou, General Manager & Chief Financial Officer of Basilea Pharmaceutica China Ltd.

CORPORATE GOVERNANCE

GROUP STRUCTURE AND SHAREHOLDERS

GROUP STRUCTURE

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

As of December 31, 2014, the Company engaged approximately 230 employees (full-time equivalents).

Basilea subsidiaries and subholdings (as of December 31, 2014)

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

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

In 2014, Basilea International was operationally organized along core activities with the Chief Executive Officer responsible for overseeing the Management Committee as well as legal, quality management, business development and licensing. The members of the Management Committee were the Chief Financial Officer, the Chief Medical Officer, the Chief Scientific Officer, the Chief Technology Officer, the Chief Commercial Officer, and the Head of Global Human Resources. For further information on the Management Committee, please refer to the section "Management Committee/Members, functions and other activities" on page 28.

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

BASILEA PHARMACEUTICA LTD.

Basilea is located at Grenzacherstrasse 487, 4058 Basel, Switzerland, and Basilea's shares were listed on the SIX Swiss Exchange on March 25, 2004, under the Swiss security number (Valorennummer) 1 143 244. The ISIN is CH0011432447. The Common Code is 018859220. The ticker symbol is BSLN.

As of December 31, 2014, the market capitalization of Basilea amounted to CHF 974,512,789 (10,575,288 registered shares with a nominal value of CHF 1 per share). None of its shares were held by the Company on this date.

BASILEA PHARMACEUTICA CHINA LTD.

Basilea China is a wholly foreign owned enterprise ("WFOE"), founded on May 29, 2002, and incorporated with limited liability under the laws of The People's Republic of China, with a fully paid-up registered capital of USD 7 million as of December 31, 2014. Basilea China is located near Shanghai in the Haimen Technological Development Zone, Jiangsu Province, People's Republic of China. The subsidiary supports Basilea International's key research and development, projects with chemical synthesis, analytical development, and process research and development. The shares of Basilea China are not listed on any stock

exchange. All of its shares are held and controlled by BPh, a Swiss stock corporation with registered office at Schochenmühlestrasse 4 in 6340 Baar, Switzerland. BPh has a share capital of CHF 131,950, divided into 10,150 fully paid-up 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 3 (investments, page 82) to the financial statements.

SIGNIFICANT SHAREHOLDERS

As of December 31, 2014, Basilea had 10,575,288 registered shares issued and outstanding.

According to the Company's share register, Chase Nominees Ltd., London Wall 125, London EC2Y 5AJ, UK, held 1,036,141 Basilea shares as of December 31, 2014, nominally corresponding to 9.80% of the voting rights but registered without voting rights.

In addition, according to the Company's share register, RBC Dexia Investor Services Trust, Swane Lane, Riverbank House 2, London EC4R 3AF, UK, held 518,274 Basilea shares as of December 31, 2014, nominally corresponding to 4.90% of the voting rights, thereof 212,268 shares registered without voting rights.

In addition, Basilea received the following notifications in accordance with the Swiss Federal Act on Stock Exchanges and Securities from shareholders who held more than three percent as of December 31, 2014 (the significant shareholdings were disclosed on the basis of the number of total outstanding shares according to the entry in the Commercial Register at that time):

On October 16, 2014, CI Investments Inc., 2 Queen Street East, 20th 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 and Black Creek Global Balanced Corporate Class, held 514,281 Basilea shares, corresponding to 5.04% of the voting rights, as of September 25, 2014.

On October 14, 2014, Franklin Resources, Inc., One Franklin Parkway, San Mateo, CA 94403, USA, notified Basilea that Franklin Templeton Investments Corp., Franklin Templeton Investment Management Limited, Templeton Global Advisors Limited and Templeton Investment Counsel, LLC, held 1,014,976 Basilea shares, corresponding to 9.95% of the voting rights, as of October 10, 2014.

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

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

On November 13, 2013, HBM Healthcare Investments AG, Bundesplatz 1, 6300 Zug, Switzerland, notified Basilea that HBM Healthcare Investments (Cayman) Ltd., Governors Square, Suite #4-212-2, 23 Lime Tree Bay Avenue, West Bay, Grand Cayman, Cayman Islands, held 1,432,704 Basilea shares, corresponding to 14.94% of the voting rights, as of November 12, 2013.

Additionally, Basilea reported that the number of outstanding options amounted to 1,428,571, corresponding to 14.90% of the voting rights, as of January 14, 2014.

All disclosures of shareholdings, including those of shareholders that fell below three percent during 2014, are published on the website of the SIX Disclosure Office and can be accessed there (http://www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?issuer=12329).

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, 2014.

CAPITAL STRUCTURE AND SHARES

SHARE CAPITAL

The share capital of Basilea as of December 31, 2014 amounted to CHF 10,575,288 consisting of 10,575,288 registered shares with a par value of CHF 1 per share. The share capital is fully paid up. As of December 31, 2014, the Company did not hold any shares of Basilea.

AUTHORIZED CAPITAL AND CONDITIONAL CAPITAL

On April 9, 2014, the ordinary general meeting of shareholders authorized the Board of Directors for a period of two years, to increase the share capital, all at once or in portion by a maximum of CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares having a nominal value of CHF 1 each. The new shares have to be fully paid up.

As of December 31, 2014 the total conditional capital amounted to CHF 2,324,853 million.

The share capital may be increased by a maximum amount of CHF 1,684,853 million by the issue of a maximum of 1,684,853 fully paid-up registered shares having a par value of CHF 1 – each by exercising option rights granted under the Company's option plan program to members of the Board of Directors, members of the Management Committee, and certain employees. The preferential subscription rights of the existing shareholders are excluded. The issue price will be set by the Board of Directors.

In addition, CHF 640,000 are reserved for the exercise of option or conversion rights granted to the holders of options or bonds in connection with new bonds or similar debt instruments that would be issued by Basilea or one of its subsidiaries, and for which the Board of Directors is entitled to set the conditions. The prior subscription right of shareholders (*Vorwegzeichnungsrecht*) is granted for the portion of CHF 640,000, but its exercise is limited to three working days. The minimum issue price for shares issued in connection with bonds or similar debt instruments has to amount to at least CHF 75 per share and is set by the Board of Directors. Relating to bonds or similar debt instruments connected with conversion or option rights for which the prior subscription right is withdrawn, the option rights may be exercised only during a maximum period of seven years, and the conversion rights only during a maximum of ten years.

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

CHANGES IN CAPITAL

In 2014, Basilea increased its share capital by CHF 375,055 (375,055 registered shares with a par value of CHF 1 per share) as a result of the exercise of stock options under Basilea's stock option plan.

In 2013, Basilea increased its share capital by CHF 612,612 (612,612 registered shares with a par value of CHF 1 per share) as a result of the exercise of stock options under Basilea's stock option plan.

In 2012, Basilea increased its share capital by CHF 50 (50 registered shares with a par value of CHF 1 per share) as a result of the exercise of stock options under Basilea's stock option plan.

For further information on changes in capital in 2014, 2013 and 2012, including changes in reserves and retained earnings, please refer to the consolidated statement of changes in shareholders' equity as well as note 13 (shareholders' equity, page 71) to the consolidated financial statements, and note 4 (share capital, page 83) to the financial statements of Basilea. Please also refer to the consolidated statement of changes in shareholders' equity included in the annual reports 2013 and 2012 for information on changes in equity in the respective years.

SHARES, PARTICIPATION AND PROFIT SHARING CERTIFICATES

Basilea has only one class of shares (registered shares) with a par value of CHF 1 per share. Each share is fully paid up 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 not certificated since its IPO. Basilea may issue registered shares in the form of single certificates, global certificates or uncertificated securities. Within the limits of the law Basilea is free to convert the registered shares issued in one of those forms into another form at any time and without the approval of the shareholders. Basilea bears the related costs.

The shareholder has no claim for conversion of registered shares issued in one form into another form. A shareholder may, however, request Basilea at any time to issue at no cost a document certifying the ownership of his shares according to the share register, but such confirmation is not a negotiable instrument.

Intermediated securities (*Bucheffekten*) underlying registered shares of Basilea may not be transferred by way of assignment. In addition, such intermediated securities may not be provided as collateral by way of assignment.

In order to participate in and to vote at a shareholders meeting it is required that a shareholder files a share registration form in order to be registered in the share register of Basilea with voting rights. Failing such registration by the respective deadline set by the Board of Directors, a shareholder or usufructuary (*Nutzniesser*) may not vote at or participate in a shareholders meeting, but is still entitled to receive dividends and other rights of financial value. No exemptions were granted from the above restrictions in 2014.

According to article 5 of Basilea's Articles, a purchaser of shares will be recorded in Basilea's share register as a shareholder or usufructuary with voting rights if the purchaser discloses its name, citizenship or registered office, respectively, and address, and gives a declaration that it has acquired the shares in its own name and for its own account. According to the nominee regulation enacted by the Board of Directors, a person or legal entity not explicitly stating in its registration request that it will hold the shares for its own account ("nominee") may be entered as a shareholder in the share register with voting rights for shares up to a maximum of 3% of the outstanding nominal share capital, provided such nominee enters into a nominee agreement with Basilea. Shares held by a nominee that exceed this limit are only registered in the share register with voting rights if such nominee declares in writing to disclose name, address, and shareholding of any person or legal entity for whose account the nominee is holding 0.5% or more of the outstanding nominal share capital. The limit of 3% shall apply correspondingly to nominees who are related to one another through capital ownership or voting rights or have a common management or are otherwise interrelated.

Basilea's Articles do not further limit the transferability of shares. A qualified majority of at least two-thirds of the share votes represented as well as the majority of the par values of shares represented at a shareholders meeting are required for resolutions on transfer restrictions of Basilea's shares. For further information on the registration in the share register, please refer to the section "registration in the share register" on page 32.

CONVERTIBLE BONDS AND OPTIONS

As of December 31, 2014 there were no convertible bonds of the Company outstanding.

For information on the stock option plan for directors, management, and certain employees, and on the number of options granted thereunder, please refer to Basilea's Compensation Report (page 36), and note 12 (stock-based compensation, page 69) to the consolidated financial statements included in this annual report.

BOARD OF DIRECTORS

MEMBERS, FUNCTIONS AND OTHER ACTIVITIES

The following table sets forth the names and terms of the current members of the Board of Directors as of December 31, 2014:

Name	Year of first election	End of current term[1]
Dr. Martin Nicklasson, Chairman	2013	2015
Mr. Domenico Scala, Vice-Chairman	2011	2015
Mr. Hans-Beat Gürtler	2009	2015
Prof. Daniel Lew	2003	2015
Dr. Thomas M. Rinderknecht	2011	2015
Mr. Steven D. Skolsky	2008	2015
Dr. Thomas Werner	2011	2015

[1] Due to the federal Ordinance against excessive compensation in listed companies (VegüV) the Chairman and the members of the board must be re-elected annually.

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

Martin Nicklasson, Chairman, was born in 1955 and is a Swedish citizen. He is a certified pharmacist and holds a PhD in pharmaceutical technology from the University of Uppsala, Sweden. He is Associate Professor at the Department of Pharmaceutics, University of Uppsala. Dr. Nicklasson held a number of leadership positions in commercial operations and drug development within Astra and Kabi Pharmacia before joining AstraZeneca Plc. From 1999 to 2007 he held various Executive Vice President positions at AstraZeneca Plc., and acted as a member of the Executive Committee. From 2007 to 2010, he was the President and CEO of Biovitrum AB and Swedish Orphan Biovitrum AB, one of Europe's largest specialty pharma companies focusing on rare diseases. He is currently a senior partner at Nicklasson Life Science AB, an independent consultancy and advisory company to the pharmaceutical and biotechnology sector. Dr. Nicklasson is member of the board of Biocrine AB (Sweden), PledPharma AB (Sweden), Premier Research Group Ltd. (UK) and chairman of the board of directors of Farma Holding AS (Norway) and Orexo AB (Sweden). He is observer to the board of Zealand Pharma A/S (Denmark), member of the Royal Swedish Academy of Engineering Sciences, the Royal Bachelors' Club (Sweden), the Pharmaceutical Faculty Council of the University of Uppsala, and the Swedish Academy of Pharmaceutical Sciences.

Domenico Scala, Vice-Chairman, was born in 1965 and is a Swiss and Italian citizen. From 2007 to 2011 he was President and Chief Executive Officer of Nobel Biocare Holding AG and from 2003 to 2007 Chief Financial Officer of Syngenta International AG. From 1995 to 2003 he served in various senior leadership positions at Roche Holding AG and prior to that as Finance Director with Panalpina Italy Spa and Senior Auditor with Nestlé SA. Since May 2012 he is Chairman of the Audit and Compliance Committee of FIFA (Football Association), since May 2014 member of the Board of BAK Basel Economics AG and since January 2015 President of i-net innovation networks switzerland. He also acts as Senior Advisor to Private Equity and M&A firms. In 2004 he was one of a selected few executives to be named "Young Global Leader" by the World Economic Forum (WEF). Mr. Scala graduated from the University of Basel with a degree in economics. He holds executive development degrees from INSEAD and London Business School. He is also a member of the Board of Overseers of the Tufts University, Boston, USA.

Hans-Beat Gürtler was born in 1946 and is a Swiss citizen. He holds a Commercial Diploma. He currently serves as management partner for entrepreneurial investments of Varuma AG, a privately held Swiss investment company. He is Member and President of the Boards of Directors of several Swiss-based companies, most of them start-ups and SMEs, primarily in the pharma and biotech sector. He is Vice-Chairman of SIX Swiss Exchange listed Implenia. Prior to joining Varuma, he held the position of Global Chief Executive Officer at Novartis Animal Health in Basel where he was responsible for the worldwide business, including research, development, manufacturing and marketing of animal pharmaceuticals for pets and farm animals. Previously, Mr. Gürtler held various management positions at Ciba-Geigy Ltd., including business responsibilities in Eastern Europe, the Northern Hemisphere and the global pest-control business. As CEO of Mahissa, Ciba-Geigy's Seeds business in Spain, he lived in Barcelona for several years.

Daniel Lew was born in 1948 and is a Swiss citizen. He is clinical infectious diseases physician and President of the Clinical Ethics Committee of the Geneva University Hospitals as well as Honorary Professor of Medicine at the University of Geneva Medical School. He is President of the Swiss Academic Foundation for Education in Infectious Diseases and member of the Swiss Academy of

Board of Directors as of December 31, 2014 (from left to right and top to bottom):
Dr. Martin Nicklasson
Mr. Domenico Scala
Mr. Hans-Beat Gürtler
Prof. Daniel Lew
Dr. Thomas M. Rinderknecht
Mr. Steven D. Skolsky
Dr. Thomas Werner

Medical Sciences. He obtained his MD degree from Geneva University in 1976 and specialized in infectious diseases both in Geneva and then subsequently at Harvard Medical School and Massachusetts General Hospital in Boston, USA. In the past he served as Chief of the Service of Infectious Diseases, and Chief of the Academic Department of Internal Medicine at the Geneva University Hospital. He is a recipient of numerous scientific awards and grants for his research work. Professor Lew lectures widely, acts both as reviewer and editor for several major scientific journals, and is author of many publications on neutrophil function, bacterial pathogenesis and drug resistance. Prof. Daniel Lew is past President of the International Society for Infectious Diseases (ISID).

Thomas M. Rinderknecht was born in 1954 and is a Swiss citizen. He is an attorney-at-law and senior partner at Badertscher Rechtsanwälte AG, Zurich and Zug. He has served on the Boards of Directors of several biotech, pharma and medtech companies including Speedel AG, Basel, Glycart Biotechnology AG, Schlieren, and Ganymed Pharmaceuticals AG, Mainz, Germany. He currently serves as Chairman of Canyon Pharmaceuticals AG, Zug, and Vice-Chairman of APR Applied Pharma Research SA, Balerna. Dr. Rinderknecht holds a PhD in law from the University of Zurich and is admitted to the Bar in Zurich.

Steven D. Skolsky was born in 1956 and is a U.S. citizen. He holds a BA degree in Biology from the University of North Carolina at Chapel Hill, USA. Mr. Skolsky has extensive general management and international pharmaceutical industry experience with emphasis on product strategy, commercialization and product development. He currently holds the position of Global Head of Clinical and Data Operations at Quintiles Transnational and also serves on the Board of Fennec Pharmaceuticals Inc. He previously served as President and Chief Executive Officer of Sequoia Pharmaceuticals and also as Chief Executive Officer at Trimeris, Inc., a publicly held company. Previously, Mr. Skolsky served for more than 20 years at GlaxoSmithKline (GSK) in a range of senior leadership roles, including Senior Vice President, Global Product Strategy and Clinical Development, and Managing Director of GSK's operations in Australia and New Zealand.

Thomas Werner was born in 1956 and is a German citizen. He has almost 30 years of experience in the pharmaceutical industry, most recently as Senior Vice President of GlaxoSmithKline where he was Managing Director for Germany and also coordinated the European oncology business. Prior to that, he was responsible for Glaxo Wellcome Germany and Central Europe, Bristol-Myers Squibb Germany and Convatec Germany/Central Europe. Dr. Werner sits on the boards of SkyePharma plc, SuppreMol GmbH,

BSN Medical and Blackfield AG and is member of the advisory board of Riemser Pharma GmbH. Beside his business responsibilities he served for many years on the board of trustees of the Paul Ehrlich Foundation and also on the board of trustees of the Robert Koch foundation as well as on the Board of the German *Verband der forschenden Arzneimittelunternehmen* (vfa). He also served as a Director of the American Chamber of Commerce Germany with the focus area of healthcare. He holds a PhD in chemistry from the University of Göttingen, Germany.

The Board of Directors is fully composed of non-executive members.

No current member of the Board of Directors has served in the management of Basilea or any of its subsidiaries since inception of Basilea.

There are no other significant business connections between members of the Board of Directors and Basilea or any of its subsidiaries. For further information, please refer to note 18 (related party transactions, page 76) to the consolidated financial statements.

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

Article 26 of Basilea's Articles provides the following with respect to permissible mandates of members of the Board of Directors in addition to their mandate for Basilea:

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

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

ELECTIONS AND TERMS OF OFFICE

Basilea's Articles provide for a Board of Directors consisting of between one and eleven members. Members of the Board of Directors are appointed and removed exclusively by shareholders' resolution. The Chairman and the members of the board are elected annually by the shareholders, with re-election allowed.

According to the current Organizational Regulations of Basilea enacted by the Board of Directors, each member of the Board of Directors shall resign effective as per the ordinary shareholders meeting immediately following completion of his or her 70th year of age.

For an overview of the years of first election and of expiry of the current terms of each member of the Board of Directors, please refer to the table on page 22.

AREAS OF RESPONSIBILITY

Responsibilities of the Board of Directors

The Board of Directors is entrusted with the ultimate direction of Basilea and the supervision of management. The Board of Directors' non-transferable and irrevocable duties include ultimately managing the corporation and issuing the necessary directives, determining the organization, organizing the accounting system, the financial controls as well as the financial planning, and appointing, recalling, and ultimately supervising the persons entrusted with the management and representation of Basilea. Furthermore, these duties comprise the responsibility for the preparation of the annual report, including the Compensation Report, and the shareholders meeting, the carrying out of shareholders' resolutions and the notification of the judge in case of over indebtedness of Basilea.

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

INTERNAL ORGANIZATION

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

Chairman of the Board of Directors

The Chairman of the Board calls, prepares, and chairs the meetings of the Board of Directors. The Chairman also chairs the shareholders meetings. He supervises the implementation of the resolutions of the Board of Directors and generally supervises the CEO and the Management Committee. The CEO regularly reports to the Chairman on the meetings of the Management Committee and on all important matters of the Company. The Chairman is also entitled to attend the meetings of the Management Committee. In urgent matters that do not allow for the Board of Directors to take resolutions in time, the Chairman is entitled to take decisions that fall within the competencies of the Board of Directors.

Vice-Chairman of the Board of Directors

The Vice-Chairman of the Board of Directors is designated by the Board of Directors and exercises the powers of the Chairman in the Chairman's absence.

Board committees

The Board of Directors established an Audit Committee and a Compensation Committee in 2003. In addition, the Board of Directors established a Corporate Governance Committee in 2012. The tasks and responsibilities of these committees are set forth in the Organizational Regulations and their committee charters. The committees make proposals to the Board of Directors in their areas of responsibilities. In 2014, the full Board of Directors nominated members for each committee, except for the Compensation Committee as its members were elected by the shareholders at the 2014 annual general meeting.

In the meeting of the Board of Directors subsequent to the ordinary general meeting of shareholders on April 9, 2014, the following board members were appointed to the **Audit Committee:** Mr. Domenico Scala (Chairman), Mr. Hans-Beat Gürtler, Dr. Martin Nicklasson and Dr. Thomas M. Rinderknecht.

The Audit Committee assists the Board of Directors in fulfilling its duties of supervision of the management. It is responsible for the guidelines of Basilea's risk management and internal control system, and the review of their adequacy and effectiveness, the review of the compliance, the assessment of the external auditors' quality and work and the review of their audit plans, the monitoring of the independence of external auditors (including the authorizing of non-audit services by the auditors and their compliance with applicable rules), the proposal of new auditors, if necessary, to the Board of Directors, the review of annual and interim financial statements, the review of the audit results, and the monitoring of the implementation of any findings by the Management Committee. The Audit Committee is at all times authorized to inspect the books and records of Basilea and to request information from and meetings with all management bodies and employees of Basilea as well as its external auditors.

The Audit Committee held three meetings at the offices of Basilea in 2014, lasting between three and four hours. The main topics at these meetings were the review of the year-end financial statements and Annual Report 2013; the review of the half-year financial statements 2014; the review of the annual budget 2014 and 2015 as well as mid-term financial forecasts; financial and

non-financial risk management and the scope of the external audit 2014 as well as the scope and results of the internal audit 2014. The external auditors were present at two Audit Committee meetings in 2014 to report on the results of the audit and the half-year review 2014. The respective recommendations of the Audit Committee were then provided for approval or modification to the full Board of Directors.

At the ordinary general meeting of shareholders on April 9, 2014, the following board members were elected as members of the **Compensation Committee:** Dr. Martin Nicklasson (Chairman), Mr. Steven D. Skolsky and Dr. Thomas Werner.

The Compensation Committee assists the Board of Directors in compensation-related matters. It provides the Board of Directors with recommendations on the compensation of the members of the Board of Directors and of the Management Committee, the policies for the compensation of the Management Committee and the Company's employees, and the basic principles for the establishment, amendment and implementation of the Company's stock option plan.

The Compensation Committee held two meetings in 2014, lasting approximately between two and three hours. The main topics at these meetings included the review of the 2013 achievements versus the planned Company objectives and determination of the performance-related bonus pool; the annual general salary increases; the grant of options; and the general remuneration of the Board of Directors, the Management Committee, and employees. The respective recommendations of the Compensation Committee were then provided for approval or modification by the full Board of Directors.

In the board meeting following the annual general meeting on April 9, 2014, the following board members were appointed to the **Corporate Governance Committee:** Dr. Thomas M. Rinderknecht (Chairman), Mr. Hans-Beat Gürtler, Prof. Daniel Lew and Dr. Martin Nicklasson.

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

The Corporate Governance Committee held two meetings in 2014 with an approximate duration of one hour. The main topics at these meetings were the Company's current corporate governance principles, policies, and ongoing compliance activities.

Working methods of the Board of Directors and its committees

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

In 2014, the Board of Directors held nine meetings. Four of these meetings were held at the offices of Basilea or at the location of the ordinary general meeting of shareholders, with a typical duration of one day. Five meetings were held by telephone conference. The attendance rate for in-person board meetings was over 95%, and for board teleconferences was 75%.

The members of the Management Committee report to the Board of Directors at each board meeting on the status of operations including the progress of research and clinical development, marketing activities, the status of drug supply, licensing, and financial activities. In addition, an update on the development of the Company's share price is given.

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

Responsibilities of the Management Committee

In accordance with the Articles and the Organizational Regulations, the Board of Directors has delegated all areas of management of Basilea that are not reserved to the Board of Directors by law, the Articles or the Organizational Regulations (see section "responsibilities of the Board of Directors" on page 24), to the CEO and the Management Committee reporting to the CEO. The main duty of the CEO with the assistance of the Management Committee is to operationally

manage the Company, to implement the strategies and other decisions of the Board of Directors, to make proposals to the Board of Directors regarding matters constituting decision making competencies of the Board of Directors, to set the operative focus and priorities as well as to procure the necessary resources.

INFORMATION AND CONTROL INSTRUMENTS OF THE BOARD OF DIRECTORS

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

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

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

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

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

MANAGEMENT COMMITTEE

MEMBERS, FUNCTIONS AND OTHER ACTIVITIES

The Management Committee, under the responsibility of the CEO and the supervision of the Board of Directors, is responsible for the operational management of the Company pursuant to the Organizational Regulations and reports to the Board of Directors. Under the direction of the CEO, the Management Committee focuses on the corporate goals, budget, portfolio review and risk management, and as needed on organizational structure, corporate policies and corporate strategies. In addition, regular operational management meetings for the different functions are held. These operational management meetings, chaired by the responsible Management Committee member, mainly focus on significant operational issues concerning execution of goals, budget, resources, new business proposals, and priorities. The participants of these management operational meetings are key people on a managerial level, the CEO, and Management Committee members as required.

The following table sets forth the name, date of appointment and position of the members of the Management Committee as of December 31, 2014.

Name	Appointed	Position
Mr. Ronald Scott	2013	Chief Executive Officer[1]
Dr. Ingrid Heinze-Krauss	2006	Chief Technology Officer
Prof. Achim Kaufhold	2010	Chief Medical Officer
Dr. Laurenz Kellenberger	2009	Chief Scientific Officer
Ms. Heidi McDaid[2]	2013	Head of Global Human Resources
Mr. Donato Spota	2013	Chief Financial Officer
Mr. David Veitch	2014	Chief Commercial Officer

[1] Mr. Ronald Scott additionally served as *ad interim* Chief Financial Officer from February 7, 2013 until November 4, 2013.
[2] Ms. Heidi McDaid previously served (as Head of Human Resources) in the Management Committee from 2006 until 2007.

Changes in the Management Committee

Mr. David Veitch was appointed as Chief Commercial Officer and member of the Management Committee as per September 1, 2014.

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

Ronald Scott, Chief Executive Officer (CEO), is a Swiss citizen. He was Basilea's COO from January 2012 through December 2012, and served as Basilea's CFO from the Company's founding in 2000 through January 2012 as well as *ad interim* CFO from February 7, 2013 until November 4, 2013. Prior to joining Basilea, he worked for nine years at Roche in management positions in Pharmaceutical Finance, Licensing, and the Roche Corporate Finance Mergers and Acquisitions group. His assignments included managing Roche's initial call, primary and secondary offerings of Genentech; Roche's biotechnology investment portfolio; acquisitions and divestitures. Prior to joining Roche, Mr. Scott worked for Prudential Investment Corporation in the United States as Director in Prudential's Finance and International Business Development Units, managing divestitures and joint venture transactions.

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

Achim Kaufhold, Chief Medical Officer (CMO), is a German citizen. He holds a medical degree from the University of Cologne, Germany. During his 10-year academic career he worked in the fields of pediatrics, basic and applied medical microbiology, laboratory medicine and infectious diseases in Germany and the U.S. Dr. Kaufhold is Professor of Medical Microbiology and Infectious Diseases and member of the Faculty of Medicine of the University of Aachen, Germany, and also serves as a member of the board of directors of Vaximm AG. He has spent 20 years in senior management positions in the biotech and pharmaceutical industry, mainly in leadership roles in research, product and business development, and general management. Prior to joining Basilea, Prof. Kaufhold was President & Chief Executive Officer of Affitech A/S, previously Pharmexa A/S, Denmark. His previous executive management roles included positions at Chiron, now part of the Novartis group, Berna Biotech, now a Crucell company, and GlaxoSmithKline Biologicals.

Laurenz Kellenberger, Chief Scientific Officer (CSO), is a Swiss citizen. He holds a PhD in organic chemistry from the Swiss Federal Institute of

Management Committee as of December 31, 2014 (from left to right and top to bottom):
Mr. Ronald Scott
Dr. Ingrid Heinze-Krauss
Prof. Achim Kaufhold
Dr. Laurenz Kellenberger
Ms. Heidi McDaid
Mr. Donato Spota
Mr. David Veitch

Technology Zurich (ETH Zurich). His scientific research continued at the University of Cambridge, UK, and at F. Hoffmann-La Roche, Basel, where he held different positions in preclinical research and chemical technologies before joining Basilea in 2000. His expertise covers the range of synthetic organic and natural product chemistry to microbial molecular genetics and he is author of numerous scientific publications. At Basilea he held roles of increasing responsibility and served as Head of Chemistry and member of the research management team with responsibilities for key projects from lead finding and optimization through to preclinical development. He is a member of the Board of the Medicinal Chemistry & Chemical Biology division of the Swiss Chemical Society.

Heidi McDaid, Head of Global Human Resources, is a Swiss citizen. She has both business management and human resources qualifications. Ms. McDaid has held various positions in finance and administration at Bank and Finanz-Institut AG, Bank CIAL (Schweiz) AG and Lubapharm AG. Before joining Basilea in 2002 as Head of Human Resources she worked for Mepha AG in the domain of Finance and Human Resources. For many years she served as President of the Board of Trustees of the Basilea Pension Fund. Ms. McDaid is representing Basilea as member in the Board of Trustees of the pension fund of a collective foundation.

Donato Spota, Chief Financial Officer (CFO), is an Italian citizen. He has over 17 years of experience in the pharmaceutical industry, including finance, strategic financial planning and analysis, budgeting, information technology as well as audit and risk management. Prior to his appointment to CFO he was Basilea's Global Head of Finance and Services, assuming responsibilities for Finance, Information Technology and General Services. Before joining Basilea in 2002, Mr. Spota worked for F. Hoffmann-La Roche, Basel, in the area of Pharma Global Informatics, within which he was responsible for financial planning and controlling. He holds a master degree in business administration of the University of Applied Sciences Nürtingen, Germany. He also holds a diploma in information technology.

David Veitch, Chief Commercial Officer (CCO), is a British citizen. He has over 25 years of international commercial experience in the pharmaceutical industry, leading cross-functional organizations at the country and European level, and was responsible for the launch of numerous brands across many therapeutic areas. Most recently he was President European Operations at Savient Pharmaceuticals. Prior to Savient, from 1996 to 2011, Mr. Veitch held various positions with increasing responsibilities at Bristol-Myers Squibb UK and Europe. Mr. Veitch's last position at Bristol-Myers Squibb was Senior Vice President Europe, Middle-East and Africa, Marketing and Brand Commercialization, leading the commercial organization for the region with a focus on specialty care brands. He started his pharma career in 1987 at Beecham Pharmaceuticals, UK. Mr. Veitch holds a Bachelor of Science degree in Biology from the University of Bristol, UK.

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

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

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

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

MANAGEMENT CONTRACTS

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

COMPENSATION, SHAREHOLDINGS AND LOANS

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

For content and method of determining Board and Management compensation and the shareholder programs please see the Compensation Report on page 36.

Rules in the Articles of Incorporation

In article 18 and article 25 of Basilea's Articles, the principles regarding the performance-related compensation for and regarding allocation of equity instruments to members of the Board of Directors and to members of the Management Committee are described as follows:

- In addition to a fixed compensation, members of the Board of Directors and members of the Management Committee may be paid a variable compensation, depending on the achievement of certain performance criteria.
- These performance criteria may include individual targets, targets of the Company or parts thereof and targets in relation to the market, other companies or comparable benchmarks, taking into account function and level of responsibility. The Board of Directors and/or the Compensation Committee determines the relative weight of the performance criteria and the respective target values.
- Compensation may be paid or granted in the form of cash, shares, options and similar financial instruments and/or units, in kind or in the form of other benefits. The Board of Directors and/or the Compensation Committee determines forfeiture, vesting and exercise conditions; it may provide for acceleration or removal of vesting and exercise conditions, for payment or grant of compensation based upon assumed target achievement, or for forfeiture, in each case in the event of pre-determined events such as a change-of-control or termination of an employment or mandate agreement. In this determination, the Board of Directors and the Compensation Committee take into account the interests of the Company, including, with respect to the members of the Management Committee, the Company's ability to recruit talent and retain employees. The Company may procure the required shares through purchases on the market or a conditional increase of its share capital. Compensation may be paid by the Company or companies under its control.

With respect to the additional amount for payments to members of the Management Committee appointed after the vote on pay at the general meeting of shareholders, article 25 para. 3 provides that, if the maximum aggregate amount of compensation already approved by the general meeting is not sufficient to cover compensation of a member of the Management Committee who either becomes a member of or is promoted to the Management Committee after the general meeting has approved the compensation, the Company or companies under its control shall be authorized to grant and pay to each such member a supplementary amount during the compensation period(s) already approved. The supplementary amount per compensation period per each such member shall not exceed 40% of the aggregate amount of fixed and variable compensation last approved by the general meeting.

The Articles of Incorporation contain no rules on loans, credit facilities and post-employment benefits for members of the Board of Directors and Management Committee.

In article 6 para. 2 of the Articles of Incorporation the general meeting is granted the following non-transferable powers:

- The approval of the maximum aggregate amount of compensation for the Board of Directors for the prospective period from one ordinary general meeting to the following ordinary general meeting;
- The approval of the maximum aggregate amount of fixed compensation for the Management Committee for the period from July 1 of the current year to June 30 of the next year;
- The approval of the maximum aggregate amount of variable compensation for the Management Committee for the period from January 1 to December 31 of the current year.

The Articles of Incorporation provide for the following further determinations by the board and votes by the general meeting of shareholders in article 15 para. 3:

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

SHAREHOLDERS PARTICIPATION

VOTING RIGHTS AND REPRESENTATION RESTRICTIONS

Voting rights may be exercised only after a shareholder has been recorded in Basilea's share register (*Aktienbuch*) as a shareholder or usufructuary (*Nutzniesser*) with voting right. No exceptions from these restrictions were granted in 2014.

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

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

For further information on the conditions for registration in the share register (including in relation to nominees) and for attending and voting at a shareholders meeting, please refer to the sections "limitations on transferability of shares and nominee registrations" on page 21 and "registration in the share register" on page 32.

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

STATUTORY QUORUMS

According to article 11 of the Articles, resolutions generally require the approval of the absolute majority of more than 50% (*absolutes Mehr*) of the share votes represented at the shareholders meeting. Shareholders' resolutions requiring such a majority include: amendments to the Articles

(subject to the exceptions below), elections of members and the Chairman of the Board of Directors; elections of members of the Compensation Committee; elections of the auditors; election of the independent voting rights representative; approval of the maximum aggregate amount of compensation for the Board of Directors for the prospective period from one ordinary general meeting to the following ordinary general meeting; 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; 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; approvals of the annual report; the annual financial statements and consolidated financial statements of the Company; decisions regarding dividends; decisions to discharge the members of the Board of Directors and the Management Committee from liability for matters disclosed to the shareholders meeting; and the ordering of an independent investigation into specific matters proposed to the shareholders meeting (*Sonderprüfung*).

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

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

CONVENING OF SHAREHOLDERS MEETINGS AND AGENDA ITEMS

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

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

REGISTRATION IN THE SHARE REGISTER

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

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

In 2014, the deadline for registration in the share register in order to participate and to vote at the ordinary general meeting of shareholders of April 9, 2014 was March 28, 2014.

The registration deadline for the ordinary general meeting of shareholders to be held on April 29, 2015 has been set as April 17, 2015.

Basilea has not enacted any rules on the granting of exceptions in relation to these deadlines.

For further information on the registration in the share register, please refer to the section "limitations on transferability of shares and nominee registrations" on page 21.

CHANGES OF CONTROL AND DEFENSE MEASURES

DUTY TO MAKE AN OFFER

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

CLAUSES ON CHANGES OF CONTROL

Basilea's stock option plan contains provisions in respect of changes of Basilea's shareholder base (so called "material changes"). The material change definition in the stock option plan includes a change of control over the Company; a sale of all or substantially all assets of the Company; a merger or similar agreement which results in the Company being dissolved or in the Company's shareholders prior to such agreement not continuing to be the controlling shareholders of the Company; a delisting from SIX Swiss Exchange or any dissolution and liquidation of the Company. The change of control definition includes the launch of any offer for the shares of the Company, which exceeds the mandatory offer threshold of 33 1/3% of all shares of the Company, if such offer becomes unconditional (subject to conditions subsequent).

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

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

In addition, with regard to all employment agreements of indefinite nature (except for those of members of the Management Committee), the period for terminations for any cause by the Company, will automatically and immediately be extended to 12 months. In the event of any material change of the particulars of the contract regarding the position and location, the employee, save for members of the Management Committee, has the right to terminate employment with immediate effect resulting in a payment of an annual salary by the Company. In this regard material change means a planned downgrading of more than one level in terms of position. In terms of work place, any location outside the greater Basel area is considered material.

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

AUDITORS

DURATION OF THE MANDATE AND TERM OF OFFICE OF THE LEAD AUDITOR

The statutory and group auditors of Basilea are PricewaterhouseCoopers AG, Basel, Switzerland. PricewaterhouseCoopers AG has held the function of statutory auditor since inception of Basilea on October 17, 2000, and acts as group auditor since 2002. The lead auditor of Basilea since March 2008 is Mr. Thomas Brüderlin.

AUDITING FEES

In 2014, PricewaterhouseCoopers AG and its affiliates charged the Company auditing fees in the amount of CHF 171,331 (2013: CHF 188,834).

ADDITIONAL FEES

In 2014, PricewaterhouseCoopers AG and its affiliates have not charged the Company any additional fees.

INFORMATION INSTRUMENTS OF THE AUDITORS

The Audit Committee of the Board of Directors assumes the task of supervising the auditors. The Audit Committee meets with the external auditors at least once a year to discuss the scope and the results of the audit and to assess the quality of their services.

In 2014, the Audit Committee met with the auditors twice to discuss the scope and results of their year-end audit for 2013, the scope of the 2014 audit as well as the scope and results of their review of the half-year financial statements per June 30, 2014.

INFORMATION POLICY

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

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

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

Basilea's website is the permanent source of information for investors and stakeholders. It also provides information on the Company's products, research and development programs as well as contact information. In addition, it includes an investors calendar with information on events such as shareholders meetings, publication dates of half- and full-year financials, and information on investor conferences where Basilea is presenting. The investors calendar is continuously updated throughout the financial year.

The Company provides general guidance to support the investment community and the public in their assessment of the Company and its business prospects. The Board of Directors has issued a disclosure policy to ensure that investors will be informed in compliance with the requirements of the SIX Swiss Exchange.

The Company's investor relations department is available to respond to queries from shareholders or potential investors under investor_relations@basilea.com or via post to Basilea Pharmaceutica International Ltd., Investor Relations, P.O. Box, 4005 Basel, Switzerland. Additionally, investor relations inquiries may also be made by phone at +41 61 606 1233.

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

POLICY ON PREVENTION OF INSIDER TRADING

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

ETHICAL BUSINESS CONDUCT

The Company is committed to the highest standards of ethical business conduct. As a biopharmaceutical company, the Company is operating in a highly regulated business environment. Strict compliance with all legal and health authority requirements, as well as requirements of other regulators, is mandatory. To fulfill these goals, the Board of Directors issued a Code of Conduct which was reviewed and updated in 2011. The Code of Conduct sets forth the Company's policy embodying the high standards of business ethics and integrity required of all employees, contractors and agents when conducting business affairs on behalf of the Company. The Company's internal Compliance Committee, established by the Management Committee in 2011, met regularly during 2014. It is comprised of representatives of the assurance functions to oversee and coordinate compliance. The Company is committed to complying with the spirit and letter of all applicable laws and regulations where the Company engages in business.

COMPENSATION REPORT

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING ON THE COMPENSATION REPORT 2014

Report of the statutory auditor to the general meeting of Basilea Pharmaceutica Ltd., Basel, Switzerland

We have audited pages 41 to 43 of the Compensation Report of Basilea Pharmaceutica Ltd. for the year ended December 31, 2014.

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

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

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

Opinion
In our opinion, the Compensation Report of Basilea Pharmaceutica Ltd. for the year ended December 31, 2014 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Thomas Brüderlin
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 12, 2015

OVERVIEW

OVERVIEW OF COMPENSATION REPORT

This Compensation Report provides the information required by the federal Ordinance against excessive compensation in listed companies (*VegüV*) (effective as of January 1, 2014), which prevails over articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations. It also includes the information required by section 5 of the Annex to the Directive on Information relating to Corporate Governance of the SIX Swiss Exchange (effective date October 1, 2014) and the Swiss Code of Best Practice for Corporate Governance (status August 28, 2014).

The first part of this report provides Basilea's compensation principles, and the second part provides details of each of the compensation elements, with compensation details for the Board of Directors followed by details for the Management Committee.

OVERVIEW OF BOARD AND MANAGEMENT COMMITTEE COMPENSATION

The compensation of the members of the Board of Directors and of the Management Committee is reviewed annually by the Compensation Committee in accordance with Basilea's Compensation Policy. In its review of board compensation, the Compensation Committee considers compensation packages of other companies in the biotech and pharmaceutical industry in Switzerland and Europe that are comparable to Basilea with respect to size or business model. In its review of management compensation, the Compensation Committee takes into account the professional experience and areas of responsibility of the respective management members and also considers compensation packages of other companies in the biotech and pharmaceutical industry in Switzerland and Europe that are comparable to Basilea with respect to size or business model. To offer competitive compensation packages in order to attract and retain highly qualified employees in a very competitive environment, the Compensation Committee may also consider compensation at Swiss biotech and pharmaceutical companies, and may evaluate respective compensation surveys of public companies in Switzerland and Europe. Based on the review the Compensation Committee provides the Board of Directors with recommendations on the compensation of the members of the Board of Directors and the Management Committee, the policies for the compensation of the Management Committee and the Company's employees, and the basic principles for the establishment, amendment, and implementation of the Company's stock option plan. Based on these recommendations of the Compensation Committee, the Board of Directors submits three proposals for approval at the shareholders meeting: (i) the maximum aggregate amount of compensation for the Board of Directors for the prospective period from one ordinary general meeting of shareholders to the following ordinary general meeting of shareholders; (ii) the maximum aggregate amount of fixed compensation for the Management Committee for the period from July 1 of the current year to June 30 of the next year; and (iii) the maximum aggregate amount of variable compensation for the Management Committee for the period from January 1 to December 31 of the current year. Approval of these proposals requires an absolute majority (more than 50% of the share votes represented at the shareholders meeting).

COMPENSATION ELEMENTS FOR THE BOARD AND MANAGEMENT COMMITTEE

Board of Directors

The compensation package for board members consists of: a fixed annual monetary compensation per board term from one general meeting of shareholders to the next; the payment of social security contributions, where such

contributions occur; and compensation based on board meeting attendance and participation in board committees. In addition, Basilea reimburses board members' out-of-pocket expenses incurred in relation to their service on the board on an on-going basis upon presentation of the corresponding receipts. The latest board review of the compensation for board members took place on November 20, 2014, at which meeting the board resolved that stock options would be replaced by fixed monetary compensation in the board's compensation starting in 2014.

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 41.

Management Committee

The compensation of the members of the Management Committee includes a base salary, performance-related bonus, stock options, pension plan contributions, and certain insurance for death and invalidity. The amount of the base salary depends on the position, responsibilities, experience and skills and takes into account individual performance. The base salaries are reviewed at the beginning of each year by the Compensation Committee. Any changes in the base salaries were effective as of April 2014. The bonus and the stock options vary annually and are based on individual and company performance. The potential bonus is determined in the employment contract and calculated as a percentage of the base salary. The maximum bonus available for 2013 and 2014 ranged between 35% and 45% of the base salary depending on position, adjusted by performance as further described below. In 2014, one member of the Management Committee had a guaranteed minimum bonus of 20% of the base salary. Such guaranteed bonus is only paid out if a bonus is distributed by Basilea for the respective fiscal year.

At the beginning of each year the Board of Directors decides, considering the recommendations of the Compensation Committee, on the total amount of bonus to be granted for the previous year based on the achievement of company goals set by the Board of Directors annually. In the current development stage of Basilea, the company goals are related to key value drivers such as successful completion of clinical trials and submission of marketing authorization and new drug applications, providing drug supply for clinical trials and commercial requirements, identification of clinical product candidates, successful achievement of commercial goals, financial performance, and financing company activities. For 2014, key company goals included ceftobiprole launch in Europe, initiation of a combined gender study for BAL30072, start of a phase 2a study for BAL101553, filing a marketing authorization seeking approval of isavuconazole for the treatment of invasive aspergillosis and mucormycosis (zygomycosis) from the European Medicines Agency, managing expenses, and relative performance indicators such as the Basilea share price compared to the SIX Swiss Stock Exchange Swiss Market Index (SMI).

In a second step, the individual cash bonus for members of the Management Committee is determined by the Board of Directors upon recommendation of the Compensation Committee based on the individual performance and the Management Committee member's respective contribution to achieving the Company's goals and performance. The individual performance objectives of the members of the Management Committee relate to their roles and responsibilities and are aligned with the company strategy and annual company goals. The weighting of the company goals (40%) and individual objectives (60%) is the same for all members of the Management Committee and is multiplied by

the available bonus as described above. The company goals portion may be rated above 100% in the event that the board determines that certain "upsides" were achieved to a maximum of 130% of the respective 40% weighting. The individual portion may be rated above 100% to a maximum of 130% of the respective 60% weighting on an individual basis in the event of extraordinary performance; however, the total average companywide individual performance bonus cannot exceed 100% of the respective 60%. A special bonus is available for extraordinary performance by an employee in accordance with a total amount which is agreed annually by the Board of Directors. One member of the Management Committee may receive certain bonuses upon Company achievement of goals. The notice period of the employment agreements for the members of the Management Committee is 12 months and during the notice period, bonus may be received depending on individual and company performance in the same range as set forth above. Members of the Management Committee are subject to the Standard Basilea Terms and Conditions for Basilea employees. Basilea has no contractual termination payment obligations to members of the Board of Directors or 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 43.

Stock option program

The purpose of the Basilea stock option program is to provide management and certain employees with an opportunity to obtain stock options and to benefit from the appreciation thereof, thus providing an increased incentive for participants to contribute to the future success and prosperity of the Company, enhancing the value of the shares for the benefit of the shareholders of the Company and increasing the ability of the Company to attract and retain individuals of exceptional skill. The grant of any option under the stock option program is wholly discretionary. Key factors considered by the Board of Directors in the stock option grant are the amount of shareholder approved conditional capital, the dilution of Basilea shares, the benchmarking with other companies as well as individual performance. Any value, income or other benefit derived from any stock option is not considered part of the participant's salary or compensation for the purposes of calculating any pension or retirement benefits. The strike price is determined by the Board of Directors and is based on the closing price of the Basilea shares on the SIX Swiss Exchange on the grant date. The strike price of the options granted in the business year 2014 was CHF 90.75 (2013: CHF 105.60). 25% of the options received under an annual stock option grant vest one year from the grant date, 25% of such options vest two years from the grant date, 25% of such options vest three years from the grant date and 25% of such options vest four years from the grant date.

Indirect benefits

The Company contributes to the pension plan and maintains certain insurance for death and invalidity for the members of the Management Committee. New entrants may be eligible for reimbursement of relocation costs, compensation for lost benefits or stock granted by previous employer, international school for children or language courses for a limited time period.

The Company has not granted any loans, credits or guarantees to members of the Board of Directors or of the Management Committee in 2014 or 2013.

COMPENSATION REPORT ACCORDING TO THE FEDERAL ORDINANCE AGAINST EXCESSIVE COMPENSATION IN LISTED COMPANIES

DISCLOSURE OF THE COMPENSATION FOR THE BOARD OF DIRECTORS

The compensation package for board members consists of different elements, as indicated below. The respective amounts for the period from ordinary general meeting of shareholders 2014 ("AGM 2014") to ordinary general meeting of shareholders 2015 ("AGM 2015") were:

In CHF	AGM 2014 to AGM 2015
Chairman of the Board of Directors	
Fixed compensation	238 363
Board meeting fee[1]	9 375
Committee fee[2]	7 875
Members	
Fixed compensation	150 382
Board meeting fee[3]	6 250
Committee fee[4]	5 250

[1] Fee per meeting attended with the maximum cumulative amount paid for meeting attendance limited to CHF 46,875 from AGM to AGM.
[2] Fee per board committee membership.
[3] Fee for each board meeting attended with the maximum cumulative amount for meeting attendance limited to CHF 31,250 from AGM to AGM.
[4] Fee per board committee membership.

The total compensation of the members of the Board of Directors in 2014 is outlined below:

In CHF	Cash compensation fix	Other fringe benefits[7]	**Total**
Dr. Martin Nicklasson, Chairman[1]	295 551	63 662	359 213
Mr. Domenico Scala, Vice-Chairman[2]	186 882	23 985	210 867
Mr. Hans-Beat Gürtler, Director[3]	192 132	28 929	221 061
Prof. Daniel Lew, Director[4]	180 632	28 675	209 307
Dr. Thomas M. Rinderknecht, Director[5]	192 132	24 614	216 746
Mr. Steven D. Skolsky, Director[6]	180 632	–	180 632
Dr. Thomas Werner, Director[6]	180 632	23 236	203 868
Total	**1 408 593**	**193 101**	**1 601 694**

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

The total compensation of the members of the Board of Directors in 2013 is outlined below:

In CHF	Cash compensation fix	Cash compensation variable	Stock options[9]	Other fringe benefits[10]	**Total**
Dr. Martin Nicklasson, Chairman[1]	149 479	–	108 189	32 201	289 869
Mr. Werner Henrich[2]	73 097	–	40 509	16 631	130 237
Mr. Domenico Scala, Vice-Chairman[3]	87 750	–	99 132	11 700	198 582
Mr. Hans-Beat Gürtler, Director[4]	93 000	–	99 132	8 275	200 407
Prof. Daniel Lew, Director[5]	87 750	–	99 132	7 857	194 739
Dr. Thomas M. Rinderknecht, Director[6]	100 850	–	99 132	13 447	213 429
Mr. Claude Schreiner, Director[7]	41 288	–	27 036	11 020	79 344
Mr. Steven D. Skolsky, Director[8]	87 750	–	99 132	–	186 882
Dr. Thomas Werner, Director[8]	87 750	–	99 132	11 700	198 582
Total	**808 714**	**–**	**770 526**	**112 831**	**1 692 071**

[1] Dr. Martin Nicklasson is Chairman of the Board of Directors and Chairman of the Compensation Committee since April 9, 2013. Cash compensation in total CHF 149,479 thereof fixed compensation of CHF 96,875 as Chairman of the Board of Directors.
[2] Mr. Werner Henrich was Chairman of the Board of Directors, Chairman of the Compensation Committee and member of the Corporate Governance Committee until April 9, 2013. Cash compensation, until April 9, 2013, in total CHF 64,097, thereof fixed compensation of CHF 12,891 as Chairman of the Board of Directors. His compensation for consulting services was CHF 9,000.
[3] Mr. Domenico Scala is Vice-Chairman and Chairman of the Audit Committee since April 9, 2013 and was member of the Audit Committee until April 9, 2013.
[4] Mr. Hans-Beat Gürtler is a member of the Audit Committee and the Corporate Governance Committee and was Vice-Chairman and member of the Compensation Committee until April 9, 2013 .
[5] Prof. Daniel Lew is member of the Corporate Governance Committee.
[6] Dr. Thomas M. Rinderknecht is Chairman of the Corporate Governance Committee and since April 9, 2013 member of the Audit Committee; and in January-February 2013, Chairman of the ad hoc Nomination Committee.
[7] Mr. Claude Schreiner was Chairman of the Audit Committee until April 9, 2013.
[8] Dr. Thomas Werner and Mr. Steven D. Skolsky are members of the Compensation Committee.
[9] Based on the grant-date fair value of stock options granted in 2013 using a binomial valuation model.
[10] Includes the Company's and the Board members' contributions to social securities, etc., where such contributions occur.

Mr. Henrich acted as CEO of Basilea from February to October 2001. No current member of the Board of Directors has served in the management of Basilea or any of its subsidiaries since inception of Basilea.

DISCLOSURE OF THE COMPENSATION FOR THE MEMBERS OF THE MANAGEMENT COMMITTEE

The total compensation and the highest individual compensation of the members of the Management Committee in 2014 are outlined below:

In CHF	Cash compensation fix	Cash compensation variable	Stock options[1]	Other fringe benefits[2]	**Total**
Chief Executive Officer Ronald Scott	536 786	506 848	775 063	342 261	2 160 958
Total Management Committee[3]	**2 227 143**	**1 263 766**	**3 403 579**	**835 458**	**7 729 946**

[1] Based on the grant-date fair value of stock options granted in 2014 using a binomial valuation model.
[2] Includes employers' contributions to pension plans, social security, life insurances etc.
[3] Includes the compensation of the Chief Commercial Officer, who joined the Company on September 1, 2014.

The total compensation and the highest individual compensation of the members of the Management Committee in 2013 are outlined below:

In CHF	Cash compensation fix	Cash compensation variable	Stock options[1]	Other fringe benefits[2]	**Total**
Chief Executive Officer Ronald Scott	530 010	358 340	1 007 542	158 675	2 054 567
Total Management Committee[3]	**2 038 194**	**998 618**	**3 497 107**	**661 348**	**7 195 267**

[1] Based on the grant-date fair value of stock options granted in 2013 using a binomial valuation model.
[2] Includes employers' contributions to pension plans, social security, life insurances etc.
[3] These amounts include the compensations of the CFO since November 4, 2013 and the former CFO, who left the Company on February 7, 2013.

In 2013 the Company made payments to the former CEO in line with the amount accrued and reported in 2012, see page 75 of the Annual Report 2012.

FINANCIAL REPORT

FINANCIAL REVIEW

OVERVIEW

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

Basilea Pharmaceutica Ltd., through its operating company Basilea Pharmaceutica International Ltd. ("Basilea International"), is an integrated biopharmaceutical company focusing on the discovery, development and commercialization of innovative pharmaceutical products in the therapeutic areas of bacterial infections, fungal infections, and oncology.

The Company has a portfolio of marketed drugs and an early and late-stage pipeline. In 2014, the Company swapped its isavuconazole U.S. and Canadian co-promotion rights for full isavuconazole rights outside of the U.S. and Canada; the Company is entitled to receive milestone payments totalling up to CHF 362 million and royalty payments from Astellas relating to U.S. and Canadian territories. The Company received a CHF 12.0 million milestone payment in 2014.

In 2014, the Company recognized operating income of CHF 42.6 million (2013: CHF 41.4 million). Operating income in 2014 and 2013 included CHF 36.9 million contract revenue related to the agreement with Stiefel, a GSK company for Toctino® and contract revenue related to the license agreement with Astellas for isavuconazole of CHF 5.2 million (2013: CHF 3.6 million). Moreover, operating income included other income in the amount of CHF 0.1 million (2013: CHF 0.4 million) and revenue from R&D services in the amount of CHF 0.4 million in 2014 and 2013.

In 2014, the Company invested CHF 54.4 million (2013: CHF 53.3 million) in research and development activities related to its antibiotic ceftobiprole for the treatment of community and hospital-acquired pneumonia in adults, its antifungal drug candidate isavuconazole currently under regulatory review in the U.S. and EU for the treatment of invasive aspergillosis and mucormycosis, the phase 1 development of its sulfactam antibiotic BAL30072, the development of its phase 2a oncology drug candidate BAL101553 as well as in its research portfolio.

Selling, general and administrative expenses amounted to CHF 30.1 million in 2014 (2013: CHF 21.3 million). The cash and cash equivalents and short-term investments amounted to CHF 226.1 million as of December 31, 2014, compared to CHF 273.9 million at year-end 2013.

RESULTS OF OPERATIONS

The following table outlines the Company's consolidated results of operations for the fiscal years 2014 and 2013:

In CHF million	**2014**	2013
Contract revenue	42.1	40.5
Revenue from R&D services	0.4	0.4
Other income	0.1	0.4
Total operating income	**42.6**	**41.4**
Research & development expenses	(54.4)	(53.3)
Selling, general & administrative expenses/ General & administrative expenses	(30.1)	(21.3)
Total operating expenses	**(84.5)**	**(74.7)**
Operating loss	**(41.8)**	**(33.3)**
Net financial income/expenses	0.3	0.3
Income taxes	0.0	0.0
Net loss	**(41.5)**	**(33.0)**

Note: Consistent rounding was applied.

Revenues and other income

Operating income included contract revenue in the amount of CHF 42.1 million (2013: CHF 40.5 million), which mainly results from the recognition of contract revenue from Stiefel of CHF 36.9 million in 2014 and 2013 related to the upfront payment of CHF 224.1 million in 2012 and CHF 3.9 million (2013: CHF 1.9 million) are related to the recognition of contract revenue from Astellas in connection with the upfront payment of CHF 67.5 million in 2010 and the milestone payment of CHF 12.0 million in 2014, which were recorded as deferred revenue. In 2014, the Company recognized additional contract revenue in the total amount of CHF 1.3 million (2013: CHF 1.7 million) related to services provided by the Company to Astellas for isavuconazole.

Moreover, the Company recognized revenue from R&D services in the amount of CHF 0.4 million in 2014 and 2013.

Research and development expenses

Research and development expenses amounted to CHF 54.4 million in 2014 (2013: CHF 53.3 million), representing 64% of the total operating expenses (2013: 71%).

Research and development expenses in 2014 were mainly related to activities to prepare the regulatory filing and support the regulatory review in the EU and for maintaining the supply chain for the EU for the antifungal drug candidate isavuconazole and supply chain related pre-launch activities for ceftobiprole, the phase 1 development of sulfactam antibiotic BAL30072 as well as the phase 2a development of oncology drug candidate BAL101553. The Company recognized CHF 9.5 million in 2014 (2013: CHF 0.0 million) related to the Biomedical Advanced Research and Development Authority ("BARDA") contract from June 24, 2013 under which BARDA provides funding in the form of reimbursement of agreed development costs.

The payments which the Company makes or receives related to its co-development arrangement with Astellas for isavuconazole are recorded in research and development expenses. The research and development expenses in 2014 also included stock-based compensation expenses of CHF 3.1 million (2013: CHF 1.7 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 studies and projects, personnel expenses for the research and development groups of the Company, and depreciation of equipment used for its research and development activities. In addition, research and development expenses contain expenses for producing pharmaceutical material for clinical studies or which may be used for commercialization and was produced prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected.

Selling, general and administrative expenses

Selling, general and administrative expenses amounted to CHF 30.1 million in 2014 (2013: CHF 21.3 million). Selling, general and administrative expenses in 2014 included costs for the commercialization of ceftobiprole and stock-based compensation of CHF 2.9 million (2013: CHF 1.6 million).

The increase of CHF 8.8 million as compared to 2013 is mainly due to commercial activities to prepare and support the launch of ceftobiprole.

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

As of December 31, 2014, the Company has subsidiaries in Germany, Italy and the United Kingdom in connection with its commercialization activities.

Net financial income/expenses

Net financial income amounted to CHF 0.3 million in 2014 and 2013.

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, 2014 and December 31, 2013. The Company incurred income taxes of CHF 0.0 million in 2014 and 2013 related to its operations in certain jurisdictions outside of Switzerland.

LIQUIDITY AND CAPITAL RESOURCES

As of the date of inception of Basilea, the Company had available cash funds in the amount of CHF 206.0 million as a result of an initial capital contribution from Roche. In June 2003, the Company performed a capital increase, in which the Company raised net proceeds of CHF 20.7 million through the issuance of new shares in a private placement. In March 2004, the Company issued 2.1 million registered shares in connection with its initial public offering and raised net proceeds of CHF 192.8 million. Beginning in 2005, the Company received non-refundable upfront and milestone payments under a license agreement with Johnson & Johnson in the total amount of CHF 114.4 million. In March 2007, the Company issued 1.4 million registered shares in connection with a secondary offering with realized net proceeds of CHF 310.1 million. In February 2010, the Company received a non-refundable net upfront payment under its licence, co-development and co-promotion agreement with Astellas in the amount of CHF 67.5 million. In December 2010, the Company was awarded CHF 126.9 million compensation in arbitration against Johnson & Johnson related to ceftobiprole,

including milestones, other damages and interest. In July 2012, the Company received a non-refundable upfront 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, the Company received a non-refundable milestone payment of CHF 12.0 million from Astellas, based on the amended agreement.

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

The cash used by the Company in 2014 was primarily related to its operating activities, in particular the research and development programs as well as its commercial operations.

The cash and cash equivalents and short-term investments, available as of December 31, 2014, amounted to CHF 226.1 million (December 31, 2013: CHF 273.9 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, 2014, CHF 70.0 million (December 31, 2013: CHF 155.0 million) were invested in short-term bank deposits denominated in Swiss Francs.

The Company has not entered and has not planned to enter into any commitments for any material investments other than for investments in the normal course of the business. The financial needs of Basilea's wholly-owned and fully consolidated subsidiaries are exclusively covered by the Company. None of the subsidiaries had any significant third-party debt outstanding as of December 31, 2014 and December 31, 2013.

CRITICAL ACCOUNTING POLICIES

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

The upfront payment received under the license agreement with Astellas was recorded as deferred revenue. A portion of this upfront payment is allocated to the grant of the license to Astellas and the respective amount is accordingly recognized as revenue on a straight-line basis over the remaining estimated term of the agreement. The remaining portion of the upfront payment represented compensation for the Company's co-payment of development costs as well as other services which the Company provided in connection with the development of isavuconazole and accordingly were recognized as co-development payments were made by the Company and the respective services were provided by the Company. Based on the amendment of the agreement with Astellas, the estimated remaining contractual contribution term was

reassessed. Accordingly, the recognition of the upfront payment in contract revenue is accelerated. The Company also received a non-refundable milestone payment from Astellas. The milestone payment was deferred and is recognized on a straight-line basis as contract revenue over the estimated remaining contractual contribution term. The Company also received a non-refundable upfront payment under the agreement with Stiefel related to Toctino®. The upfront payment was deferred and is recognized on a straight-line basis as contract revenue over the estimated contractual term of the agreement.

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 5.9 million in 2014 (2013: CHF 3.3 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 and related to the contract with BARDA for the development of Basilea's antibiotic BAL30072 are recorded in research and development expenses. Costs related to the manufacturing of inventories which occurred after the receipt of regulatory approval or evidence being available that regulatory approval can reasonably be expected, are capitalized. The Company expenses costs as research and development expenses related to manufacturing of inventories when incurred prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected. If regulatory approval is subsequently obtained, the recorded expenses are not reversed. Accordingly, the cost of sales does not and will not include manufacturing costs for material, which was produced prior to obtaining regulatory approval, when the respective commercial material is sold.

The Company 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 147.4 million as of December 31, 2014 due to the history of operating losses and the uncertainty related to the ability to realize such deferred tax assets.

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

FOREIGN CURRENCY EXCHANGE RATE RISK

The functional currency of the Company is Swiss Francs. Besides the expenses, which are denominated in Swiss Francs, the Company also incurs expenses in foreign currencies, especially in Euro, U.S. Dollars, British Pounds, Canadian Dollars, Danish Kronen, Chinese Yuan Renminbi and Japanese Yen. Although the Company believes that the current exposure to foreign currency risk is not significant, it cannot be excluded that unfavourable developments of the value of the Swiss Francs could have a material adverse effect on the Company's financial condition, results of operations, and prospects in the future.

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

RECENT DEVELOPMENTS

There have been no material adverse changes in the business or financial situation of the Company since December 31, 2014.

REPORT OF THE STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As Statutory Auditors, we have audited the consolidated financial statements of Basilea Pharmaceutica Ltd. and subsidiaries (the consolidated balance sheet and the related consolidated statement of operations, cash flows and changes in shareholders' equity and accompanying notes) for the year ended December 31, 2014, included on pages 52 to 77.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2014 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Thomas Brüderlin
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 12, 2015

CONSOLIDATED FINANCIAL STATEMENTS

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Consolidated balance sheets as of December 31, 2014 and 2013 (in CHF)

	Footnote reference	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	7	156 125 450	118 897 653
Short-term investments	6	70 000 000	155 000 000
Accounts receivable	5	1 170 779	3 883 335
Other receivables		7 041 080	3 422 488
Inventories	8	4 903 881	–
Other current assets		5 329 687	4 963 281
Total current assets		**244 570 877**	**286 166 757**
Non-current assets			
Tangible assets, net	2	12 157 480	13 043 381
Intangible assets, net	3	223 534	432 153
Other non-current assets		425 670	113 990
Total non-current assets		**12 806 684**	**13 589 524**
TOTAL ASSETS		**257 377 561**	**299 756 281**
LIABILITIES			
Current liabilities			
Accounts payable		2 112 936	1 701 453
Deferred revenue	9	43 404 749	38 831 549
Accruals and other current liabilities	10	16 172 694	19 772 714
Total current liabilities		**61 690 379**	**60 305 716**
Non-current liabilities			
Deferred revenue, less current portion	9	128 563 813	161 930 837
Other non-current liabilities	15	9 192 000	6 646 000
Total non-current liabilities		**137 755 813**	**168 576 837**
Total liabilities		**199 446 192**	**228 882 553**
Commitments and contingencies	19		
SHAREHOLDERS' EQUITY			
Share capital[1]	13	10 575 288	10 200 233
Additional paid-in capital		879 924 850	849 519 057
Accumulated other comprehensive income/loss	13	(14 009 763)	(11 832 087)
Accumulated deficit:			
Loss carried forward		(777 013 475)	(743 993 544)
Net loss for the year		(41 545 531)	(33 019 931)
Total shareholders' equity		**57 931 369**	**70 873 728**
TOTAL LIABILITIES AND EQUITY		**257 377 561**	**299 756 281**

[1] As of December 31, 2014, 10,575,288 registered shares were issued and outstanding with a par value of CHF 1 per share.
As of December 31, 2013, 10,200,233 registered shares were issued and outstanding with a par value of CHF 1 per share.

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

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Consolidated statements of operations for the years ended December 31, 2014 and 2013 (in CHF)

	Footnote reference	2014	2013
Contract revenue	4, 9	42 080 686	40 520 549
Revenue from research & development services	4	418 162	430 119
Other income	9	134 850	425 175
Total operating income		**42 633 698**	**41 375 843**
Research & development expenses		(54 376 503)	(53 349 474)
Selling, general & administration expenses / general & administration expenses		(30 087 340)	(21 312 601)
Total operating expenses		**(84 463 843)**	**(74 662 075)**
Operating loss		**(41 830 145)**	**(33 286 232)**
Interest income		364 153	373 290
Other financial expenses/income, net		(53 206)	(79 689)
Loss before taxes		**(41 519 198)**	**(32 992 631)**
Income taxes	11	(26 333)	(27 300)
Net loss		**(41 545 531)**	**(33 019 931)**

Earnings/Loss per share	14	**2014**	2013
Basic loss per share, in CHF		(4.17)	(3.40)
Diluted loss per share, in CHF		(4.17)	(3.40)

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Consolidated statements of comprehensive income/loss for the years ended December 31, 2014 and 2013 (in CHF)

	Footnote reference	2014	2013
Net loss		**(41 545 531)**	**(33 019 931)**
Currency translation adjustments	13	427 324	14 235
Unrecognized pension costs		(3 140 000)	3 615 000
Amortization of unrecognized pension costs		535 000	930 000
Other comprehensive income, net of tax		**(2 177 676)**	**4 559 235**
Comprehensive loss		**(43 723 207)**	**(28 460 696)**

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, 2014 and 2013 (in CHF)

	Footnote reference	2014	2013
Cash flow from operating activities			
Net loss		(41 545 531)	(33 019 931)
Adjustments to reconcile net loss to net cash used for/provided by operating activities:			
Depreciation and amortization		2 590 792	2 715 466
Gain on disposal of assets, net		(6 222)	(16 820)
Stock-based compensation		5 920 671	3 287 296
Change in operating assets/liabilities:			
Accounts receivable		2 730 778	3 667 271
Other receivables		(3 604 642)	525 068
Inventories		(4 848 958)	–
Accounts payable		405 346	(6 689)
Deferred revenue		(28 793 825)	(38 831 549)
Accruals and other current liabilities		(3 681 486)	1 769 142
Other operating cash flow items		(628 398)	440 931
Net cash used for operating activities		**(71 461 475)**	**(59 469 815)**
Cash flow from investing activities			
Payments for financial investments		(90 000 000)	(155 000 000)
Maturities of financial investments		175 000 000	120 000 000
Proceeds from sale of assets		6 222	16 891
Investments in tangible assets	2	(1 247 476)	(1 102 644)
Investments in intangible assets	3	(64 834)	(103 677)
Net cash provided by/used for investing activities		**83 693 912**	**(36 189 430)**
Cash flow from financing activities			
Net proceeds from exercise of stock options	12	24 860 177	38 500 338
Distribution of capital to shareholders	13	–	(47 955 180)
Net cash provided by/used for financing activities		**24 860 177**	**(9 454 842)**
Effect of exchange rate changes on cash and cash equivalents		**135 183**	**56 242**
Net change in cash and cash equivalents		**37 227 797**	**(105 057 845)**
Cash and cash equivalents, beginning of period		**118 897 653**	**223 955 498**
Cash and cash equivalents, end of period	7	**156 125 450**	**118 897 653**
Supplemental information			
Cash paid for interest		–	–
Cash paid for income taxes		60 950	168 364

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

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2014 and 2013 (in CHF, except for number of shares)

	Number of shares	Share capital	Additional paid-in capital	Accumu-lated deficit	Accumulated other comprehensive income/loss	Total
Balance at December 31, 2012	**9 587 621**	**9 587 621**	**856 299 215**	**(743 993 544)**	**(16 391 322)**	**105 501 970**
Net loss	–	–	–	(33 019 931)	–	(33 019 931)
Other comprehensive income	–	–	–	–	4 559 235	4 559 235
Exercise of stock options, net	612 612	612 612	37 887 726	–	–	38 500 338
Distribution of capital to shareholders	–	–	(47 955 180)	–	–	(47 955 180)
Stock-based compensation, net	–	–	3 287 296	–	–	3 287 296
Balance at December 31, 2013	**10 200 233**	**10 200 233**	**849 519 057**	**(777 013 475)**	**(11 832 087)**	**70 873 728**
Net loss	–	–	–	(41 545 531)	–	(41 545 531)
Other comprehensive income	–	–	–	–	(2 177 676)	(2 177 676)
Exercise of stock options, net	375 055	375 055	24 485 122	–	–	24 860 177
Stock-based compensation, net	–	–	5 920 671	–	–	5 920 671
Balance at December 31, 2014	**10 575 288**	**10 575 288**	**879 924 850**	**(818 559 006)**	**(14 009 763)**	**57 931 369**

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

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Notes to the consolidated financial statements (all amounts in CHF unless stated otherwise)

1 Summary of significant accounting policies

Business purpose and history

Basilea Pharmaceutica Ltd., Basel, Switzerland ("Basilea"), together with its subsidiaries (collectively "the Company"), is an integrated biopharmaceutical company focusing on the discovery, development and commercialization of innovative pharmaceutical products in the therapeutic areas of bacterial infections, fungal infections and oncology. The Company was founded in October 2000.

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

In the context of its commercialization organization, the Company has operating subsidiaries in the United Kingdom, Germany and Italy. The Company has further entities in Denmark and France. All subsidiaries are wholly-owned and fully consolidated.

The Company has a broad and balanced product portfolio focusing on anti-infectives and oncology drugs. In 2013, the Company obtained regulatory approval in certain European countries for its antibiotic ceftobiprole for the treatment of hospital- and community-acquired pneumonia in adults. In addition, the Company's clinical pipeline includes the investigational phase 3 antifungal drug isavuconazole, the phase 1 sulfactam antibiotic BAL30072, and the phase 2a anti-cancer compound BAL101553.

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 ("US 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 US GAAP requires management to make estimates and assumptions which have an effect on the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and on the reported amounts of revenues and expenses during the reporting period. 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.

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

Cash and cash equivalents

The Company considers cash equivalents to be highly liquid investments which are readily convertible to cash with original maturities of not more than 3 months.

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 in the statement of operations.

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

Short-term investments

Short-term investments include time deposits with banks with original maturities of more than 3 months and remaining maturities of up to 12 months. These investments are carried at nominal value which approximates fair value. Gains and losses resulting from such investments are included as a component of other financial income/expense in the statement of operations.

Accounts receivable and other receivables

Accounts receivable and other receivables are recorded at net realizable value after consideration of an allowance for doubtful accounts. The Company generally maintains allowances for estimated uncollectible receivables based on historical experience and specifically identified at-risk accounts. The adequacy of the allowance is evaluated on an ongoing and periodic basis and adjustments are made in the period in which a change in condition occurs.

Inventories

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

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

Tangible assets

Tangible assets are recorded at cost less accumulated depreciation and impairment. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets of approximately 20 years for buildings, 5 years for research & development equipment, 3 years for furniture and office equipment and 3 years for IT hardware and equipment. Leasehold improvements are depreciated over the shorter of 5-10 years or the lease term. Land-use rights are depreciated over the term of the granted right.

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

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

Intangible assets

Intangible assets with finite lives are recorded at cost less accumulated amortization and impairment. Intangible assets with finite lives consist mainly of acquired or developed internal use software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which is 3 years for software. Product rights are amortized over the remaining life of the underlying patent.

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

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

Impairment of long-lived assets

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

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

Leases

Tangible assets acquired through capital lease arrangements are recorded at the lower of the present value of the minimum lease payments or fair value. These assets are depreciated over the shorter of the useful life of the assets or the lease term. Payments under operating lease arrangements are recognized on a straight-line basis over the lease term.

Revenue recognition

The Company generally recognizes revenue when it is realized or realizable and earned in accordance with ASC 605 "Revenue Recognition". For agreements with multiple deliverables, the Company recognizes revenue separately for each deliverable in accordance with ASC 605. A deliverable is separable if it is deemed to have standalone value to the customer, delivery and performance is considered probable, within a company's control and the best estimate of selling price is determined in a way that is consistent with the price at which the Company would sell the deliverable if the item were to be sold separately.

Product sales

The Company recognizes revenue from the sale of its products when the following conditions are met: delivery has occurred; the price is fixed or determinable; the collectability is reasonably assured and persuasive evidence of an arrangement exists. Product sales are recognized net of any sales and value added taxes and sales deductions. Allowances are recorded for estimated rebates, discounts, returns and charge backs. When the Company grants rights of return to its customers, revenue is recognized if all of the conditions of ASC 605 are met.

Contract revenue

Contract revenue includes realized amounts from upfront and milestone payments in connection with licensing and distribution agreements and royalties. Contract revenue also includes payments received from a licensee for services provided by the Company in accordance with the respective license agreement.

For license agreements with multiple deliverables, the Company allocates the arrangement consideration, including upfront and milestone payments, to the separate deliverables based on the relative fair value of all deliverables under the agreements. The Company recognizes revenue for each separately identified deliverable as the revenue recognition criteria for each deliverable are fulfilled.

The amount of upfront and milestone payments under a license agreement allocated to the grant of the license is recognized over the estimated remaining agreement period, depending on the terms of the agreement. Milestone payments under license agreements are recognized in its entirety as revenue when the respective milestone is achieved, if such milestone meets the following criteria to be considered substantive: the milestone is commensurate with the Company's performance to achieve the milestone; the milestone relates solely to past performance; and the milestone amount is reasonable relative to all deliverables and payment terms in the arrangement. Milestone payments under license agreements which do not meet these criteria are recognized as revenue over the estimated remaining agreement period.

Upfront and milestone payments under distribution agreements which are allocated to the grant of the distribution right are generally recognized over the estimated remaining agreement period, depending on the terms of the agreement.

Revenue related to royalties received from licensees is recognized as earned, meaning when the royalties can be reasonably estimated based on the sales of the underlying products and when collectability is reasonably assured. The Company considers sales-based milestone payments under license and distribution agreements as contingent considerations which are recognized based on achievement.

To the extent the Company receives payments, including non-refundable payments, in excess of the recognized revenue, such excess is recorded as deferred revenue until the respective revenue is earned.

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

Research & development expenses
Research and development costs are expensed as incurred. Costs of research and development equipment with alternative future uses are capitalized and depreciated over the equipment's useful life.

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

Payments that the Company makes or receives related to its co-development arrangement for isavuconazole, and the payments the Company makes or receives related to the contract with the Biomedical Advanced Research and Development Authority ("BARDA") for development of Basilea's antibiotic BAL30072 are recorded in research and development expenses.

Advertising costs
Advertising costs are expensed as incurred and are included in selling, general and administration expenses. Advertising costs were approximately CHF 0.1 million in 2014. In 2013 no advertising costs were incurred.

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

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

Income taxes

The Company applies the asset and liability method for the determination of provisions for income taxes. The income taxes for the reporting period consist of the current taxes (taxes paid and taxes payable) plus the change in the deferred taxes for the respective period. Deferred taxes represent the estimated future tax consequences of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Interest and penalties in connection with income taxes are recorded as income taxes.

Earnings/Loss per share

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

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

Pension plans

Please refer to note 15 related to the accounting policies in connection with pension plans.

Certain risks and uncertainties

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

New accounting pronouncements

As new accounting pronouncements are released, the Company reviews such pronouncements for the potential impact on the Company's financial statements. The new accounting pronouncements below may have an impact on the financial statements of the Company.

In May 2014, the Financial Accounting Standards Board ("FASB") issued the Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" (Topic 606): the development of this new standard is a part of the joint project of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to clarify the principles for revenue recognition and to develop a common standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thereby, this core principle is achieved by applying following five steps: identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when the Company satisfies each performance obligation.

ASU 2014-09 is effective for public companies for annual periods beginning after December 15, 2016. The Company is currently assessing the impact on the financial statements of this new accounting pronouncement.

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

The new standard will be effective for annual periods beginning after December 15, 2016 and interim periods thereafter. Early adoption is permitted. The Company currently does not anticipate a significant impact on the existing disclosures.

2 Tangible assets

In CHF million	Land/Land-use rights	Buildings	Equipment	Total
2014				
Cost				
January 1, 2014	1.4	18.6	25.5	**45.5**
Additions	0.0	0.1	1.1	**1.2**
Disposals	0.0	0.0	(1.3)	**(1.3)**
Currency effect	0.1	0.2	0.5	**0.8**
December 31, 2014	1.5	18.9	25.8	**46.2**
Accumulated depreciation				
January 1, 2014	0.0	10.4	22.1	**32.5**
Additions	0.0	1.0	1.3	**2.3**
Disposals	0.0	0.0	(1.3)	**(1.3)**
Currency effect	0.0	0.1	0.4	**0.5**
December 31, 2014	0.0	11.5	22.5	**34.0**
Net book value as of December 31, 2014	**1.5**	**7.4**	**3.3**	**12.2**
2013				
Cost				
January 1, 2013	1.4	18.6	25.3	**45.3**
Additions	0.0	0.0	1.1	**1.1**
Disposals	0.0	0.0	(0.9)	**(0.9)**
Currency effect	0.0	0.0	0.0	**0.0**
December 31, 2013	1.4	18.6	25.5	**45.5**
Accumulated depreciation				
January 1, 2013	0.0	9.5	21.4	**30.9**
Additions	0.0	0.9	1.5	**2.4**
Disposals	0.0	0.0	(0.8)	**(0.8)**
Currency effect	0.0	0.0	0.0	**0.0**
December 31, 2013	0.0	10.4	22.1	**32.5**
Net book value as of December 31, 2013	**1.4**	**8.2**	**3.4**	**13.0**

The insurance value of tangible assets amounts to CHF 113.4 million as of December 31, 2014 (December 31, 2013: CHF 110.7 million).

3 Intangible assets

The intangible assets as of December 31, 2014 and 2013 consist mainly of internal use software:

In CHF million	**2014**	2013
Cost		
January 1	4.5	4.4
Additions	0.1	0.1
Disposals	(0.1)	0.0
Currency effect	0.0	0.0
December 31	4.5	4.5
Accumulated amortization		
January 1	4.1	3.8
Additions	0.3	0.3
Disposals	(0.1)	0.0
Currency effect	0.0	0.0
December 31	4.3	4.1
Net book value as of December 31	**0.2**	**0.4**

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

	Amount in CHF million
2015	0.2
2016	0.0
2017	0.0
2018	0.0
2019	0.0
Thereafter	0.0
Total	**0.2**

4 Segment and geographic information

The Company operates in one segment, which is the discovery, development and commercialization of innovative pharmaceutical products. The Board of Directors and the CEO of the Company review the statement of operations of the Company on an aggregated basis and manage 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	**2014**	2013
Switzerland	10.3	11.3
China	1.9	1.7
Total	**12.2**	**13.0**

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

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

In CHF million	2013
UK	36.9
Other	4.1
Total	**41.0**

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

In 2014, the Company recognized total contract revenues in the amount of CHF 36.9 million (2013: CHF 36.9 million) with Stiefel, a GSK company ("Stiefel"), and CHF 5.2 million (2013: CHF 3.6 million) with Astellas Pharma Inc. ("Astellas").

5 Accounts receivable

The accounts receivable primarily consist of receivables related to activities for isavuconazole for Astellas. The Company did not record a valuation allowance as of December 31, 2014 and 2013.

6 Short-term investments

The short-term investments as of December 31, 2014 contain short-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 70.0 million (December 31, 2013: CHF 155.0 million).

7 Cash and cash equivalents

Cash and cash equivalents consisted of the following components:

In CHF million	**2014**	2013
Cash	26.9	60.7
Short-term time deposits	129.2	58.2
Total	**156.1**	**118.9**

8 Inventories

The following table shows the components of inventories as of December 31, 2014 and 2013:

In CHF million	**2014**	2013
Raw materials	5.0	10.7
Semi-finished products	11.7	5.3
Finished products	0.0	–
Inventory provisions	(11.8)	(16.0)
Total	**4.9**	**0.0**

The Company owns manufacturing material valued at cost which was partly produced prior to obtaining regulatory approval for ceftobiprole. As ceftobiprole obtained regulatory approval in 2013, the ceftobiprole inventory is presented gross. Inventory provisions reflect that material was produced prior to approval. The Company intends to use such material to manufacture products for commercialization.

9 Agreements

Contract with BARDA for the development of the antibiotic BAL30072

The Company entered into a contract with BARDA for the development of Basilea's antibiotic BAL30072 on June 24, 2013. Under this contract, BARDA provides funding of up to USD 17 million over the initial agreement period of twenty-two months in the form of reimbursement of agreed development costs. In 2014, the Company recognized reimbursement of CHF 9.5 million (2013: CHF 0.0 million) in research and development expenses.

Global agreement with Stiefel related to Toctino®

In June 2012, the Company signed with Stiefel a global agreement for Toctino® (alitretinoin), including a license to know-how and transfer of Toctino® assets and the business. The transaction was completed in July 2012. Under this agreement, Stiefel gained exclusive worldwide rights to Toctino®. The Company is eligible for additional payments related to a regulatory milestone of alitretinoin and participation in U.S. sales. Existing Toctino® distribution agreements were assigned to Stiefel.

The agreement consists of two significant deliverables: grant of the worldwide, exclusive, irrevocable, sub-licensable, paid-up license to the know-how and the transfer of the business.

Neither the grant of the license to know-how nor the transfer of the business have stand-alone value as the license to know-how includes obligations to the Company, and therefore have to be considered together as a single unit of accounting.

In July 2012, the Company received a net non-refundable upfront payment of CHF 224.1 million (GBP 145.6 million). The upfront payment was deferred and is recognized on a straight-line basis as contract revenue over the estimated contractual term of the agreement.

The Company recognized CHF 36.9 million as contract revenue in 2014 (2013: CHF 36.9 million) related to this upfront payment.

License agreement with Astellas related to isavuconazole

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

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

The agreement was amended as of February 27, 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.

Under the terms of the amended agreement, the Company will continue to be entitled to receive regulatory milestone and royalty payments relating to the U.S. and Canadian territories from Astellas. Astellas will remain responsible for the continued development and funding of the isavuconazole global candidemia phase 3 study and will be responsible for the regulatory filings in the U.S. and Canada. The Company and Astellas will continue to coordinate their development and manufacturing activities and each company will be responsible for commercial activities in its respective territory.

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, which is non-refundable for the Company). This net upfront payment was recognized as deferred revenue. A portion of this upfront payment was allocated to the grant of the license to Astellas and the respective amount is accordingly recognized as revenue on a straight line basis over the remaining estimated term of the agreement. The remaining portion of the upfront payment represents compensation for the Company's co-payment of the development costs as well as other services which the Company provides in connection with the development of isavuconazole and accordingly, was recognized as co-development payments were made by the Company or the respective services were provided by the Company.

Based on the amended agreement, the Company reassessed the estimated remaining contractual contribution term. Based on this reassessment, there is an annual effect of CHF 2.6 million due to an accelerated recognition of the upfront payment as contract revenue.

In September 2014, the U.S. Food and Drug Administration ("FDA") accepted the filing of Astellas' New Drug Application for isavuconazole, seeking approval of isavuconazole for the treatment of invasive aspergillosis and invasive mucormycosis in adults. Based on such acceptance, the Company received a non-refundable milestone payment of CHF 12.0 million from Astellas. The milestone payment was deferred and is recognized on a straight line basis as contract revenue over the estimated remaining contractual contribution term.

In 2014, the Company recognized CHF 3.9 million (2013: CHF 1.9 million) as contract revenue related to these payments and recognized additional contract revenue in the total amount of CHF 1.3 million (2013: CHF 1.7 million) related to services provided by the Company to Astellas for isavuconazole.

10 Accruals and other current liabilities

Accruals and other current liabilities as of December 31, 2014 and 2013 consisted of the following:

In CHF million	2014	2013
Accrued research & development expenses	5.1	3.7
Accrued personnel and compensation costs	7.7	10.1
Other	3.4	6.0
Total accruals and other current liabilities	**16.2**	**19.8**

11 Income taxes

The Company has tax loss carry forwards of CHF 515.4 million as of December 31, 2014 (December 31, 2013: CHF 438.4 million) of which CHF 352.8 million will expire within the next five years, CHF 162.4 million will expire between six and eight years. CHF 0.2 million of the tax losses carry forwards do not expire. In 2014, tax loss carry forwards of CHF 1.5 million expired.

The significant components of net deferred taxes as of December 31, 2014 and 2013 are shown in the following table:

In CHF million	2014	2013
Deferred tax assets:		
Net benefit from tax loss carryforwards[1]	100.5	84.9
Deferred revenue	34.4	40.2
Stock-based compensation cost	12.1	13.3
Other, net	0.5	0.5
Valuation allowance	(147.5)	(138.9)
Net deferred taxes	**0.0**	**0.0**

[1] As of December 31, 2014 the position includes CHF 0.6 million related to windfall tax benefits from stock-based compensation that would be credited to shareholders' equity, if realizable. As of December 31, 2013 the position includes CHF 0.1 million related to shortfall from stock-based compensation that would be debited to shareholders' equity, if realizable.

The Company recorded a valuation allowance in 2014 and 2013 to reduce the net deferred taxes, as there is not sufficient positive evidence in the jurisdictions related to the realizability of the deferred tax assets.

The effective tax rate was 0.1% for the years 2014 and 2013. The following table shows the income taxes in 2014 and 2013:

In CHF million	2014	2013
Current tax expenses	0.0	0.0
Total income tax expenses	**0.0**	**0.0**

The current tax expenses in 2014 and 2013 are solely related to foreign taxable income.

The expected tax rate for 2014 was 20.4% (2013: 20.1%). The following table shows the reconciliation between expected and effective tax rate:

In percent	**2014**	2013
Expected tax rate	20.4	20.1
Effect of not-taxable differences[1]	1.6	(1.2)
Valuation allowance on deferred tax assets	(21.9)	(18.8)
Effective tax rate	0.1	0.1

[1] Items not deductible for tax purposes and items that are tax deductible, but do not represent expenses for financial reporting purposes.

Basilea and its subsidiaries file income tax returns in Switzerland and in foreign jurisdictions. Basilea's income tax position in Switzerland is finally assessed up to the fiscal year 2013.

As of December 31, 2014 and 2013, there were no unrecognized tax benefits. The Company did not incur any significant interest or penalties in connection with income taxes in the years 2014 and 2013.

12 Stock-based compensation

Stock options

The Company established a stock option plan effective on December 13, 2000 to incentize directors, executives, and certain employees with an opportunity to obtain stock options on registered shares of Basilea. The shareholders approved conditional capital necessary for the issuance of shares upon the exercise of stock options, of which CHF 1.7 million remain available as of December 31, 2014. CHF 1.3 million of this remaining available conditional capital are reserved for stock options which are issued and outstanding as of December 31, 2014.

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, 2014, which represent the requisite service periods, range from one to four years with contractual terms of the stock options of ten years. The stock option plan foresees accelerated vesting if there is a change of control as defined by the stock option plan.

In 2010, the Company offered participants of its stock option plan an option to amend the terms and conditions of certain outstanding stock options, in return for the cancellation of a number of stock options. The amendment of the stock options was value-neutral, as at the date of amendment the fair value of these

original stock options equalled the fair value of the reduced number of stock options at amended terms. The amendment of the stock options included an amendment of the strike price to the closing share price of Basilea's shares as of the date of the amendment, plus 15%. In addition, the term of the amended options ends in December 2018. The vesting periods of the outstanding stock options were not amended. As the amendment of stock options was value neutral, this modification of stock options did not result in any incremental compensation costs to be recognized.

Following the annual general meeting's approval in April 2013 of a distribution of CHF 5.00 to the shareholders, the Board of Directors made an equitable adjustment of CHF 5.00 to the strike price for outstanding options to compensate for the adjustment in fair value.

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

	Weighted average exercise price (in CHF)	Number of options
Balance at December 31, 2012	**66.42**	**1 927 077**
Options granted	105.60	199 650
Options forfeited	39.14	(15 674)
Options exercised	63.65	(612 612)
Options expired	55.00	(730)
Balance at December 31, 2013	**66.63**	**1 497 711**
Options granted	90.75	183 114
Options forfeited	60.12	(12 175)
Options exercised	66.95	(375 055)
Options expired	73.30	(550)
Balance at December 31, 2014	**70.02**	**1 293 045**

The following table provides information on the stock options outstanding and the stock options exercisable as of December 31, 2014:

	Options exercisable plus options expected to vest[1]	Options exercisable
Number of options	1 286 666	815 540
Weighted average exercise price, in CHF	69.95	65.62
Weighted average remaining contractual life, in years	6.8	5.6

[1] Number of options considers expected forfeitures.

Based on (a) the stock options exercisable as of December 31, 2014, including stock options expected to vest in the future and (b) the stock options exercisable as of December 31, 2014, the aggregate intrinsic values of such number of options were CHF 32.6 million and CHF 23.7 million, respectively. The exercise prices of the options granted in 2014 and 2013 equalled the market price of the shares at the respective grant date.

The weighted average grant-date fair value of options granted in 2014 was CHF 38.67 (2013: CHF 45.06). The total aggregate intrinsic value of stock options exercised during 2014 was CHF 15.1 million (2013: CHF 15.4 million).

The fair value of the stock options granted in 2014 and 2013 was determined at the grant date using a binomial model. The weighted average assumptions used for these determinations are outlined in the table below:

	2014	2013
Risk-free interest rate	0.69%	1.49%
Expected term of stock options	7 years	7 years
Expected volatility	45%	45%
Expected dividend	–	–

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

The unrecognized compensation cost as of December 31, 2014 related to stock options amounts to CHF 11.4 million and is expected to be recognized over a weighted average period of 2.3 years.

The Company recorded total stock-based compensation expenses of CHF 5.9 million in 2014 related to its stock-based compensation award programs (2013: CHF 3.3 million), of which CHF 3.1 million was recorded in research & development expenses (2013: CHF 1.7 million) and CHF 2.8 million as part of selling, general & administration expenses (2013: CHF 1.6 million as part of general & administration expenses) in the statement of operations.

13 Shareholders' equity

As of December 31, 2014, Basilea had 10,575,288 registered shares (*Namenaktien*) issued and outstanding with a par value of CHF 1 per share. As of December 31, 2013, Basilea had 10,200,233 registered shares with a par value of CHF 1 per share issued and outstanding respectively.

In 2014, 375,055 stock options were exercised, using conditional capital, which resulted in the issuance of 375,055 registered shares with a par value of CHF 1 per share. In 2013, 612,612 stock options were exercised resulting in the issuance of 612,612 registered shares with a par value of CHF 1 per share.

Basilea had a total approved conditional capital of CHF 2,324,853 as of December 31, 2014 for the issuance of a maximum of 2,324,853 registered shares with a par value of CHF 1 per share. This conditional capital contained CHF 1,684,853 (1,684,853 registered shares with a par value of CHF 1 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and 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 each, available for the exercise of option or conversion rights granted with new option or convertible bonds.

By shareholder approval at the 2014 ordinary general meeting of shareholders, Basilea is authorized to increase its share capital by a maximum of CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares with a par value of CHF 1 per share. This authorization is valid for two years.

Change in accumulated other comprehensive income/loss as of December 31, 2014 and 2013:

In CHF million	Currency translation adjustment	Unrecognized pension cost	Total
December 31, 2012	**(0.6)**	**(15.8)**	**(16.4)**
Change during the period	0.0	4.6	**4.6**
Reclassification adjustment, included in the consolidated statements of operations	(0.0)[1]	–	**(0.0)**
Total change during the period	**(0.0)**	**4.6**	**4.6**
December 31, 2013	**(0.6)**	**(11.2)**	**(11.8)**
Change during the period	0.4	(2.6)	**(2.2)**
Reclassification adjustment, included in the consolidated statements of operations	–	–	**–**
Total change during the period	**0.4**	**(2.6)**	**(2.2)**
December 31, 2014	**(0.2)**	**(13.8)**	**(14.0)**

[1] Currency translation adjustment related to the dormant entities in Denmark, France, Germany and UK.

14 Earnings/Loss per share

The calculation of the basic and diluted loss per share in 2014 and 2013 is shown in the table below:

	2014		2013	
	Basic	Diluted	Basic	Diluted
Numerator				
Net loss, in CHF million	(41.5)	(41.5)	(33.0)	(33.0)
Net loss for loss per share calculation, in CHF million	(41.5)	(41.5)	(33.0)	(33.0)
Denominator				
Weighted average shares outstanding, including actual conversion of stock options	9 953 896	9 953 896	9 712 616	9 712 616
Incremental shares according to treasury stock method for assumed conversion of stock options	–	–	–	–
Weighted average shares outstanding, including actual and assumed conversion of stock options	9 953 896	9 953 896	9 712 616	9 712 616
Loss per share in CHF	**(4.17)**	**(4.17)**	**(3.40)**	**(3.40)**

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

As of December 31, 2013, there were 962,404 stock options outstanding with a weighted-average exercise price of CHF 81.28, which were not included in the calculation of loss per share for 2013, as the effect of such stock options would have been anti-dilutive.

15 Pension plan

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

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

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

The following table provides information on the pension plan for the years 2014 and 2013:

In CHF million	**2014**	2013
Service cost	3.4	3.7
Interest cost	1.3	1.1
Expected return on plan assets	(1.4)	(1.3)
Amortization of pension related net loss	0.5	0.9
Amortization of prior service cost	0.0	0.1
Gross benefit expense	3.8	4.5
Participant contributions	(1.2)	(1.0)
Net periodic pension cost	2.6	3.5

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	**2014**	2013
Projected benefit obligation, beginning of period	**51.7**	**54.3**
Service cost	3.4	3.7
Interest cost	1.3	1.1
Transfers-in and (-out), net	0.6	(2.5)
Actuarial (gain)/loss	1.7	(4.9)
Projected benefit obligation, end of period	**58.7**	**51.7**
Plan assets, beginning of period	**45.1**	**43.9**
Actual return on plan assets	0.1	0.1
Employer contributions	2.5	2.6
Participant contributions	1.2	1.0
Transfers-in and (-out), net	0.6	(2.5)
Plan assets, end of period	**49.5**	**45.1**
Accrued pension liability	**(9.2)**	**(6.6)**

As of December 31, 2014, the Company recorded an accrued pension liability of CHF 9.2 million in other non-current liabilities (December 31, 2013: CHF 6.6 million).

The pension assets are measured at fair value, invested by the pension plan and fully insured.

The Company records net gains/losses, consisting of actuarial gains/losses, curtailment gains/losses and differences between expected and actual returns on plan assets, in other comprehensive income/loss. Such net gains/losses are amortized to the consolidated statements of operations to the extent that they exceed 10% of the greater of projected benefit obligations or pension assets. The Company further records prior service costs/credits from plan amendments in other comprehensive income/loss in the period of the respective plan amendment and amortizes such amounts to the consolidated statement of operations over the future service period of the plan participants. As of December 31, 2014, the accumulated other comprehensive income/loss includes unrecognized pension cost of CHF 13.8 million, consisting of a net loss of CHF 13.4 million and a prior service cost of CHF 0.4 million, that have not yet been recognized as a component of net periodic pension cost. As of December 31, 2013, the accumulated other comprehensive income/loss included unrecognized pension cost of CHF 11.2 million, consisting of a net loss of CHF 10.8 million and a prior service cost of CHF 0.4 million, that have not yet been recognized as a component of net periodic pension cost. The Company expects that a net amount of CHF 0.8 million will be reclassified from accumulated other comprehensive income/loss and recognized as a component of net periodic pension cost in 2015 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:

	2014	2013
Net loss, beginning of period	(10.8)	(15.3)
Other gain/loss during the period	(3.1)	3.6
Amortization of pension related net loss	0.5	0.9
Net loss, end of period	(13.4)	(10.8)
Prior service cost, beginning of period	(0.4)	(0.5)
Amortization of prior service cost	0.0	0.1
Prior service cost end of period	(0.4)	(0.4)
Total unrecognized pension cost, end of period	(13.8)	(11.2)

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

	2014	2013
Discount rate	1.75%	2.5%
Rate of increase in compensation level	1.0%	2.0%
Expected long-term rate of return on plan assets	3.0%	3.25%

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, 2014 and 2013 amounts to CHF 56.2 million and CHF 49.0 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 2015 is CHF 2.7 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
2015	3.3
2016	3.3
2017	3.1
2018	4.0
2019	3.3
2020 - 2024	17.4

In addition to the defined benefit plan described above, the Company recognized no expenses related to defined contribution plans in 2014 and 2013.

16 Lease commitments

The Company entered into operating lease contracts for office space. The leases expire in 2016. 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 0.5 million and CHF 0.4 million for the years ending December 31, 2014 and 2013, respectively.

The future minimum payments as of December 31, 2014 for operating leases with initial or remaining non-cancellable terms in excess of one year are as follows:

	Amount in CHF million
2015	0.3
2016	0.1
2017	0.0
2018	0.0
2019	0.0
Thereafter	0.0
Total	**0.4**

17 Concentration of risk

The Company is generally subject to credit risk related to financial investments. The Company mitigates such credit risk by investing the funds only with counterparties, which are rated as high quality investment grade by a major rating agency or are fully guaranteed by Swiss cantons at the time of the Company's investment. As of December 31, 2014, the Company's short-term investments were invested with one bank and amounted to CHF 70.0 million. As of December 31, 2013, the Company's short-term investments were invested with four different banks and amounted to CHF 155.0 million.

The cash and cash equivalents as of December 31, 2014 amounted to CHF 156.1 million, of which CHF 150.8 million was held with four different banks. The cash and cash equivalents as of December 31, 2013 amounted to CHF 118.9 million, of which CHF 112.6 million was held with four different banks. As of December 31, 2014, the highest total amount of cash and cash equivalents and short-term investments held at one bank amounted to CHF 80.1 million (December 31, 2013: CHF 70.0 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, 2014 is from Astellas in the amount of CHF 1.0 million in connection with the license agreement related to isavuconazole (December 31, 2013: CHF 3.7 million).

18 Related party transactions

The accounts receivable, accounts payable and accruals and other current liabilities do not include significant positions due to or from related parties as of December 31, 2014 and 2013.

In 2014, the Company paid no fees to its board members for consulting services. In 2013, the Company paid fees to one of its board members in the amount of CHF 0.0 million for consulting services.

19 Commitments and contingencies

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

Civil proceedings were initiated by Losan Pharma GmbH, Neuenburg/Germany against Basilea and Basilea Pharmaceutica International Ltd. in a claim related to use of know-how filed in 2012 in Basel-Stadt court (*Appellationsgericht Basel-Stadt*) to which Basilea has filed its response; both parties have filed further briefs with the court. The proceedings are at a preliminary stage and potential damages, if any, cannot be estimated.

As of December 31, 2014, there are no significant contingencies.

20 Risk assessment

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

The permanent observation and control of the risks is a management objective. For identified risks which arise from the accounting and financial reporting, a risk assessment is performed. Throughout the Internal Control System framework on financial reporting, relevant control measures are defined which reduce the respective risks. The Audit Committee reviewed the Company's Internal Control System over financial reporting as of December 31, 2014 and 2013. The Board of Directors concluded based on this review that an appropriate internal control system related to financial reporting of the Company was in place as of December 31, 2014 and 2013.

21 Subsequent events

The Company has evaluated subsequent events through February 12, 2015, the date on which the financial statements were available to be issued.

REPORT OF THE STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS

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

As Statutory Auditors, we have audited the accompanying financial statements of Basilea Pharmaceutica Ltd., which comprise the balance sheet, statement of operations and notes for the year ended December 31, 2014, included on pages 80 to 86.

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

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

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

Opinion
In our opinion, the financial statements for the year ended December 31, 2014 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Thomas Brüderlin
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 12, 2015

FINANCIAL STATEMENTS OF BASILEA PHARMACEUTICA LTD.

BASILEA PHARMACEUTICA LTD.
Balance sheets as of December 31, 2014 and 2013 (in CHF)

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	67 601 175	62 943 963
Short-term investments	20 000 000	–
Accounts receivable:		
Affiliates	102 160 838	86 860 983
Other receivables	206 691	157 700
Total current assets	**189 968 704**	**149 962 646**
Non-current assets		
Investment in subsidiaries, net	208 138 389	208 126 374
Total non-current assets	**208 138 389**	**208 126 374**
TOTAL ASSETS	**398 107 093**	**358 089 020**
LIABILITIES		
Current liabilities		
Payables, affiliates	464 507	430 402
Accruals and other current liabilities	253 030	1 047 364
Total current liabilities	**717 537**	**1 477 766**
Total liabilities	**717 537**	**1 477 766**
SHAREHOLDERS' EQUITY		
Share capital[1]	10 575 288	10 200 233
General reserve:		
Reserve from capital contributions	387 952 918	348 356 149
Accumulated deficit	(1 945 128)	(2 447 655)
Net income	806 478	502 527
Total shareholders' equity	**397 389 556**	**356 611 254**
TOTAL LIABILITIES AND EQUITY	**398 107 093**	**358 089 020**

[1] As of December 31, 2014, 10,575,288 registered shares were issued and outstanding with a par value of CHF 1 per share.
As of December 31, 2013, 10,200,233 registered shares were issued and outstanding with a par value of CHF 1 per share.

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

BASILEA PHARMACEUTICA LTD.

Statements of operations for the years ended December 31, 2014 and 2013 (in CHF)

	2014	2013
Dividend income from investments in subsidiaries	–	50 000 000
Other income	–	8 560
Total operating income	**–**	**50 008 560**
Administrative expenses	(669 686)	(532 262)
Depreciation	–	(50 013 776)
Total operating expenses	**(669 686)**	**(50 546 038)**
Operating loss	**(669 686)**	**(537 478)**
Interest income	1 490 770	1 056 169
Other financial expenses, net	(14 606)	(16 164)
Income before taxes	**806 478**	**502 527**
Income taxes	–	–
Net income	**806 478**	**502 527**

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

BASILEA PHARMACEUTICA LTD.
Notes to the financial statements as of December 31, 2014

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

2 Risk assessment
Basilea Pharmaceutica Ltd. ("Basilea" together with its subsidiaries "the Company") runs a centralized risk management system, based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework, which includes risks from all business functions. All identified risks are quantified (according to their realization probability and impact) and located on a risk schedule. The material risks of the Company are discussed in the Audit Committee annually.

The permanent observation and control of the risks is a management objective. For identified risks, which arise from the accounting and financial reporting, a risk assessment is performed. Throughout the Internal Control System framework on financial reporting, relevant control measures are defined, which reduce the respective risks. The Audit Committee reviewed Basilea's Internal Control System over financial reporting as of December 31, 2014 and 2013. The Board of Directors concluded, based on this review that an appropriate internal control system related to financial reporting of Basilea is in place as of December 31, 2014 and 2013.

3 Investments
As of December 31, 2014, Basilea holds the following investments:

Company	Location	Ownership interest	Share capital	Purpose
Basilea Pharmaceutica International Ltd.	Switzerland, Basel	100%	CHF 10 000 000	Research, development, manufacturing, marketing, distribution
Basilea Medical Ltd.	UK, Rickmansworth	100%	GBP 200 000	Marketing authorization holder (EU), regulatory services
Basilea Pharmaceuticals Ltd.	UK, Rickmansworth	100%	GBP 700 000	Distribution
Basilea Pharmaceutica Deutschland GmbH	Germany, Munich	100%	EUR 25 000	Distribution
Basilea Pharma SAS[1]	France, Boulogne-Billancourt	100%	EUR 500 000	Distribution
Basilea Pharmaceuticals A/S[1]	Denmark, København	100%	DKK 3 050 000	Distribution
Basilea Pharmaceutica Italia S.r.l.	Italy, Milano	100%	EUR 10 000	Distribution
BPh Investitionen Ltd.	Switzerland, Baar	100%	CHF 131 950	Holding company

[1] Organizations are dormant entities.

In addition to the direct investments, Basilea 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.

4 Share capital

As of December 31, 2014, Basilea had 10,575,288 registered shares issued and outstanding with a par value of CHF 1 per share. As of December 31, 2013, Basilea had 10,200,233 registered shares with a par value of CHF 1 per share issued and outstanding respectively.

In 2014, 375,055 stock options were exercised, using conditional capital, which resulted in the issuance of 375,055 registered shares with a par value of CHF 1 per share. In 2013, 612,612 stock options were exercised resulting in the issuance of 612,612 registered shares with a par value of CHF 1 per share.

Basilea had a total approved conditional capital of CHF 2,324,853 as of December 31, 2014 for the issuance of a maximum of 2,324,853 registered shares with a par value of CHF 1 per share. This conditional capital contained CHF 1,684,853 (1,684,853 registered shares with a par value of CHF 1 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and 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 each, available for the exercise of option or conversion rights granted with new option or convertible bonds.

By shareholder approval at the 2014 ordinary general meeting of shareholders, Basilea is authorized to increase its share capital by a maximum of CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares with a par value of CHF 1 per share. This authorization is valid for two years.

5 Shareholdings and stock options

As of December 31, 2014, the shareholdings in Basilea of members of the Board of Directors and of the Management Committee are outlined below:

	Number of shares
Dr. Martin Nicklasson, Chairman	–
Mr. Domenico Scala, Vice-Chairman	–
Mr. Hans-Beat Gürtler, Director	–
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	–
Prof. Achim Kaufhold, Chief Medical Officer	–
Dr. Laurenz Kellenberger, Chief Scientific Officer	500
Prof. Daniel Lew, Director	2 322
Ms. Heidi McDaid, Head of Global Human Resources	–
Dr. Thomas M. Rinderknecht, Director	–
Mr. Ronald Scott, Chief Executive Officer	7 750
Mr. Steven D. Skolsky, Director	–
Mr. Donato Spota, Chief Financial Officer	–
Mr. David Veitch, Chief Commercial Officer	–
Dr. Thomas Werner, Director	–

As of December 31, 2013, the shareholdings in Basilea of members of the Board of Directors and of the Management Committee are outlined below:

	Number of shares
Dr. Martin Nicklasson, Chairman	–
Mr. Domenico Scala, Vice-Chairman	–
Mr. Hans-Beat Gürtler, Director	–
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	–
Prof. Achim Kaufhold, Chief Medical Officer	–
Dr. Laurenz Kellenberger, Chief Scientific Officer	500
Prof. Daniel Lew, Director	2 982
Ms. Heidi McDaid, Head of Global Human Resources	–
Dr. Thomas M. Rinderknecht, Director	–
Mr. Ronald Scott, Chief Executive Officer	7 750
Mr. Steven D. Skolsky, Director	–
Mr. Donato Spota, Chief Financial Officer	–
Dr. Thomas Werner, Director	700

The following table shows the holdings of stock options in Basilea of members of the Board of Directors and of the Management Committee as of December 31, 2014:

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

The following table shows the holdings of stock options in Basilea of members of the Board of Directors and of the Management Committee as of December 31, 2013:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Dr. Martin Nicklasson, Chairman	–	2 401	2 401
Mr. Domenico Scala, Vice-Chairman	526	3 624	4 150
Mr. Hans-Beat Gürtler, Director	4 980	4 900	9 880
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	43 430	26 425	69 855
Prof. Achim Kaufhold, Chief Medical Officer	12 175	30 725	42 900
Dr. Laurenz Kellenberger, Chief Scientific Officer	31 196	28 882	60 078
Prof. Daniel Lew, Director	10 915	4 900	15 815
Ms. Heidi McDaid, Head of Global Human Resources	5 184	24 652	29 836
Dr. Thomas M. Rinderknecht, Director	526	3 624	4 150
Mr. Ronald Scott, Chief Executive Officer	88 724	46 556	135 280
Mr. Steven D. Skolsky, Director	7 220	4 900	12 120
Mr. Donato Spota, Chief Financial Officer	27 333	13 250	40 583
Dr. Thomas Werner, Director	526	3 624	4 150

6 Significant shareholders

The following table shows the ownership percentage of shareholders which held a significant percentage of shares of Basilea as of December 31, 2014 and 2013 according to the share register of Basilea:

	Ownership of outstanding shares	
	Dec 31, 2014	Dec 31, 2013
Chase Nominees Ltd.	9.8%	12.9%

The ownership percentages in the table above are based on 10,575,288 shares outstanding as of December 31, 2014 and 10,200,233 shares outstanding as of December 31, 2013.

In addition, Basilea received the following notifications in accordance with the Swiss Federal Act on Stock Exchanges and Securities related to shareholdings of more than 5% (the significant shareholdings were disclosed on the basis of the number of total outstanding shares according to the entry in the Commercial Register at that time):

On October 16, 2014, CI Investments Inc. 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 and Black Creek Global Balanced Corporate Class, held 5.04% of the shares of Basilea as of September 25, 2014.

On October 14, 2014, Franklin Resources, Inc. notified Basilea that Franklin Templeton Investments Corp., Franklin Templeton Investment Management Limited, Templeton Global Advisors Limited and Templeton Investment Counsel, LLC, held 9.95% of the shares of Basilea as of October 10, 2014.

On November 13, 2013, HBM Healthcare Investments AG notified Basilea of HBM Healthcare Investments (Cayman) Ltd.'s holdings of 14.94% of the shares of Basilea as of November 12, 2013.

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

In CHF	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(1 945 128)
Net income of the year	806 478
Balance to be carried forward	**(1 138 650)**

Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2013:

In CHF	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(2 447 655)
Net income of the year	502 527
Balance to be carried forward	**(1 945 128)**

At the ordinary general meeting of shareholders on April 9, 2014, the shareholders of Basilea approved to carry forward the loss of CHF 1.9 million.

ANNUAL GENERAL MEETING
The annual general meeting of shareholders for the financial year 2014 will take place on April 29, 2015 in Basel, Switzerland.

The Basilea Pharmaceutica Ltd. Annual Report 2014 consists of the business review, the corporate governance section, the compensation report and the financial report. The document is published in English and German. In case of discrepancies the English version prevails.

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