ANNUAL REPORT 2016

basilea
PHARMACEUTICA

PATIENTS
PRODUCTS
PARTNERS

OUR VISION

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

OUR COMPANY

Basilea Pharmaceutica Ltd. is a biopharmaceutical company developing products that address the medical problem of 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 discover, 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 currently has approximately 240 FTEs (full-time equivalents) in Switzerland, its European affiliates and China.

www.basilea.com

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2016 OVERVIEW

SUMMARY AND KEY EVENTS

FINANCIALS

- Total annual product sales of CHF 7.1 million in Europe for our marketed drugs, the antifungal Cresemba® (isavuconazole) and the antibiotic Zevtera/Mabelio® (ceftobiprole)
- CHF 7.3 million in royalties on Cresemba sales of USD 46 million in the USA by partner Astellas Pharma US
- Year-end 2016 cash and financial investments of CHF 289 million
- Financial guidance for the full year 2017: total annual product sales by Basilea are expected at approximately CHF 15 million (more than 100% increase over 2016), royalties on Cresemba sales in the US expected at approximately CHF 14 million and total operating loss improved at approximately CHF 3 million on average per month

NEW PARTNERSHIPS

- Entered into distribution agreement with Grupo Biotoscana S.L. for isavuconazole and ceftobiprole in 19 countries in Latin America
- Concluded a license agreement with Asahi Kasei Pharma Corporation for isavuconazole in Japan
- Entered into distribution agreement with Unimedic Pharma AB for isavuconazole and ceftobiprole in the Nordics
- Extended the distribution agreement for the Middle East and North Africa (MENA) region with Hikma Pharmaceuticals LLC to include isavuconazole in addition to ceftobiprole

ANTIFUNGAL ISAVUCONAZOLE (CRESEMBA®) – marketed in the US and European countries

- Since approval launched by Basilea in Germany, Italy, the UK, France and Austria. Marketed in the United States by Basilea's licensee Astellas Pharma US
- Recommended in guideline of European Conference on Infections in Leukaemia (ECIL) for first-line treatment of invasive aspergillosis in leukemia and hematopoietic stem cell transplant patients
- Published results from pivotal phase 3 studies SECURE and VITAL in high-ranked, peer-reviewed scientific journals "The Lancet" and "The Lancet Infectious Diseases", respectively
- Reported further data analyses from the clinical phase 3 studies in invasive aspergillosis and invasive candidiasis as well as in-vitro data on the activity of isavuconazole in a variety of fungal pathogens including isolates with reduced susceptibility to other azoles at European Congress of Clinical Microbiology and Infectious Diseases (ECCMID)

ANTIBIOTIC CEFTOBIPROLE (ZEVTERA®/MABELIO®) – marketed in European countries

- Marketed by Basilea in Germany, Italy, the UK, France, Austria and Switzerland
- Signed contract with Biomedical Advanced Research and Development Authority (BARDA) for initial funding of approximately USD 20 million for the phase 3 development of ceftobiprole with the goal of gaining regulatory approval in the United States. Total contract value could reach up to USD 100 million over a period of 4.5 years upon successful completion of pre-defined milestones
- Submitted clinical study protocols to US Food and Drug Administration (FDA) for two phase 3 studies, one in *Staphylococcus aureus* bacteremia (SAB) and one in acute bacterial skin and skin structure infections (ABSSSI). Plan to initiate the phase 3 development program mid-2017, once the FDA Special Protocol Assessment (SPA) process is completed
- Presented post-hoc analysis of phase 3 clinical data that supported the potential role of ceftobiprole for the treatment of staphylococcal bacteremia at ECCMID conference

ANTICANCER DRUG CANDIDATE BAL101553 (TUMOR CHECKPOINT CONTROLLER) – phase 1/2a

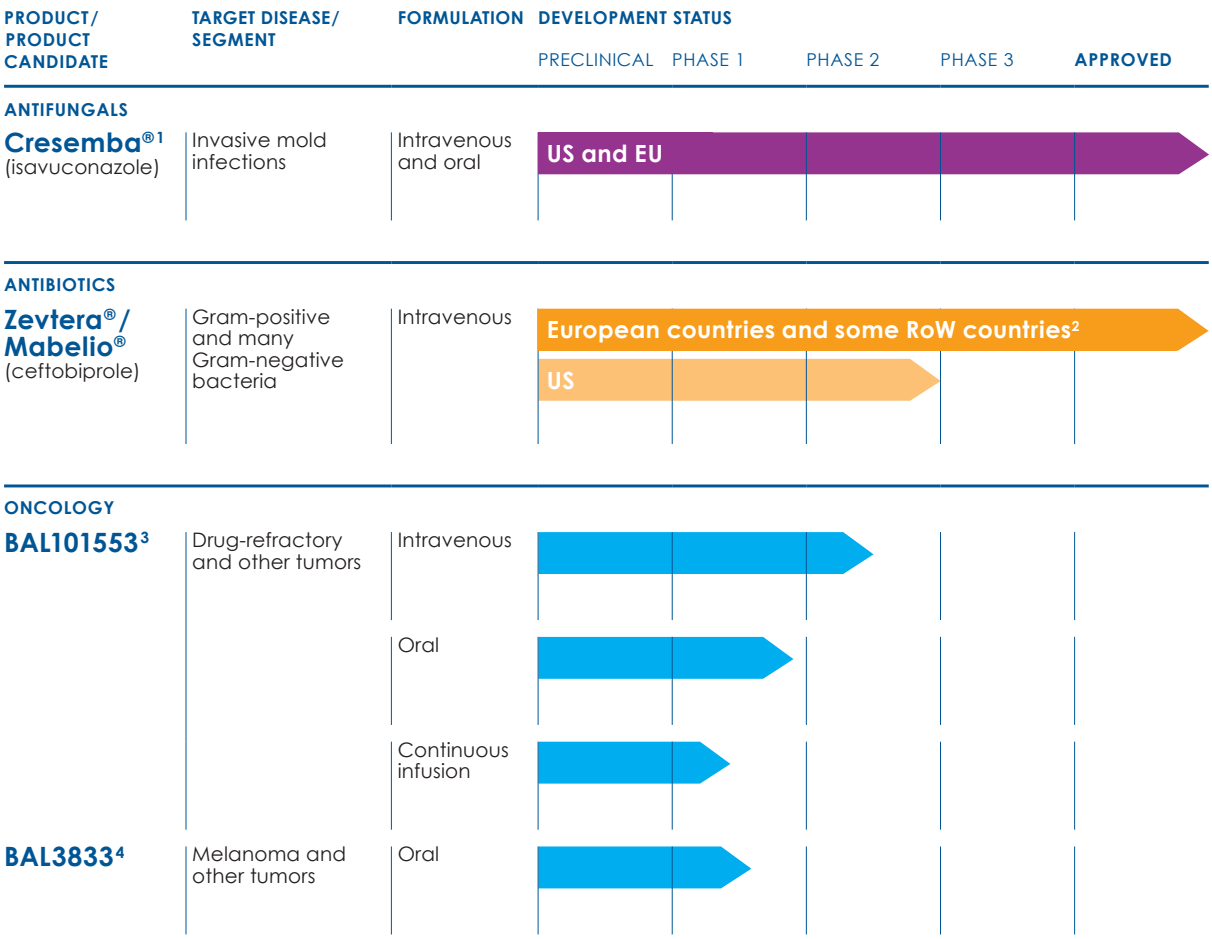
- Published clinical phase 1/2a data showing signals of clinical activity of the intravenous (i.v.) dosage form at meeting of American Society of Clinical Oncology (ASCO)
- Continued dose-escalation in phase 1/2a study with oral formulation in patients with advanced solid tumors to increase drug exposure in patients
- Extended ongoing phase 1/2a oral study by adding separate arm with glioblastoma (brain tumor) patients
- Started clinical phase 1/2a study to explore continuous intravenous infusion in patients with advanced solid cancers
- Presented preclinical data at American Association for Cancer Research (AACR) conference showing activity as single agent and in combination with chemo- and/or radiotherapy in treatment-refractory glioblastoma models

ANTICANCER DRUG CANDIDATE BAL3833 (PANRAF/SRC KINASE INHIBITOR) – phase 1

- Continued dose-escalation in first-in-human clinical phase 1 study in patients with advanced solid tumors including metastatic melanoma
- Presented preclinical data at AACR conference, demonstrating inhibition of tumor growth in KRAS-driven cancer models, thus supporting a potential utility of BAL3833 in major tumor types beyond BRAF-driven melanoma

CURRENT STATUS

- Cresemba approved for sale in the European Union (EU) and the United States (US); Zevtera/Mabelio approved in 13 European and several non-European countries
- Cresemba and Zevtera/Mabelio commercialized by Basilea in Germany, Italy, the UK, France and Austria; Zevtera also in Switzerland
- Cresemba marketed in the US by Basilea's license partner Astellas
- Distribution partnerships in place for isavuconazole and ceftobiprole in Latin America, the MENA region (Middle East North Africa) and the Nordics; license agreement for development and commercialization of isavuconazole in Japan
- Contract with BARDA for the phase 3 development of ceftobiprole to support a potential US regulatory filing
- Tumor checkpoint controller BAL101553 in phase 1/2a studies, including separate arm with glioblastoma (brain tumor) patients
- Oral panRAF/SRC kinase inhibitor BAL3833 in phase 1 study in patients with advanced solid tumors, including metastatic melanoma to determine the maximum tolerated dose



1 Approved in the United States and the EU
2 Approved in 13 European countries and several non-European countries
3 Continuous i.v. infusion and oral administration explored in phase 1/2a studies; oral study with separate glioblastoma arm
4 In phase 1 study
RoW: Rest of World

DEAR SHAREHOLDERS

left: **Domenico Scala**, Chairman of the Board
right: **Ronald Scott**, Chief Executive Officer

We are happy to look back on another successful year for Basilea. We are very proud to have launched our antifungal Cresemba (isavuconazole) in key European markets. In addition, we entered into new partnerships to bring Cresemba and Zevtera (ceftobiprole), our antibiotic targeting MRSA, to patients in countries around the globe. We also made significant progress in our clinical oncology projects.

By year-end, we were marketing Cresemba and Zevtera in Germany, Italy, the UK, France and Austria. Zevtera is also marketed in Switzerland, while the Swissmedic review of the marketing authorization for isavuconazole is anticipated to be completed in 2017. We made progress on pricing and reimbursement in additional European countries and expect to launch both drugs in further countries in the course of 2017.

Our collaborations play an important role in the execution of our global commercialization strategy and provide a solid basis for the future uptake of our drugs.

Our partner Astellas Pharma US reported a successful launch of Cresemba in the United States in the second quarter of 2015 and has guided for USD 56 million in sales for its full financial year 2016 ending in March 2017. We participate in the commercial success of Cresemba in the US through royalty and sales milestone payments.

We entered into partnerships for isavuconazole and ceftobiprole with strong regional partners to make our drugs available to patients in additional territories worldwide. We signed distribution agreements for the Middle East & North Africa, Latin America and the Nordics. Basilea also entered into a development and commercialization partnership with Asahi Kasei Pharma for isavuconazole in Japan. Our collaborations play an important role in the execution of our global commercialization strategy and provide a solid basis for the future uptake of our drugs. For instance in the antifungal market over one third of the worldwide sales of newer antifungals were generated outside the US and the five largest European countries in 2015. It is worth noting that we have already received CHF 19 million in upfront payments from these agreements. This reflects the significant medical need in these regions for novel hospital anti-infectives with the potential to fight the growing global medical threat resulting from drug-resistance.

It is our goal to gain marketing authorization for ceftobiprole in the United States, the largest market for branded hospital antibiotics. We were therefore pleased to announce a contract with BARDA, the Biomedical Advanced Research and Development Authority, for the phase 3 development of ceftobiprole to support a US regulatory filing. The total value of this contract could reach USD 100 million over a period of 4.5 years if pre-defined milestones are met. We will initially conduct two cross-supportive clinical phase 3 studies, one in bacterial bloodstream infections also known as bacteremia, caused by *Staphylococcus aureus*, and a second study in bacterial skin infections. There is a significant medical need in both these indications. In particular for *Staphylococcus aureus* bacteremia there are only a limited number of approved therapies available with relatively long treatment periods causing concern about resistance development. If successful, these studies would provide the basis for a US regulatory filing and could also potentially serve to extend the label in Europe and other countries, where ceftobiprole is currently approved for certain bacterial lung infections.

Basilea's expertise in medicinal chemistry and our understanding of biological resistance mechanisms were key for the discovery and development of novel small-molecule oncology drug candidates. The basis of our oncology research is our extensive compound library, initially originating from F. Hoffmann-La Roche when the company was founded.

In oncology our focus is on developing novel drugs which are active in tumors that are resistant or non-responsive to current therapies, and bringing them to patients. The most advanced compound in our oncology portfolio is the novel small molecule tumor checkpoint controller BAL101553. The drug candidate is currently in clinical phase 1/2a testing in patients with solid tumors both in an oral formulation and as continuous intravenous infusion. Based on promising preclinical data in brain cancer models and the ability of the drug to cross the blood-brain barrier, we also started a separate gliobastoma arm within the solid tumor phase 1/2a study in 2016. Gioblastoma is the most aggressive brain cancer in adults.

In oncology our focus is on developing novel drugs which are active in tumors that are resistant or non-responsive to current therapies, and bringing them to patients.

Our second clinical-stage oncology drug candidate is BAL3833, a unique panRAF/SRC kinase inhibitor, which is currently in clinical phase 1 testing for patients with solid tumors including metastatic melanoma. The compound originates from the renowned UK cancer research institution, The Institute of Cancer Research, where it was developed by scientists funded by Cancer Research UK and the Wellcome Trust. The compound was partnered with Basilea in 2015, emphasizing the increasing visibility and recognition of our expertise in small molecule oncology drug development and biomarker research.

We are looking forward to another exciting year in 2017. Our focus will be on increasing the sales of our two marketed products and continuing their roll-out in additional European countries as we complete national pricing and reimbursement processes. We will also continue to work toward establishing further partnerships to ensure that patients around the world can access these important drugs. We aim to start the clinical phase 3 development of ceftobiprole for the US market in 2017. In addition, we anticipate reaching significant clinical decision points in our oncology pipeline, including the completion of dose-escalation in the clinical studies exploring BAL101553 and BAL3833 in patients with solid tumors. Finally, we expect to finish patient recruitment in the glioblastoma arm of the oral BAL101553 phase 1/2a study.

We appreciate your continued support which allows us to fulfil our mission of developing innovative medications that solve unmet medical needs in the area of resistance, and making them available to patients.

Basel, January 2017

Domenico Scala
Chairman of the Board

Ronald Scott
Chief Executive Officer

GLOBAL COMMERCIALIZATION STATUS

Isavuconazole
Ceftobiprole

* License agreement
** BARDA contract

FEATURE: SETTING THE STAGE FOR GLOBAL COMMERCIALIZATION

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

Last year you reported that Basilea was preparing to commercialize Cresemba (isavuconazole) in European countries in addition to Zevtera/Mabelio (ceftobiprole). How is the commercialization status?
We have made significant progress. To date, we are commercializing Cresemba and Zevtera/Mabelio in Germany, Italy, the UK, France and Austria. Zevtera is also commercialized in Switzerland. Thus we are now covering most of the larger European markets. We are also making progress on pricing and reimbursement in other European countries and anticipate launches of both products in additional markets through 2017. Our license partner, Astellas, is also commercializing Cresemba in the US.

Are you satisfied so far?
Yes, we are very happy with our achievements in the last twelve months. We exceeded our total sales guidance in Europe for 2016. Our total sales for both products amounted to CHF 7.1 million. Astellas, our license partner for Cresemba in the US, achieved sales of USD 46 million in 2016 and guides for sales of USD 56 million for their fiscal year ending March 2017 – this in only the second year of sales in the US. For 2017 we anticipate an increase in product sales in Europe. In addition we expect continued growth of Astellas' US sales of Cresemba, in which we participate through royalties and sales-related milestone payments. It is very early in the life-cycle of our products with many more country launches planned in the coming years in Europe and other regions around the world.

Which new partnerships did you establish in 2016?
We entered into a supply, distribution and license agreement for isavuconazole and ceftobiprole with Grupo Biotoscana S.L. (GBT) for 19 countries in Latin America, including fast-growing markets such as Brazil, Argentina and Colombia. Further, we entered into a similar agreement with Unimedic Pharma AB (Unimedic) for the Nordic countries. Unimedic is among the fastest growing pharmaceutical companies within the Nordic market.

For Japan, we entered into a license agreement with Asahi Kasei Pharma Corporation (Asahi Kasei Pharma) for the development and commercialization of isavuconazole. After a launch in Japan, the agreement grants us royalties on sales as well as regulatory and sales milestone payments.

David Veitch,
Chief Commercial Officer

We aspire to develop innovative medications that solve unmet medical needs in the area of resistance and make them available to patients through a sustainable business.

We are delivering on that vision through the commercialization of Cresemba and Zevtera/Mabelio.

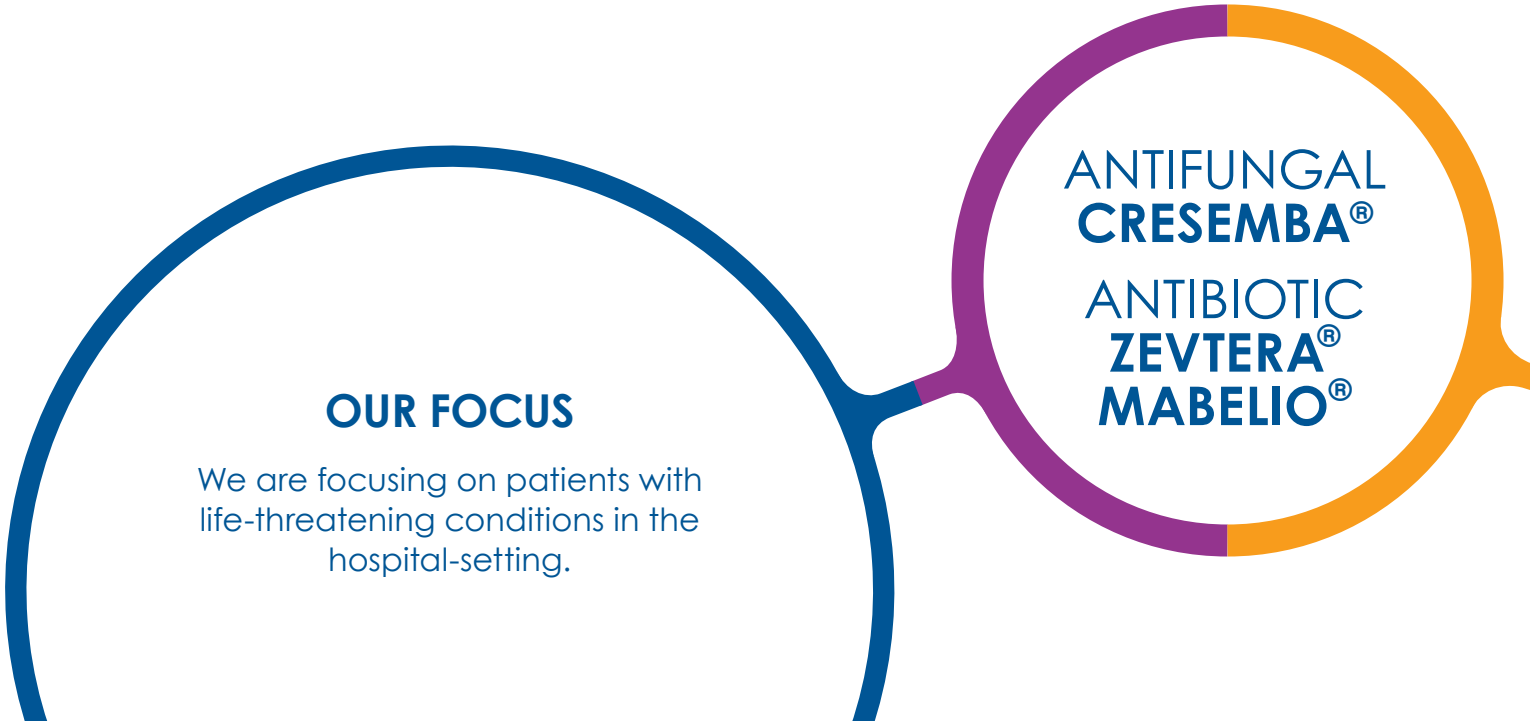
What is the strategy behind your partnerships?
Markets outside the US and the major European countries provide a valuable opportunity. More than one third of the sales of newer antifungals in 2015 were generated in those markets. Through our partnerships we want to make Cresemba available to patients in these regions, too. To achieve this goal in a timely and effective manner, we have entered into a number of agreements with specialized, regional partners who have the capability to commercialize both our drugs.

There is a significant commercial synergy between our two products because they are both hospital anti-infectives. In 2016 Hikma Pharmaceuticals LLC (Hikma), our distribution partner for the Middle East and North Africa region, extended their agreement which was initially only covering ceftobiprole to also include isavuconazole.

It is important for us to have strong partners for regions where we want to commercialize our products but do not plan to have our own presence.

Are new clinical studies needed to access these markets?
Cresemba is already approved in the Nordics and Zevtera is approved in all the Nordic countries except Iceland. In Japan, an abbreviated clinical development program is needed in order to prepare a regulatory filing for isavuconazole. Asahi Kasei Pharma is responsible and bears the cost for the development and registration in Japan. In all other territories, our current partners believe that they should be able to leverage the existing clinical data and make submissions for marketing authorizations based on the existing product dossier for Europe. As the review timelines vary significantly from country to country, we expect to see a continued flow of country launches by our partners over the course of the next years.

When do you expect to see significant contributions from the partnered territories?
We expect to see first contributions starting from this year, primarily from our earlier partnerships and from countries where Cresemba and Zevtera are already registered. Thereafter, we expect accelerated growth as more and more countries start contributing and our partners progress through the launch phase.



In 2016, Basilea received about CHF 19 million in upfront payments from its agreements with GBT, Unimedic, Hikma and Asahi Kasei Pharma.

Do you plan to expand to further territories?
In line with our strategy to optimize the value of isavuconazole and ceftobiprole globally, we are also working towards further agreements with potential partners to cover other important geographies. These include key markets in regions such as Asia Pacific, Russia/CIS, and other European countries.

Do you have other partnerships?
We entered into a contract with the Biomedical Advanced Research and Development Authority (BARDA) for the clinical development of ceftobiprole for the US market. We are planning to initiate a clinical phase 3 development program in 2017 for expanding the potential use of ceftobiprole into bloodstream infections: bacteremia, caused by *Staphylococcus aureus* bacteria (SAB), and acute bacterial skin and skin structure infections (ABSSSI). We are very pleased to be working with BARDA to potentially make this important drug available to patients in the US.

What is ceftobiprole's potential in the US?
The US is value-wise the most important market. It represents about 70–80% of the total global market for newer branded hospital antibiotics. The development contract with BARDA for ceftobiprole is a major step towards our goal of potentially registering our broad-spectrum anti-MRSA hospital antibiotic in the United States. BARDA supports the phase 3 clinical development with up to 100 million US dollars. In total, we will have ten years of market exclusivity for ceftobiprole in the US from potential approval based on the Qualified Infectious Disease Product designation granted by the US FDA. A US regulatory approval for SAB and ABSSSI could also support the commercialization of ceftobiprole in Europe and other territories if we are successful in using these studies to extend the label to additional indications beyond bacterial lung infections.

NEW MARKETS

Markets outside the US and the major European countries provide a valuable opportunity. More than one third of the sales of newer antifungals are generated in those markets. Through our partnerships we want to make Cresemba available to patients in these regions, too.

BASILEA IS FOCUSING ON DRUGS FOR PATIENTS IN THE HOSPITAL SETTING

OUR PRODUCTS AND PIPELINE

We strive for excellence in integrated research and development of pharmaceutical products that fight infectious diseases and cancer.

ANTI-INFECTIVES

ISAVUCONAZOLE (CRESEMBA)

Isavuconazole was developed for the intravenous and oral treatment of invasive fungal infections. It was granted marketing authorizations both by the European Commission and the US FDA for the treatment of adult patients with certain invasive mold infections.[1]

The efficacy of isavuconazole for the approved indications was demonstrated in a comprehensive clinical development program. This included a large randomized controlled clinical phase 3 study in invasive aspergillosis as well as an open label phase 3 study in mucormycosis. Isavuconazole's well-characterized safety profile compares favorably to voriconazole's safety profile, specifically with respect to treatment-emergent adverse events in the areas of skin disorders, eye disorders and disorders of the liver and the biliary tract.[2] The European Conference on Infections in Leukaemia (ECIL) recommends isavuconazole in its current guideline for the first-line treatment of invasive aspergillosis in leukemia and hematopoietic stem cell transplant patients. The guideline states that isavuconazole is as effective as voriconazole with a better safety profile.[3]

Basilea is currently marketing isavuconazole in Germany, Italy, the UK, France and Austria. In the US, the drug is marketed by Basilea's licensing partner Astellas Pharma US. Isavuconazole has orphan drug designation in the approved indications in Europe and the US.

Potentially pathogenic fungi are common in the environment. They grow in soil, decaying vegetation or food, and people are exposed to them every day in all parts of the world. In otherwise healthy individuals these pathogens mostly cause, if anything, superficial infections of the mucous membranes or skin, like athlete's foot, which can usually be treated by topical drugs. However, in people with a weakened or impaired immune system, fungi can cause invasive or "systemic" infections of inner organs such as the lungs. Such infections are very serious and often deadly. Cancer patients undergoing aggressive chemotherapy or patients after bone marrow or solid organ transplantation are particularly at risk.

Worldwide, more than 1.5 million deaths each year have been attributed to invasive fungal infections.[4] Even when properly diagnosed and treated, there is a high morbidity and mortality associated with these infections, which are to a large extent caused by airborne *Aspergillus* molds. Mucormycetes, found for example in rotting wood or in bread, have emerged as the second most frequent molds causing invasive infections and mucormycosis is associated with particularly high mortality rates of up to 85%.[5]

Isavuconazole belongs to the azole class of antifungal compounds, which inhibit fungal growth and replication by weakening the fungal cell wall through inhibition of an enzyme which is responsible for the synthesis of an essential cell wall building block. Isavuconazole is the only azole approved for the treatment of both invasive aspergillosis and mucormycosis. This is relevant because mucormycosis may clinically mimic *Aspergillus* infections with higher mortality rates.

The European Conference on Infections in Leukaemia (ECIL) recommends isavuconazole in its current guideline for the first-line treatment of invasive aspergillosis in leukemia and hematopoietic stemcell transplant patients.

It is important to achieve and maintain plasma levels high enough to efficiently fight the fungal infection and isavuconazole has demonstrated high bioavailability and linear and dose-proportional pharmacokinetics. In addition, due to Cresemba's high water-solubility there is no need for solubilizers as in the intravenous formulations of some other antifungal drugs and therefore no dose adjustment is needed in isavuconazole patients with mild, moderate, or severe renal impairment.[6]

CEFTOBIPROLE (ZEVTERA/MABELIO)

Ceftobiprole was developed for the intravenous treatment of bacterial infections in the hospital. It is a broad-spectrum antibiotic with activity against many clinically relevant Gram-positive and Gram-negative bacteria.[1] The drug belongs to the cephalosporin class of antibiotics, and it has activity against methicillin-resistant *Staphylococcus aureus* (MRSA), a frequent cause of hospital-acquired infections.[2] Ceftobiprole is approved for sale in 13 European countries and several non-European countries as single-agent therapy for adult patients with community-acquired pneumonia and hospital-acquired pneumonia (excluding ventilator-associated pneumonia).[1] Basilea has entered into distribution agreements for the drug with several partners covering more than forty countries in Europe, Central and South America, the Middle East and North Africa.

It is Basilea's goal to make ceftobiprole available to patients in the United States, the largest market for branded hospital antibiotics world-wide.

Ceftobiprole's marketing approvals were granted based on a comprehensive clinical development program which comprised two large clinical phase 3 studies in pneumonia, one in hospital-acquired bacterial pneumonia (HABP) and one in community-acquired bacterial pneumonia (CABP) requiring hospitalization. HABP is defined as pneumonia developing more than 48 hours after hospital admission and is one of the most common hospital-acquired infections, associated with high mortality. The studies demonstrated that clinical cure rates with ceftobiprole were non-inferior to those with the comparators in both CABP and HABP, except for patients with ventilator-associated pneumonia.[3,4] Ceftobiprole was well tolerated with an adverse events profile broadly similar to the comparator regimen.[5]

The comparators in these studies comprised other cephalosporin antibiotics, combined with an anti-MRSA agent when the involvement of MRSA was suspected. Thus, ceftobiprole has demonstrated its potential to replace a combination of two antibiotics. In addition, post-hoc analyses of the HABP phase 3 study data indicated that ceftobiprole-treated patients experienced quicker improvement of clinical symptoms.[6]

Zevtera contains a water-soluble prodrug of the active drug ceftobiprole, a beta-lactam antibiotic which inhibits the formation of the bacterial cell wall by binding to so-called penicillin-binding proteins (PBPs) which are present in Gram-positive and Gram-negative bacteria. This leads to cell lysis and death of the bacteria.[7] The ability of ceftobiprole to kill bacteria quickly may contribute to the observed low potential for resistance development against ceftobiprole.[8]

Basilea is currently marketing ceftobiprole in Germany, Italy, the UK, France, Austria and Switzerland under the trade name of Zevtera or Mabelio, depending on the country. Based on its broad spectrum of activity, it is an option for initial empiric therapy of bacterial lung infections, for example when the causative pathogen is not known.[9]

It is Basilea's goal to make ceftobiprole available to patients in the United States as well, the largest market for branded hospital antibiotics worldwide. If approved, ceftobiprole would have ten years of market exclusivity in the US from approval, including five years based on the Qualified Infectious Disease Product (QIDP) designations granted by the US FDA for the potential treatment of CABP and acute bacterial skin and skin structure infections (ABSSSI). To support a future New Drug Application (NDA), Basilea intends initially to conduct two cross-supportive clinical phase 3 studies. One study will be conducted in ABSSSI and the other in bloodstream infections (bacteremia) caused by *Staphylococcus aureus* (SAB), an indication with particularly high medical need and significant market potential. Preclinical evidence, results from previously conducted clinical studies in bacterial skin infections as well as treatment responses of patients with bacteremia treated in the HABP phase 3 study provide an indication for the potential of ceftobiprole in these indications.[10, 11, 12] SAB is associated with significant morbidity and often

results in infective endocarditis with a negative impact on patient outcomes, with reported mortality rates of about 20%.[13] Only few drugs are approved for the treatment of SAB and the necessity for weeks of antibiotic treatment in such cases raises concerns about resistance development.[14]

Basilea entered into a contract with the Biomedical Advanced Research and Development Authority (BARDA)[15] for the development of ceftobiprole for the US. BARDA will provide initial funding of approximately USD 20 million for the preparation of the phase 3 program. The total value of this contract could reach USD 100 million over a period of 4.5 years if predefined milestones are met. In 2016, Basilea submitted the protocols for the phase 3 studies in SAB and ABSSSI to the FDA for Special Protocol Assessments and expects to initiate phase 3 clinical development once the process is completed.

ONCOLOGY

The majority of patients at risk for contracting invasive mold infections are cancer patients, such as those suffering from different types of blood cancer, who have undergone bone marrow transplantation, chemotherapy or radiotherapy. From our intensive interaction with physicians treating cancer patients for fungal infections in hospitals, we have gained insight into their needs, providing the basis for our focused approach to cancer therapy. Our approach is augmented by the excellence of our researchers in the development of small-molecule drugs, their expertise in medicinal chemistry, and our in-house high-throughput screening and tumor biology capacities. A further key differentiating element of Basilea's approach is the early and broad implementation of biomarkers for both mode-of-action elucidation and identification of patients most likely to respond. Over the course of the last decade, Basilea has built an oncology research and development portfolio of novel small-molecule drugs with activity in tumors with resistance or non-response to current therapies building on the Roche compound library received at Basilea's foundation.

BAL101553

BAL101553 is being developed as a backbone therapy, addressing a variety of different cancers. This novel small-molecule oncology compound is in clinical trials evaluating continuous intravenous infusion as well as daily oral dosage forms. The drug has distinct effects on the organization of the microtubule network, a validated target in oncology important for tumor cell proliferation, resulting in the activation of the "spindle assembly checkpoint" which promotes tumor cell death. Structure elucidation experiments showed that the drug binds to tubulin at a site not targeted by any approved oncology agent.

BAL101553 demonstrated in-vitro and in-vivo activity against diverse treatment-resistant cancer models, including tumors refractory to conventional approved therapeutics and radiotherapy. This includes treatment refractory glioblastomas, breast cancers, non-small cell lung cancer, colon cancer and others.[1, 2, 3, 4, 5]

Results from a phase 1/2a study with BAL101553 given once-weekly as a 2-hour infusion were published in 2016. The study included patients with colorectal, gastric, non-small cell lung, ovarian, pancreatic and triple-negative breast cancer. One long-lasting partial response of more than two years was observed in a patient with ampullary pancreatic cancer.[6]

Two additional phase 1/2a studies with daily oral dosing and 48-hour continuous intravenous infusion, respectively, are currently ongoing. Both studies are conducted in patients with advanced solid cancers. In December 2016 Basilea extended the study with orally administered BAL101553 by adding a separate arm for patients with recurrent or progressive glioblastoma after prior radiotherapy with or without chemotherapy.

Glioblastoma is the most common primary brain tumor and one of the most lethal types of cancer. Median survival of about 15 months from diagnosis has been reported for adult glioblastoma patients receiving standard-of-care treatment, with a 5-year survival rate of only 5%.[7, 8] In pre-clinical experiments, BAL101553 demonstrated activity in glioblastoma models and was also shown to cross the blood-brain barrier, which is one of the challenges in the development of drugs that target pathological changes in the brain.[4, 5, 9] Using a glioblastoma stem-like cell tumor model the activity of the drug was found to be more pronounced in cells with high expression levels of a tubulin-interacting protein called EB1. Glioblastoma tumor stem-like cells contribute to glioblastoma regrowth as well as brain invasion, a phenomenon which also occurs in the pre-clinical model used. EB1 has been previously shown to be involved in tumor cell migration and is over-expressed in highly tumorigenic glioblastoma cells. Taken together, these data indicate that EB1 may be a potential biomarker to aid selection of glioblastoma patients more likely to benefit from BAL101553 treatment.[4, 9]

In pre-clinical experiments, BAL101553 demonstrated activity in glioblastoma models and was also shown to cross the blood-brain barrier, which is one of the challenges in the development of drugs that target pathological changes in the brain.

While the focus of our current studies is on safety and tolerability, we will also look into signals of clinical efficacy and investigate panels of additional biomarkers that could be valuable for the future development of the compound. BAL101553 has potential utility in a range of cancers and in combinations with different established and emerging oncology treatments. In order to exploit its full potential, BAL101553 should therefore be profiled and investigated broadly, which Basilea intends to do together with a partner, once clinical proof-of-concept has been established.

BAL3833

Basilea's second clinical oncology drug candidate is BAL3833, also known as CCT3833, an oral small-molecule panRAF/SRC kinase inhibitor, in-licensed by Basilea in 2015. The compound originates from the renowned UK cancer research institution, The Institute of Cancer Research, where it was developed by scientists funded by Cancer Research UK and the Wellcome Trust.

RAF and SRC kinases play an important role in the transmission of cell growth and proliferation signals. If deregulated, they are associated with tumor growth and the development of resistance to current therapies. In particular, melanoma, the most deadly type of skin cancer,[10] is often linked to a mutated BRAF kinase. Drugs targeting mutated BRAF achieve striking short-term therapeutic successes. Unfortunately, melanoma will eventually return in most patients because the tumor develops ways to circumvent the block in the signaling pathway.[11]

The activity of BAL3833 is not limited to BRAF but it also blocks CRAF, hence it is called a panRAF inhibitor. In addition, it inhibits the SRC kinase family, which is involved in many aspects of tumor biology. CRAF and SRC signaling is upregulated in tumors resistant to commercially available BRAF-specific kinase inhibitors, leading to reactivation of the pathway and transmission of the tumor growth signal.[11] BAL3833 demonstrated activity in preclinical studies in a range of tumor models derived from melanoma with intrinsic or acquired resistance to selective BRAF inhibitors,[11] as well as tumor models derived from colorectal, pancreatic and lung cancers associated with genetic changes resulting in activation of the RAF pathway.[12] Hence, the panRAF/SRC activity of BAL3833 provides a potential for broad anticancer activity across a range of tumor types.

BAL3833 is currently being explored as once-daily oral administration in a clinical phase 1 study in patients with advanced solid tumors, including metastatic melanoma. The aim of the study is to evaluate the safety and tolerability profile of BAL3833 and to determine the maximum tolerated dose as a basis for selecting a dose for phase 2 clinical testing. To Basilea's knowledge, there is no other panRAF/SRC kinase inhibitor in clinical development.

REFERENCES

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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 Economic-Technological Development Zone, Jiangsu Province of the People's Republic of China. The employees of Basilea China are part of the chemistry and analytics R&D team within Basilea.

Basilea China was founded in 2002 as one of the first foreign investment biotech companies in China. Operating in an innovative R&D environment, the company builds on its highly qualified, well trained and experienced professionals as well as a state-of-the-art scientific and technical infrastructure. The team of Basilea China supports all of Basilea's key R&D projects, focusing on the chemical synthesis of complex molecules, analytical development and process research and development.

OPERATING IN AN INNOVATIVE R&D ENVIRONMENT

The high-quality work provided by Basilea China is also recognized by third parties, including Chinese and international pharma companies, for whom it provides a range of custom chemical synthesis and analytical services on a fee-for-service basis.

Basilea China operates quality and environmental management systems which are compliant with the relevant requirements of ISO 9001:2008 and ISO 14001:2004 and which have been successfully audited on a regular basis by the British Standards Institution (BSI), most recently in 2016. The company also operates a comprehensive and robust information security management system to protect the intellectual property of its customers.

The company has been repeatedly recognized for its operational excellence. This includes the award of High-tech Enterprise status on the national level (2008, 2011 and 2014) and on the provincial (2006) level. In addition, from 2007 through 2015, the company was granted the "A" class of safety operation and received the Best Safety Performance award from the local government. In 2015 Basilea China was also acknowledged by the Jiangsu province for its contribution to the development of the local R&D service business. In 2016 Basilea China received from the city of Nantong the "Advanced Technology Service Enterprise" award.

The employees of Basilea China are a valued part of Basilea's R&D team.

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CORPORATE GOVERNANCE

GROUP STRUCTURE AND SHAREHOLDERS

GROUP STRUCTURE

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

As of December 31, 2016, the Company had approximately 240 full-time equivalents (FTEs).

Basilea subsidiaries and subholdings (as of December 31, 2016)

- Basilea Pharmaceutica China Ltd., Haimen, China
- Basilea Pharmaceuticals A/S, Copenhagen, Denmark
- Basilea Pharma SAS, Boulogne-Billancourt, France
- Basilea Pharmaceutica Deutschland GmbH, Munich, Germany
- Basilea Pharmaceutica Italia S.r.l., Milan, Italy
- Basilea Pharmaceutica España S.L., Madrid, Spain
- BPh Investitionen Ltd., Baar, Switzerland
- Basilea Pharmaceutica International Ltd., Basel, 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 2016, 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 30.

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") 1143244. The ISIN is CH0011432447. The Common Code is 018859220. The ticker symbol is BSLN.

As of December 31, 2016, the market capitalization of Basilea amounted to CHF 863,455,226 (11,811,973 registered shares with a nominal value of CHF 1 per share).

BASILEA PHARMACEUTICA CHINA LTD.

Basilea China is a wholly foreign owned enterprise ("WFOE"), founded on May 29, 2002, and incorporated with limited liability under the laws of The People's Republic of China, with a fully paid-in registered capital of USD 7 million as of December 31, 2016. 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-in registered shares with a par value of CHF 13 each, all held and controlled by Basilea.

For information on the non-listed companies belonging to the Company, please refer to note 2 (investments, page 103) to the financial statements.

SIGNIFICANT SHAREHOLDERS

As of December 31, 2016, Basilea had 11,811,973 registered shares issued and outstanding.

According to the Company's share register, Chase Nominees Ltd., London Wall 125, London EC2Y 5AJ, UK, held 1,105,825 Basilea shares as of December 31, 2016, nominally corresponding to 9.36% of the voting rights but registered without voting rights.

In addition, according to the Company's share register, RBC Investor + Treasury Services, Swane Lane, Riverbank House 2, London EC4R 3AF, UK, held 859,515 Basilea shares as of December 31, 2016, nominally corresponding to 7.28% of the voting rights, but registered without voting rights.

Furthermore, Basilea received the following notifications in accordance with the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading from shareholders who held more than three percent as of December 31, 2016 (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 November 24, 2016, Credit Suisse Group AG, Zurich, Switzerland, notified Basilea that Credit Suisse AG, Zurich, Switzerland, Credit Suisse (Schweiz) AG, Zurich, Switzerland, Credit Suisse Securities (USA) LLC, New York, USA, Credit Suisse Prime Securities Services (USA) LLC, New York, USA, Credit Suisse Securities (Europe) Limited, London, England, and Credit Suisse Quantitative and Systematic Asset Management Limited, London, England, held 715,821 voting rights in Basilea from purchase positions, corresponding to 6.07% of the total voting rights, as of November 21, 2016. These purchase positions comprised 637,543 Basilea shares (thereof 562,261 borrowed shares), corresponding to 5.403% of the total voting rights, and 78,278 voting rights through other derivative holdings, corresponding to 0.663% of the total voting rights. In addition, Credit Suisse Group AG reported to hold 11,062 voting rights from sale positions through other derivative holdings, corresponding to 0.09% of the total voting rights.

On December 7, 2015, CI Investments Inc., 2 Queen Street East, 20th Floor, Toronto, ON M5C 3G7, Canada, notified Basilea that Black Creek International Equity Fund, Black Creek Global Balanced Fund, Black Creek Global Balanced Corporate Class, Black Creek Global Leaders Fund, United International Equity Alpha Corporate Class, Select International Equity Managed Fund and Select International Equity Managed Corporate Class held 536,298 Basilea shares, corresponding to 5.07% of the voting rights, as of December 1, 2015.

On January 6, 2015, Franklin Resources, Inc., One Franklin Parkway, San Mateo, CA 94403, USA, notified Basilea that Franklin Templeton Investments Australia Limited, Franklin Templeton Investments Corp., Franklin Templeton Investment Management Limited, Templeton Global Advisors Limited and Templeton Investment Counsel, LLC held 942,758 Basilea shares, corresponding to 9.24% of the voting rights, as of January 5, 2015.

Additionally, Basilea reported that, as of April 21, 2016, the number of conversion rights based on the issuance of the convertible bonds held by Basilea amounted to 40,000, related to 1,586,017 voting rights and corresponding to 13.44% of the voting rights. Basilea also reported that as of the same date, the outstanding options amounted to 1,428,028 corresponding to 12.10% (fully diluted: 10.79%) of the voting rights.

All disclosures of shareholdings, including those of shareholders that fell below three percent during 2016, are published on the website of the SIX Disclosure Office and can be accessed there (https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=BSLN).

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

CROSS-SHAREHOLDINGS

No cross-shareholdings existed as of December 31, 2016.

CAPITAL STRUCTURE AND SHARES

SHARE CAPITAL

As of December 31, 2016, Basilea's issued fully paid-in share capital consists of CHF 11,811,973 divided into 11,811,973 common registered shares with a nominal value of CHF 1.00 each and no preferred shares. The share capital is fully paid in. As of December 31, 2016, Basilea International held 1,000,000 (8.47%) shares of Basilea.

AUTHORIZED CAPITAL AND CONDITIONAL CAPITAL

In January 2016 CHF 1,000,000 reserved shares were created out of authorized capital in connection with the conversion rights attached to the convertible bonds. Under the articles of association, the Board of Directors is authorized at any time until April 21, 2018, to further increase the share capital by a maximum aggregate amount of CHF 1,000,000 through the issuance of not more than 1,000,000 registered shares, which would have to be fully paid in, with a nominal value of CHF 1.00 each.

Increases in partial amounts are permitted. The Board of Directors has the power to determine the type of contributions, the issue price and the date on which the dividend entitlement starts.

On April 29, 2015, the ordinary general meeting of shareholders approved to increase the conditional capital of the Company by CHF 500,000 for the exercise of option rights granted under the Company's option plan.

As of December 31, 2016, the total conditional capital amounted to CHF 2,588,168.

The share capital may be increased by a maximum aggregate amount of CHF 1,948,168 through the issuance of not more than 1,948,168 common registered shares, which would have to be fully paid in, with a nominal value of CHF 1.00 each, by the exercise of option rights which have been granted or may be granted in the future in accordance with the stock option plan. The subscription rights of shareholders are excluded. The issue price shall be determined by the Board of Directors. As of December 31, 2016, 1,407,915 options were outstanding.

The 640,000 shares under conditional capital reserved for the exercise of option or conversion rights have been linked by the Board to the convertible bonds, (page 23, convertible bonds and options). The share capital may be increased by a maximum aggregate amount of CHF 640,000 through the issuance of not more than 640,000 common registered shares, which would have to be fully paid-in, with a nominal value of CHF 1.00 each, by the exercise of conversion rights granted in connection with the convertible bonds issued on December 23, 2015, by the Company.

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" on page 22.

CHANGES IN CAPITAL

In 2016 Basilea increased its share capital by CHF 11,350 (11,350 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 2015 Basilea increased its share capital by CHF 225,335 (225,335 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 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.

For further information on changes in capital in 2016, 2015 and 2014, including changes in reserves and retained earnings, please refer to the consolidated statement of changes in shareholders' equity as well as note 15 (shareholders' equity, page 92) to the consolidated financial statements, and note 3 (share capital, page 103) to the financial statements of Basilea. Please also refer to the consolidated statement of changes in shareholders' equity included in the annual reports 2015 and 2014 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 in and carries one vote and equal dividend rights, with no special privileges. Basilea has not issued any participation or profit sharing certificates.

LIMITATIONS ON TRANSFERABILITY OF SHARES AND NOMINEE REGISTRATIONS

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

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

Voting rights may be exercised only after a shareholder has been entered in the share register ("Aktienbuch") with his or her name and address (in the case of legal entities, the registered office) as a shareholder with voting rights. Basilea enters an acquirer of shares as shareholder with voting rights, if the acquirer discloses its name, citizenship or registered office, respectively, and address and explicitly states that the acquirer acquired the shares in its own name and for its own account.

Failing 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 general meeting of shareholders, but is still entitled to receive dividends and other rights of financial value. No exemptions were granted from the above restrictions in 2016.

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 of association do not further limit the transferability of shares. A qualified majority of at least two-thirds of the share votes represented as well as the majority of the par values of shares represented at a general meeting of shareholders are required for resolutions on transfer restrictions of Basilea's shares. For further information on the registration in the share register, please refer to the section "registration in the share register" on page 35.

CONVERTIBLE BONDS AND OPTIONS

On December 9, 2015, Basilea placed senior unsecured convertible bonds due December 23, 2022. The aggregate principal amount of the bonds is CHF 200 million and divided into bonds with denominations of CHF 5,000 each. The bonds carry a coupon of 2.75% per annum, payable semi-annually in arrear on December 23 and June 23 (for the first time on June 23, 2016). The bonds are listed on the SIX Swiss Exchange (security number: 30.539.814; ISIN: CH0305398148).

Eligible existing shareholders were granted advance subscription rights to subscribe for the newly issued bonds in proportion to their then current shareholding. Unless previously redeemed, converted or repurchased and cancelled, the bonds will be convertible into shares of Basilea at the option of the bondholder from February 2, 2016 up to and including the earlier of (i) seven trading days before December 23, 2022 or (ii) ten trading days prior to an early redemption. The bonds have a conversion price of CHF 126.1020. The shares delivered upon conversion will be or are sourced from conditional capital and authorized capital of Basilea. Upon execution of the conversion right, the relevant bondholder will receive 39.6504 Basilea shares per bond, subject to adjustment pursuant to anti-dilution provisions. The bonds are thus convertible into a total number of 1,586,017 shares. Basilea may redeem all outstanding bonds at their principal amount of CHF 5,000, together with unpaid accrued interest, if any (i) at any time on or after January 7, 2021, if the volume weighted average price of a Basilea share on each of at least twenty out of thirty consecutive trading days ending not earlier than five trading days prior to the giving of notice of redemption is at least 130% of the prevailing conversion price; or (ii) at any time provided that less than 15% of the aggregate principal amount of the bonds originally issued is outstanding. As of December 31, 2016, the nominal amount of the bonds of CHF 200 million was outstanding.

For information on the stock option plan and on the number of options granted thereunder, please refer to Basilea's Compensation Report (page 50), and note 14 (stock-based compensation, page 90) 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, 2016:

Name	Year of first election	End of current term
Mr. Domenico Scala, Chairman	2011	2017
Dr. Thomas M. Rinderknecht, Vice-Chairman	2011	2017
Prof. Daniel Lew	2003	2017
Dr. Martin Nicklasson	2013	2017
Mr. Steven D. Skolsky	2008	2017
Dr. Thomas Werner	2011	2017

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

Domenico Scala, Chairman, a Swiss and Italian citizen, has served as a member of Basilea's Board of Directors since 2011. From 2007 to 2011, Mr. Scala was President and Chief Executive Officer of Nobel Biocare Holding AG and from 2003 to 2007, he was Chief Financial Officer of Syngenta International AG. From 1995 to 2003, he served in various senior leadership positions at Roche Holding AG. Prior to that, he served as Finance Director with Panalpina Italy Spa and Senior Auditor with Nestlé SA. Mr. Scala was elected as a member of the Bank Council of the Basler Kantonalbank in December 2016 (term starting on April 1, 2017). In addition, Mr. Scala is President of BaselArea, Chairman of the Board of Directors of BAK Basel Economics AG and a Member of the Board of Overseers of Tufts University in Boston, Massachusetts (USA). From May 2012 until May 2016, Mr. Scala was Chairman of the Audit and Compliance Committee of FIFA (Fédération Internationale de Football Association). Mr. Scala graduated from the University of Basel with a degree in economics and holds Executive Development degrees from INSEAD and London Business School.

Dr. Thomas M. Rinderknecht, Vice-Chairman, Swiss citizen, has served as a member of the Board of Directors since 2011. Dr. Rinderknecht is a senior partner at the law firm Badertscher Rechtsanwälte AG, in Zurich and Zug. He currently serves as member of the board and the audit committee of Chocoladefabriken Lindt & Sprüngli AG (starting April 2016); as chairman of the Canyon Pharmaceuticals Group of Companies, Spanset Inter AG, Wollerau, and Caveat Holding AG, Hergiswil; as vice chairman of APR Applied Pharma Research SA, Balerna, and the Marquard Media Group. He also serves as a member of the board of InSphero AG, Schlieren; Twin Dolphins AG, Zug, ADC Therapeutics SA, Epalinges (starting May 2016); Hotel de la Paix SA, Geneva (starting April 2016); the jointly controlled Badertscher Rechtsanwälte AG and Veritas Trust AG/Fundmaster AG Family Office Companies; and the NorseSatCom/iJet Group of Companies. Until February 2016 he served as chairman of Vecap Venture Capital Partners AG, Stansstad, and of FLH Brands AG, Zug. Dr. Rinderknecht holds a Ph.D. in law from the University of Zurich and is admitted to the Bar in Zurich.

Prof. Daniel Lew, Swiss citizen, has served as a member of the Board of Directors since 2003. Since 1981, Prof. Lew has been a clinical infectious diseases physician. Prof. Lew is also an Honorary Professor of Medicine at the University of Geneva Medical School, president of the Swiss Academic Foundation for Education in Infectious Diseases (SAFE-ID) and member of the Swiss Academy of Medical Sciences. Since 1981, he has held various positions at the Geneva University Hospital, including chief of the Service of Infectious Diseases and the Academic Department of Internal Medicine. From 2010 to 2012, Prof. Lew was president of the International Society for Infectious Diseases (ISID). He received his M.D. from Geneva University and specialized in infectious diseases both in Geneva and then subsequently at Harvard Medical School and Massachusetts General Hospital (USA).

Dr. Martin Nicklasson, Swedish citizen, has served as a member of the Board of Directors since 2013. He served as Chairman of the Board from April 2013 to April 2016. Dr. Nicklasson is an honorary Associate Professor at the Pharmaceutical Faculty, University of Uppsala (Sweden) since 1985. He is currently a senior partner at Nicklasson Life Science AB, an independent consultancy and advisory company to the pharmaceutical and biotechnology sector. From 2007 to 2010, Dr. Nicklasson served as president and chief executive officer of Biovitrum AB and Swedish Orphan Biovitrum AB. From 1999 to 2007 he held various executive vice president positions at AstraZeneca Plc., and acted as a member of the

Board of Directors as of December 31, 2016 (from left to right and top to bottom):
Mr. Domenico Scala
Dr. Thomas M. Rinderknecht
Prof. Daniel Lew
Dr. Martin Nicklasson
Mr. Steven D. Skolsky
Dr. Thomas Werner

Executive Committee. Dr. Nicklasson is member of the board of Biocrine AB (Sweden), BioInvent International AB (Sweden), PledPharma AB (Sweden) and chairman of the board of directors of Farma Investment AS (Norway), Orexo AB (Sweden) and Zealand Pharma A/S (Denmark). Dr. Nicklasson is a certified pharmacist and holds a Ph.D. in Pharmaceutical Technology from the University of Uppsala.

Steven D. Skolsky, US citizen, has served as a member of the Board of Directors since 2008. From 2011 until August 2016, Mr. Skolsky served as a senior executive at Quintiles Transnational Holdings in various positions, most recently as Senior Vice President and Managing Director and previously, Head of Global Clinical Operations. From 2006 to 2011, Mr. Skolsky served as the Chief Executive Officer and President of Sequoia Pharmaceuticals Inc. and from 2004 to 2006 as Chief Executive Officer of Trimeris Inc. Mr. Skolsky joined Trimeris from GlaxoSmithKline (GSK), where he had served for more than 20 years 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. Mr. Skolsky serves on the Foundation Board of the Kenan-Flagler School of Business at the University of North Carolina at Chapel Hill (USA). Mr. Skolsky holds a B.A. in Biology from the University of North Carolina at Chapel Hill.

Dr. Thomas Werner, German citizen, has served as a member of the Board of Directors since 2011. Dr. Werner served as Senior Vice President and Managing Director of GlaxoSmithKline Germany from 2001 to 2008. From 1997 to 2000, he served as Managing Director for Glaxo Wellcome Germany and Director of the Central European Region. Dr. Werner has also worked at Bristol-Myers Squibb Germany and Convatec Germany/Central Europe. Dr. Werner is a member of the boards of Vectura Group plc and BSN Medical GmbH and is a member of the advisory board of Riemser Pharma GmbH. He also serves as the Chairman of the investment advisory committee of the Health for Life Capital fund of Seventure Partners (France). He holds a Ph.D. 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 20 (related party transactions, page 97) 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 of association 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 of association 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 of association provide that the Board of Directors shall consist of at least one and not more than eleven members. Members of the Board of Directors are appointed and removed exclusively by shareholders' resolution. The members of the Board of Directors and the Chairman are elected annually by the general meeting of shareholders for a period until the completion of the subsequent ordinary general meeting of shareholders and are eligible for re-election. Each member of the Board of Directors must be elected individually.

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 general meeting of shareholders immediately following completion of his or her 70th year of age.

The current members of the Board of Directors were elected at a general meeting of shareholders held on April 21, 2016. 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 24.

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. It has the following non-delegable and inalienable powers and duties:

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

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

In addition, the Board of Directors specifically retains certain powers, 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 association 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 of association 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 general meetings of shareholders. 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. At the ordinary general meeting of shareholders on April 21, 2016, Domenico Scala was elected as Chairman 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. In the meeting of the Board of Directors subsequent to the ordinary general meeting of shareholders on April 21, 2016, Dr. Thomas M. Rinderknecht was elected as Vice-Chairman of the Board of Directors.

Board committees

The Board of Directors can set up specialized committees to analyze specific issues and advise the Board of Directors on those issues. The committees are advisory bodies only and the decision-making remains within the collegial responsibility of the Board of Directors. The Board of Directors determines the terms of reference of each committee with respect to the organization, procedures, policies and activities of the committee. The Board of Directors has set up and appointed an Audit Committee and a Compensation Committee in 2003. In addition, the Board of Directors established a Corporate Governance Committee in 2012. In 2016, 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 2016 annual general meeting.

Members of the Board of Directors' committees

Audit Committee	Compensation Committee	Corporate Governance Committee
Mr. Domenico Scala (Chairman)	Dr. Martin Nicklasson (Chairman)	Dr. Thomas M. Rinderknecht (Chairman)
Dr. Martin Nicklasson	Mr. Steven D. Skolsky	Prof. Daniel Lew
Dr. Thomas M. Rinderknecht	Dr. Thomas M. Werner	Dr. Martin Nicklasson

In the meeting of the Board of Directors subsequent to the ordinary general meeting of shareholders on April 21, 2016, the following board members were appointed to the **Audit Committee:** Mr. Domenico Scala (Chairman), Dr. Martin Nicklasson and Dr. Thomas M. Rinderknecht.

The Audit Committee assists the Board of Directors in overseeing the accounting and financial reporting processes and the audits of the financial statements. In addition, it is responsible for the guidelines of the 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 held three meetings at the offices of Basilea in 2016, lasting between two and three hours. The main topics at these meetings were the review of the year-end financial statements and Annual Report 2015; the review of the half-year financial statements 2016; the review of the annual budget 2016 and 2017 as well as mid-term financial forecasts; financial and non-financial risk management and the scope of the external audit 2016 as well as the scope and results of the internal audit 2016. The external auditors were present at three Audit Committee meetings in 2016 to report on the results of the full-year 2015 audit, the half-year 2016 review and in preparation of the full-year 2016 audit. 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 21, 2016, the following board members were re-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, including providing 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 employees and the basic principles for the establishment, amendment and implementation of the stock option plan.

The Compensation Committee held two meetings in 2016, lasting approximately one and three hours. The main topics at these meetings included the review of the 2015 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 of shareholders on April 21, 2016, the following board members were appointed to the **Corporate Governance Committee:** Dr. Thomas M. Rinderknecht (Chairman), 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 2016 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 2016, the Board of Directors held eight meetings. Five 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. Three meetings were held by telephone conference. The attendance rate for in-person board meetings and for board teleconferences was approximately 93%.

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 investor relations activities and 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 Regulation, 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 of association or the organizational regulations (see section "responsibilities of the Board of Directors" on page 26), to the CEO and the Management Committee reporting to the CEO. The main duty of the CEO with the assistance of the Management Committee is to manage the business operations, to implement the strategies and other decisions of the Board of Directors, to make proposals to the Board of Directors regarding matters constituting decision making competencies of the Board of Directors, and 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 of Directors is responsible for the oversight of the risk management activities and has delegated to the Audit Committee the responsibility of assisting the board in this task. While the board oversees the risk management, the Management Committee is responsible for day-to-day risk management processes. The Board of Directors expects the Management Committee to consider risk and risk management in each business decision, to proactively develop and monitor risk management strategies and processes for day-to-day activities and to effectively implement risk management strategies adopted by 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/ EXTENDED MANAGEMENT COMMITTEE

MEMBERS, FUNCTIONS AND OTHER ACTIVITIES

The Management Committee, appointed by 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, 2016:

Name	Appointed	Position
Mr. Ronald Scott	2013	Chief Executive Officer
Dr. Günter Ditzinger	2016	Chief Technology Officer
Prof. Achim Kaufhold	2010	Chief Medical Officer
Dr. Laurenz Kellenberger	2009	Chief Scientific Officer
Ms. Heidi McDaid	2013	Head of Global Human Resources
Mr. Donato Spota	2013	Chief Financial Officer
Mr. David Veitch	2014	Chief Commercial Officer

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

Ronald Scott, Swiss citizen, has served as Chief Executive Officer since January 2013. He was Basilea's Chief Operating Officer from January 2012 through December 2012, and served as Basilea's Chief Financial Officer from the Company's founding in 2000 through January 2012 as well as ad interim Chief Financial Officer from February 2013 until November 2013. From 2004 to October 2011, Mr. Scott served on the Board of Directors. Prior to joining Basilea, from 1993 to 2001 Mr. Scott worked at Roche Holding AG (Roche) in management positions in Pharmaceutical Finance, Licensing, and the Roche Corporate Finance Mergers and Acquisitions group. Prior to joining Roche, Mr. Scott worked for Prudential Investment Corporation in the United States as Director in Prudential's Finance and International Business Development Units, managing divestitures and joint venture transactions. Mr. Scott has a bachelor's degree from Utah State University (USA) and a master's degree from Harvard University (USA).

Dr. Günter Ditzinger, German citizen, has served as Chief Technology Officer since February 2016. He joined Basilea in 2002 as CMC Project Leader & Pharmaceutical Development Manager. He was promoted in 2009 to Head of Pharmaceutics in which position he led the pharmaceutical development and manufacturing group and acted as deputy Chief Technology Officer. Prior to joining Basilea, he held various positions with increasing responsibility at Hoechst Marion Roussel in Frankfurt, Germany and at Novartis Pharma AG in Basel, Switzerland. Dr. Ditzinger holds a PhD in Pharmaceutical Technology from the Johann Wolfgang Goethe University in Frankfurt/Main, Germany.

Prof. Achim Kaufhold, German citizen, has served as Chief Medical Officer since February 2010. 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 US. He is Professor of Medical Microbiology and Infectious Diseases and member of the Faculty of Medicine of the University of Aachen (Germany), and also served as a member of the board of directors of Vaximm AG (until February 2016). He has spent more than 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, from 2008 to 2009, he served as the President and Chief Executive Officer of Affitech A/S. From 2007 to 2008, Prof. Kaufhold worked at Pharmexa A/S, first as its Chief Medical Officer and Chief Scientific Officer before becoming Chief Executive Officer. From 2005 to 2006, Prof. Kaufhold served as the Chief Medical Officer and Vice President of Development at Chiron. From 2001 to 2005, he served as the Chief Medical Officer of Berna Biotech AG,

Management Committee as of December 31, 2016 (from left to right and top to bottom):
Mr. Ronald Scott
Dr. Günter Ditzinger
Prof. Achim Kaufhold
Dr. Laurenz Kellenberger
Ms. Heidi McDaid
Mr. Donato Spota
Mr. David Veitch

and as its Head of Research, Product and Business Development. From 1994 to 2001 he served as Director of Clinical Development and Head of the Pediatric Vaccines Development Unit of GlaxoSmithKline Biologicals.

Dr. Laurenz Kellenberger, Swiss citizen, has served as Chief Scientific Officer since 2009. From 2000 to 2009, Dr. Kellenberger held roles of increasing responsibility at Basilea and served as Head of Chemistry from 2004 to 2009 and member of the research management team with responsibilities for key projects from lead finding and optimization through to preclinical development. After receiving his Ph.D., he continued his scientific research 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. He is author of numerous scientific publications. He holds a Ph.D. in Organic Chemistry from the Swiss Federal Institute of Technology Zurich (ETH Zürich). He is a member of the Board of the Medicinal Chemistry & Chemical Biology division of the Swiss Chemical Society.

Heidi McDaid, Swiss citizen, has served as Head of Global Human Resources since January 2008 and was appointed Executive Officer in 2013. From 2002 through 2008, Ms. McDaid has held the position Head of Human Resources. Prior to joining Basilea in 2002 as Head of Human Resources, she worked for Bank CIAL (Schweiz) AG and Mepha AG in Finance and Human Resources. From 2002 to 2003, she served as Manager and from 2003 to 2011 as the President of the Board of Trustees at the Basilea Pension Fund. Before joining Basilea, she held various positions in finance and administration at Lubapharm AG and Bank und Finanz-Institut AG. Ms. McDaid has both business management and human resources qualifications.

Donato Spota, Italian citizen, has served as Chief Financial Officer since November 2013. Mr. Spota has held various positions at Basilea since joining the company in 2002, including Global Head of Finance & Services and Head of Global Controlling. Prior to joining Basilea, Mr. Spota held positions in financial planning and controlling at F. Hoffmann-La Roche, Basel, in the area of Pharma Global Informatics. Mr. Spota has a degree in Information Technology from the Swiss BBT (Bundesamt für Berufsbildung und Technologie) and holds a master degree in business administration from the University of Applied Sciences Nürtingen (Germany).

David Veitch, British citizen, has served as Chief Commercial Officer since September 2014. Mr. Veitch served as the President of European Operations at Savient Pharmaceuticals from 2012 to 2013. From 2007 to 2011, he served as Senior Vice President of European Marketing & Brand Commercialization at Bristol-Myers Squibb Pharmaceuticals. From 2004 to 2007, he was Vice President and General Manager UK at Bristol-Myers Squibb Pharmaceuticals. Prior to this Mr. Veitch held various general management and commercial roles in Bristol-Myers Squibb

Pharmaceuticals and prior to that with SmithKline Beecham Pharmaceuticals. Mr. Veitch received a B.Sc. in Biology from the University of Bristol (UK).

In addition to the above-mentioned members of Management Committee, the Extended Management Committee (EMC, not part of the Management Committee as per the SIX Swiss Exchange Directive on Information relating to Corporate Governance) is appointed by and reports to the CEO. The EMC comprises Adesh Kaul, Head of Corporate Development, Dr. Josef Künzle, Head of Global Quality Management, and Elizabeth Rozek, General Counsel & Corporate Secretary.

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

Extended Management Committee as of December 31, 2016 (from left to right and top to bottom):
Mr. Adesh Kaul
Dr. Josef Künzle
Ms. Elizabeth Rozek

Adesh Kaul, Swiss citizen, has served as Head of Corporate Development since March 2016. Between 2009 and 2014, Mr. Kaul served as Basilea's Head Business Development, Licensing & Investor Relations and Head Public Relations & Corporate Communications. From 2015 to 2016, he held the position of CFO and Head Corporate Development at Polyphor AG. From 2006 to 2009, Mr. Kaul was Senior Financial Analyst at Neue Zürcher Bank and held several senior executive positions in General Management and Sales & Marketing from 1999 to 2006 at Genedata AG, Basel, Switzerland. Mr. Kaul holds Master's degrees both in biochemistry and economics from the University of Basel, and an Executive MBA from HSG St. Gallen.

Dr. Josef Künzle, Swiss citizen, has served as Head of Global Quality Management of the independent Quality Unit since August 2015. He joined Basilea in 2007 as Project Manager Quality Assurance and was promoted in May 2009 to Head of Quality Unit Technical Operations in which position he led the GMP/GDP QA group. In March 2013, he was additionally appointed as Head of Global QM. Since 1989, he held various positions in the pharmaceutical industry with increasing responsibility, from 1989 to 1998 in Analytical R&D/QC at Sandoz Pharma AG/Novartis Pharma AG in Basel, from 1998 to 2003 in QC/QM at Carbogen AG in Aarau, and from 2003 to 2007 in QC/QM at Permamed AG in Therwil. Dr. Künzle holds a PhD in Organic Chemistry from the University of Zurich (Switzerland) and was a Post-Doc in the Civil Engineering Department at Stanford University California.

Elizabeth Rozek, US citizen, has served as General Counsel & Corporate Secretary since March 2011. She joined Basilea's legal team in January 2010. From 2001 to 2006, she was a Trial Attorney in the United States Department of Justice in the Civil Division (2001–2005) and Environmental Division (2005–2006) in Washington D.C. From 2000 to 2001, she served as Law Clerk to Senior Judge Robert J. Kelleher in the United States District Court in Los Angeles. Ms. Rozek holds a Juris Doctorate (JD) in Law from Berkeley Law, University of California, a Master's degree from University of California, San Diego, and a Bachelor of Arts (BA) degree from Brown University, Rhode Island.

Apart from the information given above, there are no other activities of the members of the Management Committee or Extended 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.

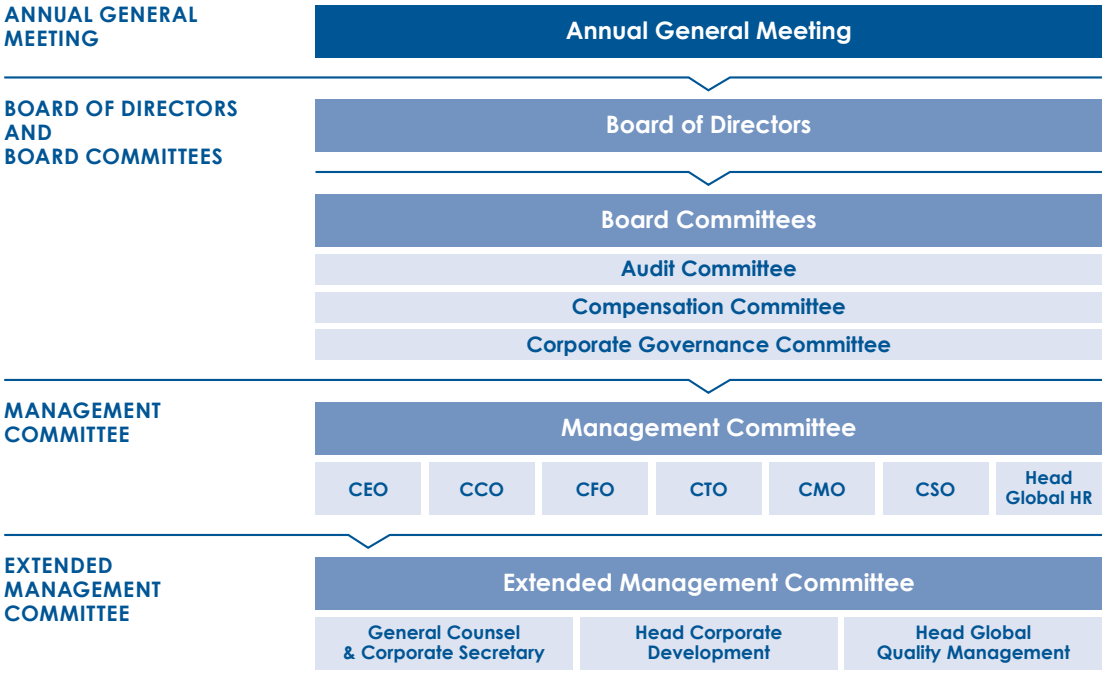
Article 26 of Basilea's articles of association provides the following with respect to permissible mandates of members of the Management Committee:

- 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 of association 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 pages 38 to 53.

SHAREHOLDERS PARTICIPATION

VOTING RIGHTS AND REPRESENTATION RESTRICTIONS

Each of the shares entitles a holder to one vote, regardless of its nominal value. The shares are not divisible. The right to vote and the other rights of share ownership may only be exercised by shareholders (including any nominees) or usufructuaries ("Nutzniesser") who are entered in the share register ("Aktienbuch") at cut-off date determined by the Board of Directors. No exceptions from these restrictions were granted in 2016.

Those entitled to vote in the general meeting of shareholders may be represented by the independent voting rights representative (annually elected by the general meeting of shareholders), another registered shareholder or a third person with written authorization to act as proxy or the shareholder's legal representative.

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

For further information on the conditions for registration in the share register (including in relation to nominees) and for attending and voting at a general meeting of shareholders, please refer to the sections "limitations on transferability of shares and nominee registrations" on page 22 and "registration in the share register" on page 35.

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

STATUTORY QUORUMS

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

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

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

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

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

CONVENING OF SHAREHOLDERS MEETINGS AND AGENDA ITEMS

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

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

An extraordinary general meeting of shareholders may be called by a resolution of the Board of Directors or, under certain circumstances, by the Company's auditor, liquidator or the representatives of convertible bond holders, if any. In addition, the Board of Directors is required to convene an extraordinary general meeting of shareholders if shareholders representing at least ten percent of the share capital request such general meeting of shareholders in writing. Such request must set forth the items to be discussed and the proposals to be acted upon. The Board of Directors must convene an extraordinary general meeting of shareholders and propose financial restructuring measures if, based on the Company's stand-alone annual statutory balance sheet, half of the share capital and reserves are not covered by the assets. Extraordinary general meeting of shareholders can be called as often as necessary, in particular, in all cases required by law.

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

REGISTRATION IN THE SHARE REGISTER

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

In 2016, the deadline for registration in the share register in order to participate and to vote at the ordinary general meeting of shareholders of April 21, 2016 was April 8, 2016.

The registration deadline for the ordinary general meeting of shareholders to be held on April 27, 2017 has been set as April 13, 2017.

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 22.

CHANGES OF CONTROL AND DEFENSE MEASURES

DUTY TO MAKE AN OFFER

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

CLAUSES ON CHANGES OF CONTROL

Basilea's stock option plan contains provisions in respect of changes 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 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, Management Committee members have the right to terminate employment with notice as provided in their contracts and other employees have the right to terminate employment with immediate effect resulting in a payment of 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 is Mr. Bruno Rossi.

AUDITING FEES

In 2016 PricewaterhouseCoopers AG and its affiliates charged the Company auditing fees in the amount of CHF 235,548 (2015: CHF 177,980). No further auditing services were provided in 2016 (2015: CHF 772,000 related to the preparation of the filing of registration statement for a potential offering in the United States and the placement of the convertible bonds in Switzerland).

ADDITIONAL FEES

In 2016, PricewaterhouseCoopers AG and its affiliates charged the Company no additional fees (2015: 27,540).

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 2016, the Audit Committee met with the auditors three times to discuss the scope and results of their year-end audit for 2015, the scope of the 2016 audit as well as the scope and results of their review of the half-year financial statements per June 30, 2016.

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 of association, 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 general meetings of shareholders, publication dates of half- and full-year financials, and information on investor conferences where Basilea is presenting. The investors calendar is continuously updated throughout the financial year.

The Company provides general guidance to support the investment community and the public in their assessment of the Company and its business prospects. The 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 1102.

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 Board members and 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 also established a Compliance Code in 2015 to ensure that its commercialization and communication activities meet required compliance standards. The Company's internal Compliance Committee, established by the Management Committee in 2011, met regularly during 2016. 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 2016

Report of the Statutory Auditor to the general meeting of Basilea Pharmaceutica Ltd., Basel, Switzerland

We have audited pages 52 to 53 of the Compensation Report of Basilea Pharmaceutica Ltd. for the year ended December 31, 2016.

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 (the 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, 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Bruno Rossi	Raphael Rutishauser
Audit expert	Audit expert
Auditor in charge	

Basel, February 16, 2017

LETTER FROM THE CHAIRMAN OF THE COMPENSATION COMMITTEE

Dear Shareholders,

I am pleased to share with you Basilea's Compensation Report for the financial year 2016.

Basilea's compensation structure closely links overall compensation to sustainable value creation through a balanced mix of fixed and variable elements. Our compensation structure is designed to promote sustainable performance for the Company and its shareholders including elements such as base salary, pensions and other benefits, as well as a combination of short-term incentives such as bonuses and long-term incentives in the form of stock options.

In 2016, the Ordinary General Meeting of shareholders supported the Board's compensation proposals for 2016 by approving the proposed compensation budget for the Board of Directors and the Management Committee. Shareholders also approved the Management Committee's variable compensation for fiscal year 2015 in a non-binding advisory vote.

The Compensation Committee reviews and monitors on an ongoing basis Basilea's compensation policy and its compensation in light of the Company's business strategy, corporate goals and corporate values. External factors such as regulatory and legal developments and benchmarking data as compared to similar companies are also taken into account.

The most recent Board review of Board members' compensation took place on November 30, 2016, at which time the Board of Directors found that Basilea is generally aligned with the market for board member compensation. The Compensation Committee regularly reviews the compensation structure and level for Basilea's Management Committee and makes recommendations to the Board of Directors on potential adjustments. The most recent review took place on November 30, 2016. The Compensation Committee found that the compensation of the members of the Management Committee is in line with market practice based on market benchmark analysis.

68% of the total direct compensation of Basilea's CEO and 62% of the average direct compensation of all other active Management Committee members is variable and fully linked to achieving key company goals. Long-term compensation in the form of stock options, which vest after 3 to 4 years, continues to be included as part of the Management Committee's compensation in the current development stage of the Company. A major part of Basilea's CEO direct compensation (41%) and 43% on average of the direct compensation of all other Management Committee's members is paid as "at risk" long-term incentive award in the form of stock options.

Even though certain vested options have historically been "in the money", the weighted average holding period of a Basilea stock option is currently at 7.6 years showing employees' commitment to the long-term success of the Company. Basilea has reduced the annual share dilution by stock option grants to 1.59% in 2016 (fully diluted) by granting options only to a limited group of employees and allocating fewer options overall (including to Management Committee members).

We strive to maintain a high level of transparency by disclosing to shareholders detailed and comprehensive information on company goals, performance criteria and compensation both through this report and in our invitation to our annual shareholder meeting. In order to enhance Basilea's compensation governance and in response to shifts in the Swiss common practice, we implemented several compensation related changes in 2015 and 2016. Basilea's Articles of Association were amended at the AGM 2016 to omit options as a permissible form of board compensation. Basilea's option plan which originally had vesting over a 4-year period starting in year 1 was amended in order to include longer vesting periods. The Company also introduced a non-binding consultative vote on management's variable compensation to allow shareholders a say on pay. All these enhancements clearly demonstrate that we take seriously our commitment to continuous improvement and transparency.

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

Dr. Martin Nicklasson

Chairman of the Compensation Committee

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 663bbis 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 January 1, 2016) and the Swiss Code of Best Practice for Corporate Governance (status February 29, 2016).

COMPENSATION POLICY AND GUIDING PRINCIPLES

Basilea focuses on the research, development and commercialization of products targeting the medical challenge of resistance and nonresponse to current treatment options for fungal infections, bacterial infections and cancer. Basilea achieved significant milestones in 2016 including:

- Launching the antifungal Cresemba® (isavuconazole) in the key European markets of Germany, Italy, the UK, France and Austria
- Marketing of Cresemba and our anti-MRSA broad-spectrum antibiotic Zevtera®/Mabelio® (ceftobiprole) with the same dedicated hospital sales force to take advantage of the commercial synergies between the two products
- Outperforming our sales guidance for Cresemba and Zevtera in 2016
- Accessing additional funding by entering into an agreement with Biomedical Advanced Research and Development Authority (BARDA) for the clinical phase 3 development of ceftobiprole. The aim is to achieve regulatory approval in the United States. The agreement provides non-dilutive funding of approximately USD 20 million over an initial period of 18 months and a potential total value of up to USD 100 million over a period of 4.5 years
- Executing distribution agreements for isavuconazole and ceftobiprole for additional territories with Grupo Biotoscana S.L. in Latin America, Unimedic Pharma AB in Nordic countries and extended the agreement with Hikma Pharmaceuticals LLC for the Middle East and North Africa (MENA) region to include isavuconazole in addition to ceftobiprole
- Concluding a license agreement with Asahi Kasei Pharma Corporation for the development and commercialization of isavuconazole in Japan
- Progressing the clinical development of the tumor checkpoint controller BAL101553 by starting a phase 1/2a continuous infusion study and extending the ongoing oral phase 1/2a study to include glioblastoma (brain cancer) patients

Basilea can only achieve its goals with dedicated, experienced and highly motivated employees who are committed to Basilea's company values and who deliver outstanding performance. Basilea is committed to performance-based compensation principles that are balanced and that align long-term employee and shareholder interests. The Company's compensation policy is aligned with its business strategy and financial objectives and takes into account Company achievements and individual contribution. The variable compensation element is designed so that it does not encourage inappropriate risk-taking. The compensation packages are competitive with market practice to promote the long-term success of the Company and support the creation of sustainable shareholder value.

COMPENSATION GOVERNANCE AND PROCEDURE FOR DETERMINING COMPENSATION

RULES IN THE ARTICLES OF ASSOCIATION

In article 18 and article 25 of Basilea's articles of association, 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 fixed compensation, members of the Management Committee may be paid variable compensation, depending on the achievement of certain performance criteria. The 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 the position and level of responsibility of the recipient of the variable compensation. The Board of Directors or, where delegated to it, the Compensation Committee determines the relative weight of the performance criteria and the respective target values and to which extent such criteria have or have not been met.
- Compensation may be paid or granted to the Board of Directors in the form of cash, shares, and similar financial instruments and/or units, in kind or in the form of other benefits and to the Management Committee 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 or, where delegated to it, the Compensation Committee shall determine grant, 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 of 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 association 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 association the general meeting of shareholders 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 association 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 by the general meeting of shareholders, the Board of Directors shall determine, taking into account all relevant factors, the respective maximum aggregate amount of compensation or partial maximum amounts for specific compensation elements, and submit the amount(s) so determined for approval by a general meeting.
- The Company or companies under its control may pay out compensation prior to approval by the general meeting subject to subsequent approval.

COMPENSATION EVALUATION

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 of Directors compensation, the Compensation Committee considers practices 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 Committee compensation, the Compensation Committee takes into account the professional experience and areas of responsibility of each Management Committee member and also considers compensation packages of other companies in the biotech and pharmaceutical industry in Switzerland and Europe that are comparable to Basilea with respect to size or business model. In 2016, the Compensation Committee engaged an independent external consulting firm (Towers Watson) to provide benchmarking services on compensation matters and conduct a comprehensive benchmarking analysis on executive compensation as compared to relevant peers in the healthcare sector across different geographical markets. Each Management Committee position was evaluated by Towers Watson according to their Global Grading System (GGS) and compensation level, taking into consideration company criteria such as size, complexity, responsibility and geographic scope. The evaluation found that the base salary and the total direct compensation of the CEO and the Management Committee members fall within a range of the 50th to the 75th percentile of the peer group. The evaluation further found that the performance-related bonus opportunity for the CEO and the Management Committee members is below the market median.

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, the Board of Directors submits three proposals for approval at the general meeting of shareholders:

- 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;
- 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
- the maximum aggregate amount of variable compensation for the Management Committee including short-term incentive in the form of a cash bonus and long-term incentive in the form of stock options for the period from January 1 to December 31 of the current year.

The approval of these proposals requires an absolute majority (more than 50% of the share votes represented at the general meeting of shareholders). The time periods of the compensation budgets subject to shareholder approval are not identical with the reporting period (financial year 2016) for the amounts reported in this compensation report.

COMPENSATION APPROVAL PROCESS

Recipient	Proposal	Decision	Binding approval by shareholders at the AGM
Members of the Board of Directors	Compensation Committee	Board of Directors	*Maximum total compensation:* for the period from one AGM to the following AGM
Members of the Management Committee	Compensation Committee	Board of Directors	*Maximum fixed compensation:* for the period from July 1 of the current year to June 30 of the next year. *Maximum variable compensation:* for the period from January 1 to December 31 of the current year.

BOARD OF DIRECTORS COMPENSATION

The compensation for members of the Board of Directors consists of:

- a fixed annual monetary compensation per board term from one general meeting of shareholders to the next;
- compensation based on board meeting attendance;
- compensation based on participation in board committees;
- the payment of social security contributions, where such contributions occur; and
- reimbursement of out-of-pocket expenses incurred in relation to Board member's service on an on-going basis upon presentation of the corresponding receipts.

The available amounts for the period from ordinary general meeting of shareholders 2016 ("AGM 2016") to ordinary general meeting of shareholders 2017 ("AGM 2017") were:

In CHF	AGM 2016 to AGM 2017
Chairman of the Board of Directors	
Fixed compensation	238 363
Board meeting fee [1]	9 375
Fee committee membership [2]	7 875
Members	
Fixed compensation	150 382
Board meeting fee [3]	6 250
Fee committee membership [2]	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.

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 52.

MANAGEMENT COMMITTEE COMPENSATION

COMPENSATION SYSTEM

The compensation of the members of the Management Committee includes a base salary, performance-related bonus, stock options, pension plan contributions, certain disability insurance, and eligibility for special performance awards for exceptional performance.

Elements of Management Committee members' compensation

Element	Paid in form of	Purpose	Performance measures
Base salary	Cash (paid out monthly)	Attract and retain	Role and experience; periodic increase based on performance and/or market trend
Performance-related bonus	Cash (paid out annually in the following year)	Align management and corporate goals and pay for performance	Corporate and individual performance
Stock option program	Stock options vest in two tranches: 50% vest 3 years from grant date and 50% vest 4 years from grant date	Foster long-term focus, retention and alignment to shareholders' interests	Individual performance aligned with shareholders, Company and department goals
Indirect benefits	Pension, insurances, allowances	Protection against risks	Market practice
Special performance award	Cash (within a total amount which is agreed annually by the Board of Directors and according to limits established by the Board of Directors) within the share-holder-approved budget.	Reward for successful performance in projects outside of the usual scope of job responsibilities	Successful completion of project and achievement of an important Company goal

COMPENSATION ELEMENTS

Base salary

Base salary is determined by the position, responsibilities, experience and skills of each Management Committee member. The Compensation Committee reviews base salaries at the beginning of each year taking into account individual performance, with any changes in Management Committee members' base salaries becoming effective as of April in that year; base salaries may be further adjusted throughout the year as deemed necessary by the Board.

Performance-related bonus

Performance-related bonuses vary annually and are based on individual and Company performance. Potential bonuses are determined in each Management Committee member's employment contract and are calculated as a percentage of the base salary, ranging from 35% to 50% depending on position, adjusted by individual and Company performance. The payout is capped at 140% of the target bonus for the CEO and 130% of the target bonus for the other Management Committee members, which can be reached only in the event of extraordinary performance.

The individual cash bonuses for members of the Management Committee are 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 performance assessment is based on:

Company goals (40% of the target bonus): Given the current stage of Basilea, with the Company focusing on market expansion and sales acceleration for its two recently launched products and other product candidates in development, the Company goals are linked to these key value drivers with a combination of financial and non-financial Key Performance Indicators (KPIs). The Company goals are the same for all Basilea employees:

- The financial KPIs are related to the financial performance of the Company, its financial activities including sales revenues, as well as its share price relative performance compared to the Swiss Market Index (SMI)
- The non-financial KPIs are related to operational activities in the areas of research and development (such as advancement of clinical product candidates, completion of clinical trials, submission of marketing authorization and new drug applications, and product approvals), commercialization, manufacturing, operational performance or the achievement of certain commercial goals.

The Company goals portion may be rated above 100% to a maximum of 140% of the target amount for the CEO and130% of the target amount for the rest of the Management Committee in the event that the Board of Directors determines that certain upside Company goals were achieved.

Individual goals (60% of the target bonus) relate to the roles and responsibilities of the members of the Management Committee and are aligned with the Company strategy and annual Company goals. The individual portion may be rated above 100% to a maximum of 140% of the target amount for the CEO and130% of the target amount for the rest of the Management Committee in the event of extraordinary performance. The total average Company-wide individual portion of the performance-related bonus (excluding the CEO) cannot exceed 100% of the respective target amount.

For 2016, the Board of Directors considered the achievement of the following goals when determining the performance-related bonus for the Management Committee members:

Goals used to determine the 2016 performance-related bonus

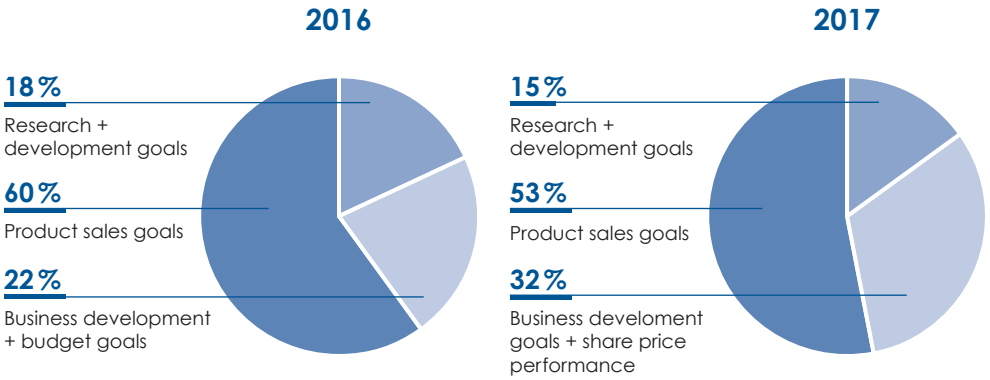
Company goals		Individual goals
Financial KPIs	Non-financial KPIs	
▸ Achieving budgeted sales, entering into a collaboration agreement with a partner for financing of ceftobiprole US clinical phase 3 development program ▸ Managing expenses ▸ Share price performance as compared to the Swiss Market Index (SMI)	▸ Ceftobiprole - execution of distribution agreements for additional major territories, submission of Special Protocol Assessments (SPAs) to the FDA ▸ Isavuconazole - completion of market access dossiers for targeted price band and commercialization in key European markets, execution of development and distribution agreements for additional major territories ▸ BAL101553 - initiation of clinical phase 1/2a study with continuous infusion in patients with advanced solid tumors, expansion of oral clinical phase 1/2a study to include glioblastoma (brain cancer) patients, compile data package for potential partnering ▸ BAL3833 - advancing phase 1 study	Individual performance of the Management Committee members

The weighting of the Company goals (40%) and the individual goals (60%) is the same for all members of the Management Committee.

For 2017, 53% of the Company's corporate goals are based on sales of our products Cresemba and Zevtera/Mabelio. Research and development goals are set at 15% and considering also long-term metrics and sustainability business development and share price performance are set at 32%:

- Achievement of product sales goals **53%**
- Research and development goals **15%**
- Business development goals and share price performance **32%**

Company goals 2016 and 2017

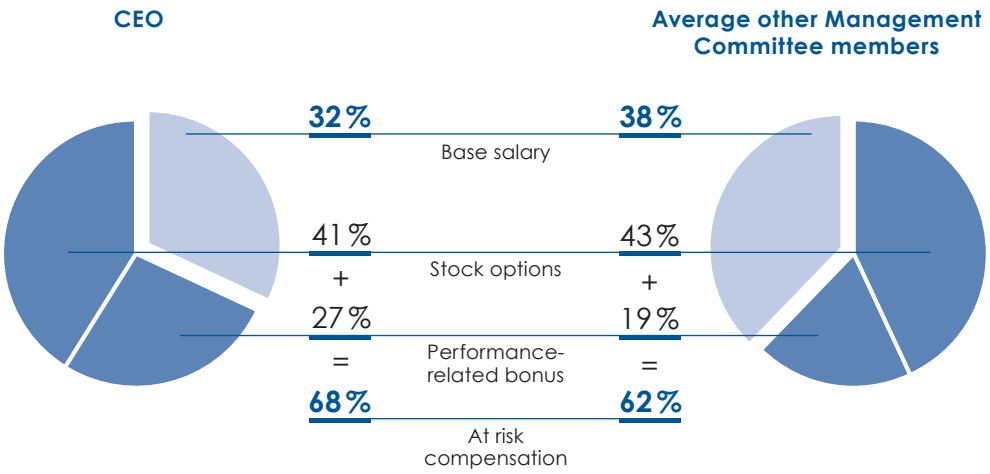


Calculation of the individual performance-related bonus for the members of the Management Committee

Individual target bonus		Performance assessment	Weight		Resulting individual performance-related bonus
35–50% of base salary	×	Company goals 0 to 130% or 140% payout range	40%	=	
		Individual goals 0 to 130% or 140% payout range	60%		

The majority of compensation for each Management Committee member is at risk and based on corporate and individual performance, with 68% of Basilea's CEO's direct compensation and 62% of the average direct compensation of all other active Management Committee members based on the performance and paid out in the form of stock options and a performance-related bonus.

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



Stock option program

The purpose of the Basilea stock option program is to provide Management Committee members and certain key employees with an opportunity to obtain stock options (or alternatively, stock appreciation rights) and to benefit from the appreciation thereof, thus providing an incentive for participants to contribute to the future success of the Company. The program is therefore aligned with shareholders' interest to enhance shareholder value and also increases the ability of the Company to attract and retain individuals with exceptional skills.

The grant of any option under the stock option program is wholly discretionary. Key factors considered by the Board of Directors based on the recommendation of the Compensation Committee in the grant of stock options are:

- benchmarking with other companies;
- individual performance of the Management Committee members;
- the amount of shareholder approved conditional capital; and
- the dilution of the total number of Basilea shares outstanding.

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 equals the closing price of the Basilea shares on the Swiss Stock Exchange (SIX) on the grant date. The strike price of the options granted in the business year 2016 was CHF 83.00 (2015: CHF 113.10), with 50% of the options received vesting three years from the grant date and 50% of the options vesting four years from the grant date. The term of the stock option grant is 10 years. For the options issued in 2016, an employee's unvested options will be forfeited upon termination of employment by the Company or resignation by the employee; however, vested options may be exercised within the 12 months of the termination date, after which time all vested options expire. In the event of termination upon

death or disability or in the event of retirement, all options may be exercised. For options issued in 2015 and prior years, an Employee's unvested options are forfeited upon termination of employment resulting from notice provided by the Employee to the Company, or upon termination of employment by the Company for cause.

Although there is no cash value of the options at grant, the fair value of the stock options granted in 2016 was determined at the grant date using a binomial model and equals to CHF 34.89 (2015: CHF 46.23) per option. The assumptions used for the fair value calculation of options can be found on page 91. Options only create cash value for Management Committee members in the event the share price after vesting exceeds the strike price, which is the share price upon grant, thus directly aligning Management Committee members' interest with shareholders' interest.

The average holding period by option plan participants is approximately 7.6 years. Participants have, in the past, held their options beyond the vesting period even when such options were "in-the-money", which reflects their ongoing commitment to the Company.

Indirect benefits

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

Loans and credits

The Company did not grant any loans, quasi-loan credits or guarantees to members of the Board of Directors or of the Management Committee in 2016 or 2015.

EMPLOYMENT CONDITIONS

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 following the same ranges 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 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 53.

COMPENSATION DISCLOSURE

DISCLOSURE OF THE COMPENSATION FOR THE BOARD OF DIRECTORS

The total compensation of the members of the Board of Directors in calendar years 2016 and 2015 is outlined below:

In CHF	Fixed compensation	Committee fees	Board meeting fees	Social security[7]	**Total**
2016					
Mr. Domenico Scala, Chairman[1]	216 368	7 219	46 875	34 125	304 587
Dr. Thomas M. Rinderknecht, Vice-Chairman[2]	150 382	10 500	25 000	24 043	209 925
Dr. Martin Nicklasson, Director[3]	172 377	17 719	31 250	48 187	269 533
Prof. Daniel Lew, Director[4]	150 382	5 250	37 500	23 386	216 518
Mr. Steven D. Skolsky, Director[5]	150 382	5 250	37 500	–	193 132
Dr. Thomas Werner, Director[5]	150 382	5 250	31 250	24 162	211 044
Mr. Hans-Beat Gürtler, Director[6]	37 596	2 625	–	5 801	46 022
Total	**1 027 869**	**53 813**	**209 375**	**159 704**	**1 450 761**

[1] Mr. Domenico Scala is Chairman of the Board of Directors since April 21, 2016, before he was Vice-Chairman of the Board of Directors and Chairman of the Audit Committee.
[2] Dr. Thomas M. Rinderknecht is Vice-Chairman of the Board of Directors since April 21, 2016, Chairman of the Corporate Governance Committee and a member of the Audit Committee.
[3] Dr. Martin Nicklasson was Chairman of the Board of Directors until April 21, 2016. He is Chairman of the Compensation Committee and member of the Audit and Corporate Governance Committees.
[4] Prof. Daniel Lew is a member of the Corporate Governance Committee.
[5] Mr. Steven D. Skolsky and Dr. Thomas Werner are members of the Compensation Committee.
[6] Mr. Hans-Beat Gürtler was a member of the Board of Directors, member of the Audit and Corporate Governance Committees until April 21, 2016.
[7] Includes the Company's and the Board members' contributions to social security, etc., where such contributions occur.

In CHF	Fixed compensation	Committee fees	Board meeting fees	Social security[7]	**Total**
2015					
Dr. Martin Nicklasson, Chairman[1]	238 363	23 625	56 250	67 689	385 927
Mr. Domenico Scala, Vice-Chairman[2]	150 382	5 250	31 250	23 985	210 867
Mr. Hans-Beat Gürtler, Director[3]	150 382	10 500	31 250	19 040	211 172
Prof. Daniel Lew, Director[4]	150 382	5 250	31 250	18 470	205 352
Dr. Thomas M. Rinderknecht, Director[5]	150 382	10 500	31 250	24 614	216 746
Mr. Steven D. Skolsky, Director[6]	150 382	5 250	31 250	–	186 882
Dr. Thomas Werner, Director[6]	150 382	5 250	37 500	24 734	217 866
Total	**1 140 655**	**65 625**	**250 000**	**178 532**	**1 634 812**

[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 security, etc., where such contributions occur.

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 calendar years 2016 and 2015 are outlined below:

In CHF	Cash compensation	Cash compensation variable	Stock options [1]	Social security and other fringe benefits [2]	**Total**
2016					
Chief Executive Officer Ronald Scott	573 937	474 909 [4]	717 757	149 035	1 915 638
Total Management Committee [3]	**2 629 039**	**1 379 953 [5]**	**2 838 162**	**674 694**	**7 521 848**
2015					
Chief Executive Officer Ronald Scott	544 710	236 521 [6]	926 588	186 586	1 894 405
Total Management Committee	**2 489 248**	**1 083 933 [7]**	**4 068 980**	**865 705**	**8 507 866**

[1] Based on the grant-date fair value per stock option of CHF 34.89 (2015: CHF 46.23) using a binomial valuation model.
[2] Includes employers' contributions to pension plans, social security, life insurance etc.
[3] These amounts include compensations of the CTO since February 1, 2016 and the former CTO, who retired on August 31, 2016.
[4] This amount includes the estimated cash bonus for 2016 of CHF 401,755 and cash bonus true-up of CHF 73,154 between actual pay-out and accrued cash bonus in 2015.
[5] This amount includes the estimated cash bonus for 2016 of CHF 1,234,695 and cash bonus true-up of CHF 145,258 between actual pay-out and accrued cash bonus in 2015.
[6] This amount includes the estimated cash bonus for 2015 of CHF 245,969 and cash bonus true-up of CHF -9,448 between actual pay-out and accrued cash bonus in 2014.
[7] This amount includes the estimated cash bonus for 2015 of CHF 1,042,904 and cash bonus true-up of CHF 41,029 between actual pay-out and accrued cash bonus in 2014.

GRANTING OF STOCK OPTIONS

The development of stock option holdings for the total Management Committee and the highest paid Management Committee member in 2016:

For year 2016	Number of vested stock options at the beginning of the year	Number of unvested stock options at the beginning of the year	Number of stock options granted during the year	Number of stock options exercised during the year	Number of vested stock options at the end of the year	Number of unvested stock options at the end of the year
Chief Executive Officer Ronald Scott	38 437	50 772	20 572	–	58 566	51 215
Total Management Committee	**155 963***	**209 648***	**81 346**	**–**	**224 959**	**197 918**

* Include stock options of the current and of the former CTO, who retired on August 31, 2016.

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 that address the increasing resistance and nonresponse to current treatment options in the therapeutic areas of bacterial infections, fungal infections and oncology. The Company has a portfolio of marketed anti-infective drugs and a pipeline of product candidates in the area of oncology and anti-infectives.

In 2016, the Company entered into new partnerships to make isavuconazole (Cresemba®) and ceftobiprole (Zevtera®/Mabelio®) available to patients in additional important territories. The Company entered into distribution agreements for isavuconazole and ceftobiprole for the Middle East & North Africa, Latin America and the Nordics and received CHF 12.1 million in upfront payments.

In addition, the Company entered into a license agreement for Japan for isavuconazole and received an upfront payment of CHF 7.0 million.

In April 2016 the Company signed a contract with Biomedical Advanced Research and Development Authority (BARDA) for initial funding of approximately USD 20 million for the phase 3 development of ceftobiprole with the goal to gain regulatory approval in the United States. Total contract value could reach up to USD 100 million over a period of 4.5 years upon successful completion of pre-defined milestones.

The Company recognized operating income of CHF 66.0 million in 2016 (2015: CHF 52.8 million). Operating income in 2016 included CHF 37.7 million (2015: CHF 37.6 million) contract revenue related to the agreement with Stiefel, a GSK company, for Toctino®, contract revenue related to the license agreement with Astellas for isavuconazole of CHF 19.3 million (2015: CHF 13.6 million) and contract revenue related to distribution agreements of CHF 0.7 million. Moreover, operating income included other revenue in the amount of CHF 0.9 million (2015: CHF 1.2 million) and revenue from R&D services in the amount of CHF 0.2 million (2015: CHF 0.5 million).

In 2016, the Company invested CHF 48.4 million (2015: CHF 60.1 million) in research and development activities related to its oncology drug candidates BAL101553 and BAL3833, the antifungal isavuconazole, its antibiotic ceftobiprole and further compounds in the Company's research portfolio.

Selling, general and administrative expenses including costs for the commercialization of Cresemba and Zevtera/Mabelio amounted to CHF 56.1 million in 2016 (2015: CHF 54.2 million).

The cash and cash equivalents and investments amounted to CHF 289.0 million as of December 31, 2016, compared to CHF 364.7 million at year-end 2015.

RESULTS OF OPERATIONS

The following table outlines the Company's consolidated results of operations for the fiscal years 2016 and 2015:

In CHF million	**2016**	2015
Product revenue	7.1	–
Contract revenue	57.7	51.2
Revenue from R&D services	0.5	0.5
Other income	0.9	1.2
Total operating income	**66.0**	**52.8**
Cost of products sold	(5.3)	-
Research & development expenses, net	(48.4)	(60.1)
Selling, general & administrative expenses	(56.1)	(54.2)
Total operating expenses	**(109.9)**	**(114.3)**
Operating loss	**(43.9)**	**(61.5)**
Interest income	0.0	0.2
Interest expense	(6.4)	(0.2)
Other financial income	1.6	1.9
Other financial expenses	(2.3)	(1.9)
Income taxes	(0.3)	(0.1)
Net loss	**(51.3)**	**(61.6)**

Note: Consistent rounding was applied.

Revenues

Operating income included product revenue in the amount of CHF 7.1 million (2015: none), contract revenue in the amount of CHF 57.7 million (2015: CHF 51.2 million), which mainly results from the recognition of contract revenue from Stiefel of CHF 37.7 million (2015: CHF 37.6 million) related to the upfront payment of CHF 224.1 million in 2012 and the recognition of contract revenue from Astellas of CHF 11.8 million (2015: CHF 10.8 million) in connection with the upfront payment of CHF 67.5 million in 2010 and the milestone payments of CHF 12.0 million in 2014 and CHF 30.0 million in 2015, which were recorded as deferred revenue. In 2016, the Company recognized additional contract revenue in the total amount of CHF 7.4 million (2015: CHF 2.8 million) related to services provided by the Company to Astellas for isavuconazole and including revenues related to royalties of CHF 7.3 million (2015: CHF 2.2 million). Furthermore, the Company recognized contract revenue in the amount of CHF 0.7 million (2015: none) from upfront payments from distribution and license agreements in 2016. In other revenue, the Company recognized CHF 0.7 million (2015: none) from BARDA.

Moreover, the Company recognized revenue from R&D services in the amount of CHF 0.2 million (2015: CHF 0.5 million).

Costs of products sold

The Company recognized cost of products sold of CHF 5.3 million (2015: none) for Cresemba and Zevtera/Mabelio.

Research and development expenses, net

Research and development expenses amounted to CHF 48.4 million (2015: CHF 60.1 million), representing 44% of the total operating expenses (2015: 53%).

Research and development expenses in 2016 were mainly related to activities for the phase 1/2a development of oncology drug candidate BAL101553, phase 1 clinical development of oncology drug candidate BAL3833, costs for the pediatric program for ceftobiprole and activities related to isavuconazole.

The decrease of CHF 11.7 million as compared to 2015 is mainly due to isavuconazole pre-launch activities in 2015.

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 2016 also included stock-based compensation expenses of CHF 3.8 million (2015: CHF 4.7 million).

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

Selling, general and administrative expenses

Selling, general and administrative expenses amounted to CHF 56.1 million (2015: CHF 54.2 million). Selling, general and administrative expenses in 2016 included costs related to the commercialization of Cresemba and Zevtera/Mabelio and stock-based compensation of CHF 4.2 million (2015: CHF 4.6 million).

The increase of CHF 1.9 million as compared to 2015 is mainly due to expanded commercial activities related to Cresemba.

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

As of December 31, 2016, the Company had subsidiaries in Germany, Italy, Spain and the United Kingdom in connection with its commercialization activities.

Net financial result

Net financial expenses, excluding interest, amounted to CHF 0.7 million (2015: Net financial income of CHF 0.0 million).
Net interest expenses amounted to CHF 6.4 million (2015: CHF 0.0 million).

Income taxes

Due to the losses incurred to date and the insufficient evidence related to the ability to realize deferred tax assets, the Company has not recognized any deferred tax assets as of December 31, 2016 and December 31, 2015. The Company incurred income taxes of CHF 0.3 million in 2016 (2015: CHF 0.1 million) 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 an initial payment of CHF 224.1 million under the agreement with Stiefel related to Toctino. In June 2013, the Company distributed CHF 5.00 per share corresponding to CHF 48.0 million from capital contribution reserves following shareholder approval at the annual general meeting. In September 2014 and March 2015, the Company received non-refundable milestone payments of CHF 12.0 million and CHF 30.0 million from Astellas. In December 2015, the Company received CHF 194.7 million net of issuance costs from the issuance of convertible bonds. In 2016, the Company received non-refundable upfront payments of CHF 19.1 million from distribution and licensing partners.

The cash used by the Company in 2016 was primarily related to its operating activities, in particular the commercial activities as well as development programs.

The cash and cash equivalents and investments, available as of December 31, 2016, amounted to CHF 289.0 million (December 31, 2015: CHF 364.7 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, 2016, CHF 50.0 million were invested in long-term bank deposits denominated in Swiss Franc. (December 31, 2015: CHF 51.5 million in short-term bank deposits).

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, 2016 and December 31, 2015.

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 license agreement with Astellas consists of several deliverables: the co-development services, the commercial-related manufacturing services, the grant of the license to Astellas and participation in the joint steering committee. The co-development services, the grant of the license and the participation in the joint steering committee consist of one unit of accounting, with the commercial-related manufacturing services consisting of another. The co-development services, the grant of the license and the participation in the joint steering committee consist of one unit of accounting since they do not have value to Astellas on an individual stand-alone basis. The commercial-related manufacturing services are another unit of accounting since they have value to Astellas and there is evidence of fair value of the undelivered commercial-related manufacturing services in the arrangement. The entire upfront payment was allocated to the unit of accounting composed of co-development services, the grant of the license and the participation in the joint steering committee. The related revenue is recognized over the period over which the services are rendered based on an input measure which results in higher revenue recognized in the first years when more services were rendered. The period during which the Company has to satisfy its contractual performance obligations is expected to be until October 2020. Following the amendment of the agreement in 2014, the Company reassessed the remaining expected period during which the Company has to satisfy its contractual performance obligations and reduced it from lasting until July 2029 to lasting until October 2020. Accordingly, the recognition of the upfront payment in contract revenue is accelerated.

The Company also received non-refundable milestone payments from Astellas. The milestone payments were deferred and are recognized on a straight-line basis as contract revenue over the remaining period during which the Company has to satisfy its contractual obligations.

The agreement with Stiefel related to Toctino consists of two deliverables: grant of the license to the know-how and the transfer of the Toctino assets and business. In July 2012, the Company received an initial payment of CHF 224.1 million. The Company determined that the value of the business was insignificant and, as a result, allocated no value to the business. The entire consideration was allocated to the license of the know-how, and was deferred and is recognized on a straight-line basis as contract revenue over the expected period during which the Company has to satisfy its performance obligations. The Company's substantial ongoing obligations towards Stiefel are to provide operational, technical and scientific support including the furnishing of information and discussion of topics related to preparation of market authorization applications, other regulatory activities, post-launch monitoring and safety requirements, commercialization, commercial supply chain, and manufacturing process and requirements related to the API and drug product.

The agreement with BARDA for the phase 3 development of ceftobiprole with the goal to gain regulatory approval in the United States is considered as part of the Company's ongoing major operations. Revenue from this contract is recognized as allowable costs are incurred applying the proportional performance revenue recognition method in other revenue.

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

The Company received upfront payments under distribution agreements for isavuconazole and ceftobiprole which were deferred and are recognized as contract revenue on a straight line basis over the remaining performance period.

Expenses relating to the Company's products sold consisting of the manufacturing cost, capacity reservation costs, shipping and handling costs are presented in cost of products sold. The respective amounts for the prior period are included in selling, general & administration expenses.

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 8.0 million in 2016 (2015: CHF 9.3 million).

Research and development costs are expensed as incurred. Costs of research and development equipment with alternative future use are capitalized and depreciated over its respective useful life. Payments that the Company makes or receives related to its co-development arrangement for isavuconazole are recorded in research and development expenses. Costs related to the manufacturing of inventories which occurred after the receipt of regulatory approval or evidence being available that regulatory approval can reasonably be expected, are capitalized. The Company expenses costs as research and development expenses related to manufacturing of inventories when incurred prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected. If regulatory approval is subsequently obtained, the recorded expenses are not reversed. Accordingly, the cost of 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.

In 2015, the Company received total net proceeds from the sale of the convertible senior unsecured bonds of CHF 194.7 million, after deducting issuance costs of CHF 5.3 million. The convertible senior unsecured bonds are accounted for at amortized costs. The convertible senior unsecured bonds were issued bearing interest at a fixed rate of 2.75% per year. In 2016, the Company recognized interest expense of CHF 5.5 million (2015: CHF 0.1 million) for contractual coupon interest and CHF 0.8 million (2015: CHF 0.0 million) for accretion of the issuance costs. The remaining unamortized debt issuances costs of CHF 4.5 million will be accreted over the remaining term of the convertible senior unsecured bonds, which is approximately 6 years.

The Company assesses deferred taxes regularly and provides for a valuation allowance on deferred tax assets if it is more likely than not that deferred tax assets are not realized. As a consequence, the Company has recorded a valuation allowance on net deferred tax assets in the amount of CHF 119.5 million as of December 31, 2016 mainly due to the history of operating losses and the uncertainty related to the ability to realize such deferred tax assets.

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

FOREIGN CURRENCY EXCHANGE RATE RISK

The functional currency of the Company is the Swiss Franc. Besides the expenses, which are denominated in Swiss Francs, the Company also incurs expenses in foreign currencies, especially in Euro, US Dollars, British Pounds, Canadian Dollars, 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 Franc could have a material adverse effect on the Company's financial condition, results of operations, and prospects in the future.

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

RECENT DEVELOPMENTS

There have been no material adverse changes in the business or financial situation of the Company since December 31, 2016.

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REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

Report of the statutory auditor to the General Meeting of Basilea Pharmaceutica AG, Basel, on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Basilea Pharmaceutica AG and subsidiaries ("the Group") which comprise the consolidated balance sheet, the consolidated statements of operation, comprehensive income/loss, cash flows and changes in shareholders' equity and the notes (pages 66 to 97) for the year ended December 31, 2016.

Board of Directors' responsibility

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2016 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

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

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

Key audit matter	How our audit addressed the key audit matter
Contract with BARDA for ceftobiprole In 2016, Basilea Pharmaceutica Ltd. and the Biomedical Advanced Research and Development Authority (BARDA) within the Office of the Assistant Secretary for Preparedness and Response in the US Department of Health and Human Services entered into a contract for the clinical phase 3 development aimed at achieving regulatory approval for Basilea's broad-spectrum antibiotic ceftobiprole in the United States. Under the terms of the contract, BARDA will provide funding of approximately USD 20 million over an initial period of 18 months. Management concluded that the funding received from BARDA should be presented as other revenue as this best reflects the substance of the contract as the ceftobiprole development for the US is one of the on-going major operating activities. We consider the assessment of the current and future accounting implications of the contract a key audit matter given the magnitude of the contract and its complexity and the accounting judgments involved specifically relating to the proposed timing and measurement of recognizing expected payments from BARDA, the income statement presentation and the respective disclosures. *Refer to note 1 Summary of significant accounting policies (pages 73-75) and note 10 Agreements (page 84) of the consolidated financial statements.*	We read the underlying contractual agreement and assessed the substance of the activities resulting from the contractual arrangement including the assessment of the rights retained by Basilea and rights transferred to BARDA. We discussed with Management and the Audit Committee the substance of the agreement and assessed their conclusion that the contract with BARDA forms part of the Group's on-going major activities, resulting in a presentation of the expected payments as other revenue. As part of our assessment we considered alternative presentations including treating the proceeds as a deduction from research and development expenses, but determined presentation as other revenue appropriate. We assessed the respective accounting position paper prepared by Management specifically focusing on the proposed timing and measurement of recognition and presentation of the expected payments from BARDA in the income statement. We found the judgments made by Management on the timing of recognition, measurement, presentation were reasonable and the disclosures made in respect of the transaction were appropriate.

Key audit matter	How our audit addressed the key audit matter
Development and commercialization license agreement with Asahi Kasei Pharma Corporation In 2016, the Group entered into a development and commercialization license agreement with Asahi Kasei Pharma Corporation ("Asahi Kasei"). Under the terms of the agreement, the Group granted Asahi Kasei an exclusive license to develop, register and commercialize isavuconazole in Japan. The Group received a non-refundable upfront payment of CHF 7.0 million and is eligible to additional payments upon achievement of regulatory and commercial milestones and royalty payments for sales in Japan. Management concluded that the contractual obligations of Basilea up until the submission of the NDA filing are significant. Consequently, the up-front payment is deferred and recognised over time on a straight line basis until Q4 2021. We consider the assessment of the current and future accounting implications of the contract a key audit matter given the magnitude of the contract and complexity of the contract. The accounting judgments involved specifically relate to the timing of the recognition and measurement of the payment received in the income statement as well as the respective disclosures. *Refer to note 1 Summary of significant accounting policies (pages 73-75) and note 10 Agreements (pages 85 and 86) of the consolidated financial statements.*	We read the underlying contractual agreement and assessed the respective accounting position paper prepared by Management focusing on the substance of each of the payments expected in the future from Asahi Kasei to Basilea. We challenged Management's assessments and conclusions where appropriate. We discussed with Management and the Audit Committee the substance of the activities resulting from the contractual arrangement specifically the rights and obligations of each party. We found the judgments made by Management on the timing of recognition and measurement of the payment received in 2016 to be reasonable and the disclosures made in respect of the transaction to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Distribution agreements In 2016, the Group entered into three exclusive distribution agreements with Grupo Biotoscana S.L., Hikma Pharmaceuticals LLC and Unimedic Pharma AB for isavuconazole and ceftobiprole in a number of countries. Under these distribution agreements, the Group received non-refundable upfront payments of CHF 12.1 million in 2016 and is eligible to receive future sales milestone payments related to the commercialization of the products in these territories. Management concluded that the upfront payments represent compensation for the exclusive licenses granted in the respective territories and for Basilea supporting the distributors to obtain market authorization. The revenue is deferred and recognised on a straight line basis over the remaining performance period. We consider these distribution contracts a key audit matter due to their magnitude and the long-term implication on timing of revenue recognition of the original accounting judgment taken. *Refer to note 1 Summary of significant accounting policies (pages 73-75) and note 10 Agreements (page 86) of the consolidated financial statements.*	We read the underlying contractual agreement and assessed the respective accounting position paper prepared by Management focusing on the substance of the activities resulting from the contractual arrangement, specifically the rights and obligations of each party and the impact of this on the timing of recognizing revenue. We discussed our above assessment of Management's accounting position paper with Management and the Audit Committee and challenged their assessments and conclusions where appropriate. We found the judgments made by Management on the timing of contract revenue recognition to be reasonable and the disclosures made in respect of the transaction to be appropriate.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Bruno Rossi
Audit expert
Auditor in charge

Stephen Johnson
Global relationship partner

Basel, February 16, 2017

CONSOLIDATED FINANCIAL STATEMENTS

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Consolidated balance sheets as of December 31, 2016 and 2015 (in CHF thousands, except for number of shares)

	Footnote reference	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	7	239 030	313 064
Short-term investments	6	–	51 624
Accounts receivable	5	2 492	1 545
Other receivables	8	4 917	3 010
Inventories	9	14 931	9 579
Other current assets		7 124	6 043
Total current assets		**268 494**	**384 865**
Non-current assets			
Tangible assets, net	2	8 878	10 724
Intangible assets, net	3	232	346
Long-term investments	6	50 000	–
Other non-current assets		154	2 800
Total non-current assets		**59 264**	**13 870**
TOTAL ASSETS		**327 758**	**398 735**
LIABILITIES			
Current liabilities			
Accounts payable		1 851	1 094
Deferred revenue	10	51 615	49 546
Accruals and other current liabilities	12	19 448	18 196
Total current liabilities		**72 914**	**68 836**
Non-current liabilities			
Convertible senior unsecured bonds	11	195 466	194 706
Deferred revenue, less of current portion	10	74 511	107 696
Other non-current liabilities	17	19 867	12 641
Total non-current liabilities		**289 844**	**315 043**
Total liabilities		**362 758**	**383 879**
Commitments and contingencies	21		
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital [1]	15	11 812	10 801
Additional paid-in capital		910 509	902 085
Accumulated other comprehensive loss	15	(24 872)	(17 868)
Treasury shares held by a subsidiary	15	(1 000)	–
Accumulated deficit:			
Loss carried forward		(880 162)	(818 559)
Net loss for the year		(51 287)	(61 603)
Total shareholders' equity (deficit)		**(35 000)**	**14 856**
TOTAL LIABILITIES AND EQUITY (DEFICIT)		**327 758**	**398 735**

[1] As of December 31, 2016, 11,811,973 registered shares were issued and outstanding with a par value of CHF 1.00 per share.
As of December 31, 2015, 10,800,623 registered shares were issued and outstanding with a par value of CHF 1.00 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, 2016 and 2015 (in CHF thousands, except per share amounts)

	Footnote reference	2016	2015
Product revenue	4	7 143	–
Contract revenue	4, 10	57 661	51 199
Revenue from research & development services	4	234	455
Other revenue	4	946	1 171
Total revenue		**65 984**	**52 825**
Cost of products sold		(5 347)	–
Research & development expenses, net		(48 449)	(60 075)
Selling, general & administration expenses		(56 077)	(54 235)
Total cost and operating expenses		**(109 873)**	**(114 310)**
Operating loss		**(43 889)**	**(61 485)**
Interest income		34	160
Interest expense	11	(6 413)	(154)
Other financial income		1 631	1 866
Other financial expenses		(2 317)	(1 907)
Loss before taxes		**(50 954)**	**(61 520)**
Income taxes	13	(333)	(83)
Net loss		**(51 287)**	**(61 603)**

Loss per share	16	**2016**	2015
Basic loss per share, in CHF		(5.07)	(6.09)
Diluted loss per share, in CHF		(5.07)	(6.09)

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Consolidated statements of comprehensive income/loss for the years ended December 31, 2016 and 2015 (in CHF thousands)

	Footnote reference	2016	2015
Net loss		**(51 287)**	**(61 603)**
Currency translation adjustments		(837)	(566)
Unrecognized pension costs		(7 399)	(4 133)
Amortization of unrecognized pension costs		1 232	841
Other comprehensive (loss), net of tax	15	**(7 004)**	**(3 858)**
Comprehensive loss		**(58 291)**	**(65 461)**

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, 2016 and 2015
(in CHF thousands)

	Footnote reference	2016	2015
Cash flow from operating activities			
Net loss		(51 287)	(61 603)
Adjustments to reconcile net loss to net cash used for/provided by operating activities:			
Depreciation and amortization		2 319	2 527
Gain on disposal of assets, net		(4)	(9)
Stock-based compensation		8 025	9 289
Interest and accretion of debt issuance cost	11	775	154
Change in operating assets/liabilities:			
Accounts receivable		(1 097)	(383)
Other receivables		(1 935)	4 004
Inventories		(6 855)	(4 792)
Accounts payable		764	(1 016)
Deferred revenue		(31 116)	(14 727)
Accruals and other current liabilities		1 086	1 916
Other operating cash flow items		4 322	(3 140)
Net cash used in operating activities		**(75 003)**	**(67 780)**
Cash flow from investing activities			
Payments for short-term investments	6	–	(81 600)
Maturities of short-term investments	6	51 635	100 000
Payments for long-term investments	6	(50 000)	–
Proceeds from sale of assets		7	9
Investments in tangible assets	2	(394)	(1 009)
Investments in intangible assets	3	(37)	(303)
Net cash provided by investing activities		**1 211**	**17 097**
Cash flow from financing activities			
Issuance of convertible senior unsecured bonds, net	11	–	194 687
Net proceeds from exercise of stock options	14	411	13 376
Net cash provided by financing activities		**411**	**208 063**
Effect of exchange rate changes on cash and cash equivalents		**(653)**	**(441)**
Net change in cash and cash equivalents		**(74 034)**	**156 939**
Cash and cash equivalents, beginning of period		**313 064**	**156 125**
Cash and cash equivalents, end of period	7	**239 030**	**313 064**
Supplemental information			
Cash paid for interest		5 881	–
Cash paid for income taxes		56	35

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

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Consolidated statements of changes in shareholders' equity (deficit)
for the years ended December 31, 2016 and 2015
(in CHF thousands, except for number of shares)

	Footnote reference	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income/loss	Treasury shares held by a subsidiary	Accumulated deficit	**Total**
Balance at December 31, 2014		**10 575 288**	**10 575**	**879 925**	**(14 010)**	**–**	**(818 559)**	**57 931**
Net loss		–	–	–	–	–	(61 603)	(61 603)
Other comprehensive loss		–	–	–	(3 858)	–	–	(3 858)
Exercise of stock options, net		225 335	226	12 871	–	–	–	13 097
Stock-based compensation, net		–	–	9 289	–	–	–	9 289
Balance at December 31, 2015		**10 800 623**	**10 801**	**902 085**	**(17 868)**	**–**	**(880 162)**	**14 856**
Net loss		–	–	–	–	–	(51 287)	(51 287)
Other comprehensive loss		–	–	–	(7 004)	–	–	(7 004)
Shares issued to a subsidiary	15	1 000 000	1 000	–	–	(1 000)	–	–
Exercise of stock options, net		11 350	11	400	–	–	–	411
Stock-based compensation, net		–	–	8 024	–	–	–	8 024
Balance at December 31, 2016		**11 811 973**	**11 812**	**910 509**	**(24 872)**	**(1 000)**	**(931 449)**	**(35 000)**

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.

Supporting its commercial organization, the Company has operating subsidiaries in the United Kingdom, Germany and Italy. The Company has further subsidiaries in Denmark, France and Spain. All subsidiaries are wholly-owned and fully consolidated.

The Company's portfolio focuses on anti-infectives and oncology drugs. The antifungal isavuconazole (Cresemba®) is approved in the United States for patients 18 years of age and older for the treatment of invasive aspergillosis and invasive mucormycosis, where it is marketed by Basilea's license partner Astellas Pharma US ("Astellas"). In Europe, Basilea received the marketing authorization for isavuconazole by the European Medicines Agency for the treatment of adult patients with invasive aspergillosis and for the treatment of adult patients with mucormycosis for whom amphotericin B is inappropriate. Basilea's antibiotic ceftobiprole (Zevtera®/Mabelio®) is approved in several European and non-European countries for the treatment of adult patients with community-acquired pneumonia and hospital-acquired pneumonia, excluding ventilator-associated pneumonia. The Company jointly markets isavuconazole and ceftobiprole in Germany, Italy, the UK, France and Austria. Ceftobiprole is also marketed in Switzerland. In addition, Basilea's pipeline includes the anti-cancer compounds BAL101553 and BAL3833, which are in phase 1/2a and phase 1 clinical development, respectively.

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.

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

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

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

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

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

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

Estimated fair value

In CHF million	**2016**	2015
Convertible senior unsecured bonds (Level 1)	204.0	202.6

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 as a component of other financial income or other financial expenses in the statement of operations.

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

Short-term and long-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. Long-term investments include time deposits with banks with original maturities of more than 12 months. These investments are carried at nominal value which approximates fair value classified based on the input as level 2 of the fair value hierarchy according to ASC 820. Gains and losses resulting from such investments are included as a component of other financial income or other financial expenses in the statement of operations.

Accounts receivable and other receivables

Accounts receivable and other receivables are recorded at net realizable value after consideration of an allowance for doubtful accounts. The Company 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. Other receivables mainly include various prepayments as well as unbilled revenue, which consists of revenue earned but not yet invoiced.

Inventories

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

Costs related to the manufacturing of inventories which occurred after the receipt of regulatory approval for respective product or evidence being available that regulatory approval can reasonably be expected are capitalized. Inventories are valued at the lower of cost 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 of external direct costs of materials and services consumed in developing or obtaining internal use software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which is 3 years for software.

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

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

Impairment of long-lived assets

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

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

Convertible senior unsecured bonds

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

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 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 unit of accounting 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 revenue

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. If the Company grants rights of return to its customers, sales returns are recorded at the time of sale. If the Company cannot reasonably estimate the amount of future sales returns, revenue is recognized only when the risk of product return has expired, and when the Company can reasonably estimate the amount of future sales returns. Sales returns are generally estimated and recorded based on historical sales and returns information. Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field or potential other reasons, and the returns reserve is based on historical return trends by product and by market as a percent to gross sales.

Contract revenue
Contract revenue includes realized or realizable amounts from upfront and milestone payments in connection with licensing and distribution agreements and royalties. Contract revenue also includes consideration received or receivable 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 payments, to the separate deliverables based on the relative selling price of each deliverable 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 or over the expected period during which the Company has to satisfy its contractual performance obligations, 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 for which these criteria are not met 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 recognized over the estimated remaining agreement period, depending on the terms of the agreement.

Revenue related to royalties received from licensees is recognized when 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.

Following the guidance codified in the Collaborative Arrangements Topic of FASB ASC ("ASC 808"), the Company presents the result of activities for which it acts as the principal on a gross basis and reports any payments received from (or made to) other collaborators based on other applicable GAAP. The Company's accounting policy for its qualifying collaborative agreements (See Note 10 Agreements) is to evaluate amounts due from (or owed to) other collaborators based on the nature of each separate activity.

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.

Other revenue
Other revenue includes realizable amounts from the contract with the Biomedical Advanced Research and Development Authority ("BARDA") within the Office of the Assistant Secretary of Preparedness and Response in the US Department of Health and Human Services for the ceftobiprole US phase 3 development. The Company considers the arrangement to be part of its ongoing major operations. Revenue from this contract is recognized as allowable costs are incurred applying the proportional performance revenue recognition method.

Cost of products sold
Expenses relating to the Company's products sold consisting of the manufacturing cost, capacity reservation costs, shipping and handling costs are presented in cost of products sold starting 2016. The respective amounts for the prior period are included in selling, general & administration expenses.

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

Research and development expenses primarily include costs for third-party services in connection with clinical 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 are recorded in research and development expenses, net and in contract revenue respectively, for its mark-up earned since the Company is acting as an agent in the arrangement.

Payments the Company made or received related to its contract with BARDA, for development of Basilea's antibiotic BAL30072 were recorded in research and development expenses, net since the Company was acting as an agent in the arrangement.

Advertising costs
Advertising costs are expensed as incurred and are included in selling, general and administration expenses. Advertising costs were approximately CHF 0.2 million in 2016. In 2015, CHF 0.3 million 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 net income/loss by the weighted-average number of shares outstanding during the period, without consideration for common stock equivalents.

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

Pension plans

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

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

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 pronouncement 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) No. 2014-09, "Revenue from Contracts with Customers" (Topic 606): the development of this new standard is a part of the joint project of the 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. In March 2016, the FASB issued an amendment to the standard, ASU No. 2016-8, "Revenue from Contracts with Customers" (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued an additional amendment to the standard, ASU No. 2016-10, "Revenue from Contracts with Customers" (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the guidance on identifying performance obligations and the implementation guidance on licensing.
The FASB voted on July 9, 2015 to approve a one-year deferral of the effective date of ASU No. 2014-09, "Revenue from Contracts with Customers" to make it effective for public companies for annual periods beginning after December 15, 2017. The FASB issued its final ASU formally amending the effective date in August 2015. The Company is currently assessing the impact on the financial statements of this new accounting pronouncement.

In July 2015, the FASB issued the ASU No. 2015-11, "Inventory: Simplifying the Measurement of Inventory" (Topic 330): the amendments apply to the subsequent measurement of all inventory, which includes inventory that is measured using the first-in first-out principle or average cost. An entity should subsequently measure inventory within the scope of this update at the lower of cost and net realizable value. The net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.
The amendments in this update will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. The amendments in this update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company currently does not anticipate a significant impact on the existing accounting treatment for inventory.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes" (Topic 740) Balance Sheet Classification of Deferred Taxes: the amendments require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments apply to all entities that present a classified statement of financial position, whereby the current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments.
The amendments in this update will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. The amendments in this update may be applied either prospectively to all deferred tax

liabilities and assets or retrospectively to all periods presented with earlier application permitted as of the beginning of an interim or annual reporting period. The Company currently does not anticipate an impact on the disclosures of deferred taxes.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). The key features of the new standard are: lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases).
The standard will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the impact on the financial statements of this new accounting pronouncement.

In March 2016, the FASB issued ASU Update No. 2016-09, "Compensation – Stock Compensation" (Topic 718) Improvements to Employee Share-Based Payment Accounting: this amendment was issued as part of its simplification initiative and involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.
The amendments in this update will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2016, whereby early adoption is permitted in any interim or annual period. The Company currently does not anticipate an impact on the accounting treatment for existing stock-based compensation plans.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows" (Topic 230) – Restricted Cash: the amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.
The amendments in this update will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, whereby early adoption is permitted in any interim or annual period. The Company currently does not anticipate a significant impact on the current cash-flow statement disclosure.

In December 2016, the FASB issued ASU No. 2016-19, "Technical Corrections and Improvements." The amendments clarify and remove inconsistencies in key areas of US GAAP and impact several topical areas.
Most of the amendments in this update are effective immediately; others take effect for interim and annual reporting periods beginning after December 15, 2016. The Company currently does not anticipate an impact on the accounting and disclosure of the financial statements.

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

2 Tangible assets

In CHF million	Land/Land-use rights	Buildings	Equipment	**Total**
2016				
Cost				
January 1, 2016	1.5	19.0	25.4	45.9
Additions	0.0	0.0	0.4	0.4
Disposals	0.0	0.0	(0.8)	(0.8)
Currency effect	0.0	(0.1)	(0.2)	(0.3)
December 31, 2016	1.5	18.9	24.8	45.2
Accumulated depreciation				
January 1, 2016	0.0	12.5	22.7	35.2
Additions	0.0	1.0	1.2	2.2
Disposals	0.0	0.0	(0.8)	(0.8)
Currency effect	0.0	(0.1)	(0.2)	(0.3)
December 31, 2016	0.0	13.4	22.9	36.3
Net book value as of December 31, 2016	**1.5**	**5.5**	**1.9**	**8.9**

2015				
Cost				
January 1, 2015	1.5	18.9	25.8	46.2
Additions	0.0	0.2	0.8	1.0
Disposals	0.0	0.0	(0.9)	(0.9)
Currency effect	0.0	(0.1)	(0.3)	(0.4)
December 31, 2015	1.5	19.0	25.4	45.9
Accumulated depreciation				
January 1, 2015	0.0	11.5	22.5	34.0
Additions	0.0	1.0	1.4	2.4
Disposals	0.0	0.0	(0.9)	(0.9)
Currency effect	0.0	0.0	(0.3)	(0.3)
December 31, 2015	0.0	12.5	22.7	35.2
Net book value as of December 31, 2015	**1.5**	**6.5**	**2.7**	**10.7**

3 Intangible assets

The intangible assets as of December 31, 2016 and 2015 consist of software for internal use:

In CHF million	**2016**	2015
Cost		
January 1	4.8	4.5
Additions	0.0	0.3
Disposals	(0.0)	(0.0)
Currency effect	0.0	0.0
December 31	4.8	4.8
Accumulated amortization		
January 1	4.5	4.3
Additions	0.1	0.2
Disposals	(0.0)	(0.0)
Currency effect	0.0	0.0
December 31	4.6	4.5
Net book value as of December 31	**0.2**	**0.3**

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

Amount in CHF million	
2017	0.1
2018	0.1
2019	0.0
2020	0.0
2021	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 Company's CEO, who is the chief operating decision maker ("CODM") of the Company, reviews the statement of operations of the Company on a consolidated basis and makes decisions and manages the operations of the Company as a single operating segment.

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

In CHF million	**2016**	2015
Switzerland	7.5	9.0
China	1.4	1.7
Total	**8.9**	**10.7**

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

In CHF million	**2016**
UK	39.5
Japan	19.6
Germany	3.1
Other	3.8
Total	**66.0**

In CHF million	2015
UK	37.6
Japan	13.6
Other	1.6
Total	**52.8**

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

In 2016, the Company recognized total contract revenue in the amount of CHF 37.7 million (2015: CHF 37.6 million) with Stiefel, a GSK company ("Stiefel"), and CHF 19.2 million (2015: CHF 13.6 million) with Astellas.

5 Accounts receivable

The accounts receivable primarily consist of receivables from product revenue as well as receivables related to activities for isavuconazole for Astellas. The Company did not record an allowance for estimated uncollectible receivables as of December 31, 2016 and 2015.

6 Short-term and long-term investments

As of December 31, 2016 the Company has no short-term investments. The short-term investments as of December 31, 2015 contained short-term time deposits with banks, denominated in Swiss Francs and Euro, in the amount of CHF 51.6 million. The long-term investments as of December 31, 2016 contain long-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 50.0 million (December 31, 2015: none).

7 Cash and cash equivalents

Cash and cash equivalents consisted of the following components:

In CHF million	**2016**	2015
Cash [1]	33.4	27.4
Short-term time deposits	205.6	285.7
Total	**239.0**	**313.1**

[1] As of December 31, 2016 the position includes CHF 0.5 million (December 31, 2015: none) restricted cash.

8 Other receivables

The following table shows the components of other receivables as of December 31, 2016 and 2015:

In CHF million	**2016**	2015
VAT receivables	1.7	1.6
Royalty receivables (see Note 10 Agreements)	2.4	1.1
Receivables from BARDA (see Note 10 Agreements)	0.2	–
Other	0.6	0.3
Total	**4.9**	**3.0**

9 Inventories

The following table shows the components of inventories as of December 31, 2016 and 2015:

In CHF million	**2016**	2015
Raw materials	3.2	1.9
Semi-finished products	21.7	19.8
Finished products	1.0	0.8
Inventory provisions	(11.0)	(12.9)
Total	**14.9**	**9.6**

The Company owns manufacturing material valued at cost which was partly produced prior to obtaining regulatory approval for ceftobiprole and isavuconazole. As ceftobiprole and isavuconazole obtained regulatory approval in 2013 and 2015 respectively, the ceftobiprole and isavuconazole inventory is presented gross in the inventory table above. Inventory provisions reflect mainly that material was produced prior to approval. The Company intends to use such material to manufacture products for commercialization.

10 Agreements

License agreement with Astellas related to isavuconazole

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

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

The agreement was amended in February 2014, providing the Company full rights to isavuconazole in all markets outside of the United States and Canada in return for foregoing the Company's right to co-promote the product in the United States and Canada, its right to receive payments related to co-promotion, and EU milestone payments. The agreement was further amended in August 2015, providing the Company full rights to isavuconazole in all markets outside the United States. The Company and Astellas continue to coordinate their development and manufacturing activities and each company is responsible for commercial activities in its respective territory.

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

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

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

The agreement consists of several deliverables: the co-development services, the commercial-related manufacturing services, the grant of the license to Astellas and participation in the Committee. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting, with the commercial-related manufacturing services consisting of another. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting since they do not have value to Astellas on an individual stand-alone basis. The commercial-related manufacturing services are another unit of accounting since they have value to Astellas and there is evidence of fair value of the undelivered commercial-related manufacturing services in the arrangement. The entire upfront payment was allocated to the unit of accounting composed of the co-development services, the grant of the license and the participation in the Committee. The related revenue is recognized over the period over which the services are rendered based on an input measure which results in higher revenue recognized in the first years when more services were rendered. The period during which the Company has to satisfy its contractual performance obligations is expected to be until October 2020. Following the amendment of the agreement in 2014, the Company reassessed the remaining expected period during which the Company has to satisfy its contractual performance obligations and reduced it from lasting until July 2029 to lasting until October 2020.

In 2010, the Company received from Astellas 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). This net upfront payment was recognized as deferred revenue. The upfront payment covered the grant of an exclusive license, compensation for co-development services and participation in the Committee. As of December 31, 2016, the Company presented deferred revenue of CHF 17.4 million on its balance sheet, of which CHF 4.5 million is presented as current liabilities. In 2016 and 2015, the Company recognized CHF 4.5 million as contract revenue related to this upfront payment related to the grant of license.

In September 2014, the US 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 this acceptance, the Company received a non-refundable milestone payment of CHF 12.0 million from Astellas. The Company deemed the milestone not to be substantive and as such the milestone payment was deferred and is recognized as contract revenue over the remaining period during which the Company has to satisfy its contractual performance obligations, expected to be until October 2020. As of December 31, 2016, the Company presented deferred revenue of CHF 7.5 million on its balance sheet, of which CHF 2.0 million is presented as current liabilities. In 2016 and 2015, the Company recognized CHF 2.0 million as contract revenue related to this additional milestone payment received upon acceptance of filing.

In March 2015, the FDA approved Astellas' New Drug Application for the use of isavuconazole for patients 18 years of age and older in the treatment of invasive aspergillosis and invasive mucormycosis. Based on the approval, the Company received a non-refundable milestone payment of CHF 30.0 million from Astellas. The Company deemed the milestone not to be substantive and as such the milestone payment was deferred and is recognized as contract revenue over the remaining period during which the Company has to satisfy its contractual performance obligations, expected to be until October 2020. As of December 31, 2016, the Company presented deferred revenue of CHF 20.3 million on its balance sheet, of which CHF 5.3 million is presented as current liabilities. In 2016, the Company recognized CHF 5.3 million (2015: CHF 4.3 million) as contract revenue related to this additional milestone payment received upon approval.

In 2016, the Company recognized CHF 19.1 million (2015: CHF 13.0 million) as contract revenue related to these payments and revenues related to royalties, and recognized additional contract revenue in the total amount of CHF 0.1 million (2015: CHF 0.6 million) related to services provided by the Company to Astellas related to isavuconazole.

In 2016, the Company reported CHF 0.5 million (2015: CHF 5.2 million) research and development expenses for isavuconazole net of cost reimbursements from Astellas of CHF 0.6 million (2015: CHF 3.2 million) in research and development expenses, net since the Company does not have the risks and rewards as principal based on the terms of the arrangement and the nature of the activities carried out, and therefore acts as an agent for these transactions.

Contract with BARDA for ceftobiprole US phase 3 development program

On April 20, 2016 the Company entered into a contract with BARDA for the clinical phase 3 development of ceftobiprole aiming to gain regulatory approval for the drug in the United States. Under the terms of the contract, BARDA will provide funding in the form of reimbursement of agreed development costs of approximately USD 20 million over an initial period of 18 months. During this initial period, the Company will seek agreement on the development program from the US Food and Drug Administration (FDA) and obtaining first health authority approvals for the initiation of clinical phase 3 studies. The Company considers the arrangement to be part of its ongoing major operations. Hence, other revenue is recorded using the proportional performance revenue recognition method and the associated costs are reflected as a component of research and developments expenses.

In 2016, the Company recognized CHF 0.7 million (2015: none) as other revenue related to these services.

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 provided funding of up to USD 17 million over the initial agreement period of twenty-two months starting from June 24, 2013 through April 23, 2015, and extended to September 30, 2015, in the form of reimbursement of agreed development costs. The Company and BARDA have no future funding obligations following the expiration of the agreement which occurred at the end of the extended period. Considering the agent versus principal criteria of ASC 605, the fact that the arrangement is not part of the Company's ongoing, major or central operations and the fact that BARDA was actively involved in the development, the Company determined that it was acting as an agent in the arrangement and as such recorded reimbursements received against the related development costs incurred.

In 2016, the Company recognized no reimbursements (2015: CHF 4.0 million) in research and development expenses, net.

Global agreement with Stiefel related to Toctino®

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

In January 2016, the Company was informed by Stiefel that it had elected to discontinue its US alitretinoin program. Therefore, the Company is no longer eligible to receive further payments upon FDA approval of the product in the United States and corresponding low double-digit percentage participation in US net sales under the agreement with Stiefel. Stiefel continues with its alitretinoin program outside the United States. The Company has initiated discussions with Stiefel for transfer of the US alitretinoin rights back to Basilea.

The agreement consists of two deliverables: grant of the license to the know-how and the transfer of the Toctino assets and business. In July 2012, the Company received an initial payment of CHF 224.1 million (GBP 145.6 million). The Company determined that the value of the business was insignificant and, as a result, allocated no value to the business. The entire consideration was allocated to the license of the know-how, and was deferred and is recognized on a straight-line basis as contract revenue over the expected period during which the Company has to satisfy its performance obligations until August 2018. The Company's substantial ongoing obligations towards Stiefel are to provide operational, technical and scientific support including the furnishing of information and discussion of topics related to preparation of market authorization applications, other regulatory activities, post-launch monitoring and safety requirements, commercialization, commercial supply chain, and manufacturing process and requirements related to the API and drug product. As of December 31, 2016, the Company presented deferred revenue of CHF 61.6 million on its balance sheet, of which CHF 37.7 million is presented as current liabilities.

In 2016, the Company recognized CHF 37.7 million (2015: CHF 37.6 million) as contract revenue related to this upfront payment.

License agreement with Asahi Kasei Pharma related to isavuconazole

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

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

In addition to the license, the agreement states that the Company has an obligation to manufacture and supply the product for clinical trials and to provide materials, documentation and support (together the "Ongoing Documentation and Information Transfer Obligation"). Because the separation criterion is not met, the license and the Ongoing

Documentation and Information Transfer Obligation are accounted for as one unit of accounting and the entire upfront payment was allocated to the unit of accounting. The related revenue is recognized over the period over which the Ongoing Documentation and Information Transfer Obligation is provided up to submission of the New Drug Application ("NDA").

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

In 2016, the Company received a non-refundable upfront payment of CHF 7.0 million from Asahi Kasei Pharma. The Company deemed the milestone not to be substantive and as such the milestone payment was deferred and is recognized as contract revenue over the remaining service period, expected to be until the fourth quarter of 2021 in line with the period over which the Ongoing Documentation and Information Transfer Obligation is provided up to submission of the NDA. As of December 31, 2016 the Company presented deferred revenue of CHF 6.6 million on its balance sheet, of which CHF 1.3 million is presented as current liabilities.

In 2016, the Company recognized CHF 0.4 million as contract revenue related to this upfront payment.

Distribution Agreements

In 2016, the Company entered into exclusive distribution agreements for Basilea's antifungal isavuconazole and antibiotic ceftobiprole with Grupo Biotoscana S.L. ("GBT") for Latin and South America and Unimedic Pharma AB ("Unimedic") for the Nordic countries. In addition, the Company expanded its existing distribution agreement for ceftobiprole with Hikma Pharmaceuticals LLC ("Hikma") for the Middle East and North Africa for isavuconazole.

Under these distribution agreements, the Company was eligible for non-refundable upfront payments of CHF 12.1 million and is eligible for sales milestone payments of up to CHF 32.9 million related to the commercialization of isavuconazole and ceftobiprole in these territories. In addition, the Company will sell the products to these distributors for the commercialization in the territories, and will recognize the related revenue in product revenue. In 2016, no product revenue was recognized from these distribution agreements.

In 2016, the Company received non-refundable upfront payments of total CHF 12.1 million (2015: CHF 1.0 million) in connection with these distribution agreements. Thereof, CHF 12.0 million was recorded as deferred revenue in 2016 (2015: CHF 1.0 million). The deferred revenue is recognized as contract revenue on a straight line basis over the remaining performance period, approximate to be until 2032. As of December 31, 2016 the Company presented deferred revenue of CHF 12.7 million on its balance sheet, of which CHF 0.8 million is presented as current liabilities.

In 2016, the Company recognized CHF 0.3 million as contract revenue related to these upfront payments.

License agreement for targeted cancer therapy

In March 2015, the Company entered into a license agreement for panRAF kinase inhibitors with a consortium of organizations including The Institute of Cancer Research, Cancer Research Technology, the Wellcome Trust and The University of Manchester. The agreement provides the Company exclusive worldwide rights to develop, manufacture and commercialize certain panRAF kinase inhibitors which originate from research conducted at The Institute of Cancer Research by scientists funded in part by Cancer Research UK Manchester Institute and the Wellcome Trust.

Under the terms of the agreement, the consortium will conduct clinical Phase 1 development for the lead compound. The Company will assume full operational responsibility thereafter. The consortium received from the Company an upfront payment and milestone payments and is eligible to receive further milestone payments upon achievement of pre-specified clinical, regulatory and commercial milestones, as well as tiered royalties on future net sales.

In 2016, the Company reported CHF 2.5 million (2015: CHF 0.7 million) in research and development expenses, net related to this agreement.

11 Convertible senior unsecured bonds

On December 23, 2015, the Company issued CHF 200 million aggregate principal amount of convertible senior unsecured bonds which were sold to existing shareholders and certain institutional investors ("Holders"). The Company received total net proceeds from the sale of the convertible senior unsecured bonds of approximately CHF 194.7 million, after deducting issuance costs of CHF 5.3 million. The convertible senior unsecured bonds are accounted for at amortized costs. The following table shows the carrying amount of the convertible senior unsecured bonds as of December 31, 2016 and 2015:

In CHF million	**2016**	2015
Convertible senior unsecured bonds	195.5	194.7

The convertible senior unsecured bonds were issued bearing interest at a fixed rate of 2.75% per year (payable semi-annually in arrears on December 23 and June 23 of each year) and will mature on December 23, 2022 (Maturity Date), unless earlier redeemed or converted. Holders may convert their convertible senior unsecured bonds at their option into shares up to and including the earlier of 7 trading days before the Maturity Date, or 10 trading days prior to an early redemption. In the event of conversion of the convertible senior unsecured bonds, the Company will deliver shares of the Company's common stock. The conversion ratio is initially approximately 39.6504 shares per Bond representing CHF 5,000, the principal amount of one bond (equivalent to an initial conversion price of CHF 126.1020 per share of the Company's common stock). For all convertible senior unsecured bonds together the current number of underlying shares is 1,586,017 shares. The conversion ratio and the corresponding conversion price will be subject to adjustment upon the occurrence of certain events, but will not be adjusted for any accrued and unpaid interest. If the Company undergoes a fundamental change, Holders may require the Company to purchase for cash all or part of their convertible senior unsecured bonds at a purchase price equal to 100% of the principal amount of the convertible senior unsecured bonds to be purchased, plus accrued and unpaid interest. In addition, if certain make-whole fundamental changes occur, the Company will, in certain circumstances, adjust the conversion price for any convertible senior unsecured bonds converted in connection with such make-whole fundamental change. The convertible senior unsecured bonds will be redeemable at the Company's option on or after January 7, 2021, if the volume weighted average price of a share on each of at least twenty out of thirty

consecutive trading days ending not earlier than five trading days prior to the giving of the notice of redemption is at least 130% of the prevailing Conversion Price; or at any time if less than 15% of the aggregate principal amount is outstanding.

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

For the year ended December 31, 2016, the Company recognized interest expense of CHF 5.5 million (2015: CHF 0.1 million) for contractual coupon interest and CHF 0.8 million (2015: CHF 0.0 million) for accretion of the issuance costs. The remaining unamortized debt issuances costs of CHF 4.5 million will be accreted over the remaining term of the convertible senior unsecured bonds, which is approximately 6 years.

The amortisation table related to the convertible senior unsecured bonds as of December 31, 2016 is as follows:

Amount in CHF million	
2017	6.3
2018	6.3
2019	6.3
2020	6.3
2021	6.3
2022	205.9
Total minimum payments, including unamortized issuance costs	**237.4**
Less amount representing interest	(37.4)
Convertible senior unsecured bonds, gross	**200.0**
Unamortized issuance costs on convertible senior unsecured bonds	(4.5)
Convertible senior unsecured bonds, including unamortized issuance costs	**195.5**

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

12 Accruals and other current liabilities

Accruals and other current liabilities as of December 31, 2016 and 2015 consisted of the following:

In CHF million	**2016**	2015
Accrued research & development expenses	3.6	4.1
Accrued personnel and compensation costs	8.4	8.0
Accrued sales and marketing expenses	2.9	3.1
Other	4.5	3.0
Total accruals and other current liabilities	**19.4**	**18.2**

The other liabilities include income tax payables solely related to foreign taxable income.

13 Income taxes

The Company has tax loss carry forwards of CHF 405.6 million as of December 31, 2016 (December 31, 2015: CHF 491.7 million) of which CHF 199.8 million will expire within the next five years, CHF 205.6 million will expire between six and eight years. CHF 0.2 million of the tax losses carry forwards do not expire. In 2016, tax loss carry forwards of CHF 134.1 million expired.

The significant components of net deferred taxes as of December 31, 2016 and 2015 are shown in the following table:

In CHF million	**2016**	2015
Deferred tax assets:		
Net benefit from tax loss carryforwards[1]	79.4	97.4
Deferred revenue	25.2	31.4
Stock-based compensation cost	14.2	12.6
Other, net	0.7	0.5
Valuation allowance	(119.5)	(141.9)
Net deferred taxes	**0.0**	**0.0**

[1] As of December 31, 2016 the position includes CHF 2.0 million (2015: CHF 1.9 million) related to windfall tax benefits from stock-based compensation that would be credited to shareholders' equity, if realizable.

The Company recorded a valuation allowance in 2016 and 2015 to reduce the net deferred taxes, as the company deemed it to be not more likely than not that the future deferred tax assets would be realized in the future based on the lack of sufficient positive evidence in the jurisdictions related to the realization of the deferred tax assets.

The effective tax rate for 2016 was 0.7% (2015: 0.1%). The following table shows the income taxes in 2016 and 2015:

In CHF million	**2016**	2015
Current tax expenses	(0.3)	(0.1)
Total income tax expenses	**(0.3)**	**(0.1)**

The current tax expenses in 2016 and 2015 are solely related to foreign taxable income.

The expected tax rate for 2016 was 17.7% (2015: 19.9%). The following table shows the reconciliation between expected and effective tax rate:

In percent	**2016**	2015
Expected tax rate	17.7	19.9
Effect of not-taxable differences[1]	0.1	2.1
Valuation allowance on deferred tax assets	(17.1)	(21.9)
Effective tax rate	**0.7**	**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 2015.

As of December 31, 2016 and 2015, there were no unrecognized tax benefits. The Company did not incur any significant interest or penalties in connection with income taxes in the years 2016 and 2015.

14 Stock-based compensation

Stock options

The Company established a stock option plan effective on December 13, 2000 to incentivize executives and certain employees with an opportunity to obtain stock options on registered shares of Basilea. The shareholders approved conditional capital necessary for the issuance of shares upon the exercise of stock options, of which CHF 1.9 million remain available as of December 31, 2016. CHF 1.4 million of this remaining available conditional capital are reserved for stock options which are issued and outstanding as of December 31, 2016.

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, 2016, which represent the requisite service periods, range from one to four years with contractual terms of the stock options being ten years. The stock option plan foresees accelerated vesting if there is a change of control as defined by the stock option plan.

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, 2014	**70.02**	**1 293 045**
Options granted	113.10	195 566
Options forfeited	93.10	(8 100)
Options exercised	60.03	(225 335)
Options expired	134.20	(6 225)
Balance at December 31, 2015	**78.09**	**1 248 951**
Options granted	83.00	194 564
Options forfeited	93.59	(19 417)
Options exercised	36.50	(11 350)
Options expired	198.00	(4 833)
Balance at December 31, 2016	**78.48**	**1 407 915**

The following table provides information on the stock options outstanding and the stock options exercisable as of December 31, 2016:

	Options exercisable plus options expected to vest[1]	Options exercisable
Number of options	1 347 266	946 573
Weighted average exercise price, in CHF	78.20	70.01
Weighted average remaining contractual life, in years	5.9	4.8

[1] Number of options considers expected forfeitures.

Based on (a) the stock options exercisable as of December 31, 2016, including stock options expected to vest in the future and (b) the stock options exercisable as of December 31, 2016, the aggregate intrinsic values of such number of options were CHF 11.8 million and CHF 11.8 million, respectively. The exercise prices of the options granted in 2016 and 2015 equalled the market price of the shares at the respective grant date.

The weighted average grant-date fair value of options granted in 2016 was CHF 34.89 (2015: CHF 46.23). The total aggregate intrinsic value of stock options exercised during 2016 was CHF 0.4 million (2015: CHF 13.2 million).

The fair value of the stock options granted in 2016 and 2015 was determined at the grant date using a binomial model. The weighted average assumptions used for these determinations are outlined in the table below:

	2016	2015
Risk-free interest rate	(0.12)%	0.17%
Expected term of stock options	7 to 8 years	7 years
Expected volatility	40%	45%
Expected dividend	–	–

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

The unrecognized compensation cost as of December 31, 2016 related to stock options amounts to CHF 6.9 million and is expected to be recognized over a weighted average period of 2.4 years.

The Company recorded total stock-based compensation expenses of CHF 8.0 million in 2016 related to its stock-based compensation award programs (2015: CHF 9.3 million), of which CHF 3.8 million was recorded in research & development expenses (2015: CHF 4.7 million) and CHF 4.2 million as part of selling, general & administration expenses (2015: CHF 4.6 million) in the statement of operations.

15 Shareholders' equity

As of December 31, 2016, Basilea had 11,811,973 registered shares (*Namenaktien*) issued and outstanding with a par value of CHF 1.00 per share. As of December 31, 2015, Basilea had 10,800,623 registered shares with a par value of CHF 1.00 per share issued and outstanding respectively.

In 2016, a total of 11,350 stock options were exercised, using conditional capital, which resulted in the issuance of 11,350 registered shares with a par value of CHF 1.00 per share. In 2015, a total of 225,335 stock options were exercised resulting in the issuance of 225,335 registered shares with a par value of CHF 1.00 per share.

Basilea had a total approved conditional capital of CHF 2,588,168 as of December 31, 2016 for the issuance of a maximum of 2,588,168 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,948,168 (1,948,168 registered shares with a par value of CHF 1.00 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1.00 each, available for the 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 was 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 was valid for two years and expired in April 2016. In January 2016, Basilea increased the share capital by CHF 1,000,000 out of this authorized capital by issuing 1,000,000 registered shares with a par value of CHF 1 per share to a subsidiary of Basilea. These issued shares are held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and are presented as treasury shares in these consolidated financial statements.

By shareholder approval at the 2016 ordinary general meeting of shareholders, Basilea is authorized to increase its share capital by a maximum of CHF 1,000,000 by issuing a maximum of 1,000,000 registered shares with a par value of CHF 1.00 per share. This authorization is valid for two years.

Change in accumulated other comprehensive income/loss as of December 31, 2016 and 2015:

In CHF million	Currency translation adjustment	Unrecognized pension cost	**Total**
December 31, 2014	**(0.2)**	**(13.8)**	**(14.0)**
Change during the period	(0.6)	(3.3)	(3.9)
Total change during the period	**(0.6)**	**(3.3)**	**(3.9)**
December 31, 2015	**(0.8)**	**(17.1)**	**(17.9)**
Change during the period	(0.8)	(6.2)	(7.0)
Total change during the period	**(0.8)**	**(6.2)**	**(7.0)**
December 31, 2016	**(1.6)**	**(23.3)**	**(24.9)**

16 Earnings/Loss per share

The calculation of the basic and diluted loss per share in 2016 and 2015 is shown in the table below:

	2016		2015	
	Basic	Diluted	Basic	Diluted
Numerator				
Net loss, in CHF million	(51.3)	(51.3)	(61.6)	(61.6)
Net loss for loss per share calculation, in CHF million	(51.3)	(51.3)	(61.6)	(61.6)
Denominator				
Weighted average shares outstanding, including actual conversion of stock options	10 121 121	10 121 121	10 112 187	10 112 187
Incremental shares according to treasury stock method for assumed conversion of stock options	–	–	–	–
Shares issuable upon conversion of convertible senior unsecured bonds	–	–	–	–
Weighted average shares outstanding, including actual and assumed conversion of stock options	10 121 121	10 121 121	10 112 187	10 112 187
Loss per share in CHF	**(5.07)**	**(5.07)**	**(6.09)**	**(6.09)**

As of December 31, 2016, there were 854,500 stock options outstanding with a weighted-average exercise price of CHF 95.79 and 1,586,017 shares issuable upon conversion of convertible senior unsecured bonds, which were not included in the calculation of loss per share for 2016, as the effect of such stock options and shares would have been anti-dilutive.

As of December 31, 2015, there were 201,998 stock options outstanding with a weighted-average exercise price of CHF 117.47 and 1,586,017 shares issuable upon conversion of convertible senior unsecured bonds, which were not included in the calculation of loss per share for 2015, as the effect of such stock options would have been anti-dilutive.

17 Pension plan

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

Both, the Company and the participants provide monthly contributions to the pension plan which are based on the covered salary. The respective saving parts of premium are credited to employees' accounts. In addition, interest is credited to employees' accounts at the rate provided in the plan. The pension plan provides 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 2016 and 2015:

In CHF million	**2016**	2015
Service cost	4.0	3.4
Interest cost	0.8	1.0
Expected return on plan assets	(1.3)	(1.5)
Amortization of pension related net loss	1.3	0.8
Amortization of prior service cost	(0.1)	0.0
Gross benefit expense	4.7	3.7
Participant contributions	(1.1)	(1.1)
Net periodic pension cost	3.6	2.6

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

In CHF million	**2016**	2015
Projected benefit obligation, beginning of period	**66.3**	**58.7**
Service cost	4.0	3.4
Interest cost	0.8	1.0
Transfers-in and (-out), net	(4.3)	(1.5)
Plan amendment	(1.9)	(0.5)
Actuarial (gain)/loss	10.1	5.2
Projected benefit obligation, end of period	**75.0**	**66.3**
Plan assets, beginning of period	**53.7**	**49.5**
Actual return on plan assets	2.2	2.1
Employer contributions	2.6	2.5
Participant contributions	1.1	1.1
Transfers-in and (-out), net	(4.3)	(1.5)
Plan assets, end of period	**55.3**	**53.7**
Accrued pension liability	**(19.7)**	**(12.6)**

As of December 31, 2016, the Company recorded an accrued pension liability of CHF 19.7 million in other non-current liabilities (December 31, 2015: CHF 12.6 million).

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

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

As of December 31, 2016, the accumulated other comprehensive income/loss includes unrecognized pension cost of CHF 23.3 million, consisting of a net loss of CHF 25.2 million, determined using actuarial assumptions, and a prior service cost of CHF (1.9) million, that have not yet been recognized as a component of net periodic pension cost. As of December 31, 2015, the accumulated other comprehensive income/loss included unrecognized pension cost of CHF 17.1 million, consisting of a net loss of CHF 17.2 million and a prior service cost of CHF (0.1) million, that have not yet been recognized as a component of net

periodic pension cost. The Company expects that a net amount of CHF 1.9 million will be reclassified from accumulated other comprehensive income/loss and recognized as a component of net periodic pension cost in 2017 as a result of the amortization of the pension-related net loss and the amortization of the prior service cost.

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

In CHF million	**2016**	2015
Net loss, beginning of period	(17.2)	(13.4)
Other gain/loss during the period	(9.3)	(4.6)
Amortization of pension related net loss	1.3	0.8
Net loss, end of period	(25.2)	(17.2)
Prior service cost, beginning of period	0.1	(0.4)
Amortization of prior service cost	(0.1)	0.0
Plan amendment	1.9	0.5
Prior service cost end of period	1.9	0.1
Total unrecognized pension cost, end of period	(23.3)	(17.1)

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

	2016	2015
Discount rate	0.5%	1.25%
Rate of increase in compensation level	1.0%	1.0%
Expected long-term rate of return on plan assets	1.75%	2.5%

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, 2016 and 2015 amounts to CHF 70.8 million and CHF 63.2 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 2017 is CHF 2.6 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	
2017	4.0
2018	3.8
2019	3.7
2020	3.9
2021	4.3
2022–2026	18.0

In addition to the defined benefit plan described above, the Company recognized CHF 0.1 million of expenses related to defined contribution plans of Basilea's subsidiaries in 2016 (2015: none).

18 Lease commitments

The Company entered into operating lease contracts for office space. The aggregate minimum operating lease payments are expensed on a straight-line basis over the term of the related lease. The total expenses under operating leases were CHF 0.5 million and CHF 0.4 million for the years ending December 31, 2016 and 2015, respectively.

The future minimum payments as of December 31, 2016 for operating leases with initial or remaining non-cancellable terms in excess of one year are as follows:

Amount in CHF million	
2017	0.4
2018	0.4
2019	0.3
2020	0.2
2021	0.0
Total	**1.3**

19 Concentration of risk

The Company is generally subject to credit risk related to financial investments. The Company mitigates such credit risk by investing the funds only with counterparties, which are rated as high quality investment grade by a major rating agency or are fully guaranteed by Swiss cantons at the time of the Company's investment. As of December 31, 2016, all investments were invested long-term with one bank and amounted to CHF 50.0 million. As of December 31, 2015, all investments were invested short-term with two different banks and amounted to CHF 51.6 million.

The cash and cash equivalents as of December 31, 2016 amounted to CHF 239.0 million, of which CHF 230.5 million were held with three different banks. The cash and cash equivalents as of December 31, 2015 amounted to CHF 313.1 million, of which CHF 307.8 million were held with four different banks. As of December 31, 2016, the highest total amount of cash and cash equivalents and long-term investments held at one bank amounted to CHF 142.8 million. As of December 31, 2015, the highest total amount of cash and cash equivalents and short-term investments held at one bank amounted to CHF 145.9 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, 2016 is from Alliance Healthcare (Distribution) Limited in the amount of CHF 0.6 million in connection with product revenue in the United Kingdom. As of December 31, 2015, the highest total amount of accounts receivables with an individual counterparty was from Astellas in the amount of CHF 1.3 million in connection with the licence agreement related to isavuconazole.

20 Related party transactions

The accounts receivable, accounts payable and accruals and other current liabilities do not include positions due to or from related parties as of December 31, 2016 and 2015.

In 2016 and 2015, the Company paid no fees to its board members for consulting services.

21 Commitments and contingencies

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

By agreement in 2015, Losan Pharma GmbH, Neuenburg/Germany ("Losan") granted Basilea a royalty-bearing license to a formulation patent and related know-how; in return for a payment of CHF 3.1 million made in 2015, Losan withdrew the claim it filed in 2012 in Basel-Stadt court (*Appellationsgericht Basel-Stadt*) against Basilea and Basilea Pharmaceutica International Ltd.; and Basilea has withdrawn its pending European Patent Office challenge to Losan's patent.

As of December 31, 2016, there are no significant contingencies.

22 Subsequent events

The Company has evaluated subsequent events through February 16, 2017, the date on which the financial statements were available to be issued.

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

Report of the statutary auditor to the General Meeting of Basilea Pharmaceutica AG, Basel, on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Basilea Pharmaceutica AG, which comprise the balance sheet, statement of operations and notes (pages 100 to 106) for the year ended December 31, 2016.

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 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, 2016 comply with Swiss law and the company's articles of incorporation.

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

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investments in subsidiaries and accounts receivables affiliates At December 31, 2016 Basilea Pharmaceutica AG reports net investments in subsidiaries of CHF 208 million and accounts receivables affiliates of CHF 337 million. The balance includes subordinated accounts receivables of a subsidiary of CHF 150 million. We consider the value of these balances to be a key audit matter given their magnitude and the fact that the consolidated financial statements of Basilea Pharmaceutica AG (the Group) report a net loss for the year ended December 31, 2016. *Refer to note 2 Investments (page 103) of the financial statements.*	We assessed whether the carrying value of the investments in subsidiaries and the accounts receivables affiliates is supported as per December 31, 2016. The market capitalization of the Group as per December 31, 2016 is higher than the carrying value of the investments in subsidiaries and accounts receivable affiliates. We consider the market capitalization of the Group to be a relevant measure of the fair value of the investments in subsidiaries and accounts receivables affiliates. We obtained the Group's multi-year plan and discussed its contents and the strategic initiatives with management focusing on the key judgments on the future value of the development projects and the currently marketed products. We also discussed the strategic initiatives with the Audit Committee of the Group. We determined the fundamental principles and assumptions used by management for the purpose of supporting the carrying value of the investments in subsidiaries and accounts receivables affiliates to be reasonable.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Bruno Rossi
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 16, 2017

FINANCIAL STATEMENTS OF BASILEA PHARMACEUTICA LTD.

BASILEA PHARMACEUTICA LTD.
Balance sheets as of December 31, 2016 and 2015 (in CHF thousands)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	69 531	81 556
Short-term investments	–	20 000
Accounts receivable:		
Affiliates	336 801	309 647
Other receivables	28	166
Total current assets	**406 360**	**411 369**
Non-current assets		
Investment in subsidiaries, net	208 239	208 239
Total non-current assets	**208 239**	**208 239**
TOTAL ASSETS	**614 599**	**619 608**
LIABILITIES		
Current liabilities		
Payables, affiliates [1]	327	719
Other current liabilities	152	137
Accruals	–	515
Total current liabilities	**479**	**1 371**
Non-current liabilities		
Convertible senior unsecured bonds [1]	195 466	194 706
Total non-current liabilities	**195 466**	**194 706**
Total liabilities	**195 945**	**196 077**
SHAREHOLDERS' EQUITY		
Share capital [2]	11 812	10 801
General reserve:		
Reserve from capital contributions	414 974	414 138
Treasury shares held by a subsidiary	(1 000)	–
Accumulated deficit	(1 408)	(1 138)
Net loss	(5 724)	(270)
Total shareholders' equity	**418 654**	**423 531**
TOTAL LIABILITIES AND EQUITY	**614 599**	**619 608**

[1] Interest bearing.
[2] As of December 31, 2016, 11,811,973 registered shares were issued and outstanding with a par value of CHF 1.00 per share.
As of December 31, 2015, 10,800,623 registered shares were issued and outstanding with a par value of CHF 1.00 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, 2016 and 2015 (in CHF thousands)

	2016	2015
Administrative expenses	(735)	(715)
Total operating expenses	**(735)**	**(715)**
Operating loss	**(735)**	**(715)**
Financial income	1 349	664
Financial expenses	(6 338)	(219)
Loss before taxes	**(5 724)**	**(270)**
Income taxes	–	–
Net loss	**(5 724)**	**(270)**

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

BASILEA PHARMACEUTICA LTD.
Notes to the financial statements as of December 31, 2016

1 Summary of significant accounting policies

General information

The financial statements have been prepared in accordance with the Swiss Code of Obligations, including the amended provisions governing the commercial accounting (Art. 957 – 962 Swiss Code of Obligations) which came into effect on January 1, 2013.

Basilea Pharmaceutica Ltd. ("the Company") was founded on October 17, 2000 and has its registered seat in Basel, Switzerland. In 2016 and 2015, the Company had no employees.

Cash and cash equivalents

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

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 acquisition cost. Gains and losses resulting from such investments are included as a component of financial income/expense in the statement of operations.

Accounts receivable

Accounts receivable and other receivables are recorded at net realizable value after consideration of an allowance for doubtful accounts. The Company generally maintains allowances for estimated uncollectible receivables based on historical experience and specifically identified at-risk accounts. The adequacy of the allowance is evaluated on an ongoing and periodic basis and adjustments are made in the period in which a change in condition occurs. The Company did not record a valuation allowance as of December 31, 2016 and 2015.

Investment in subsidiaries

Investments in subsidiaries include those companies in which the Company has an interest of more than 20%. The investments are valued at acquisition cost less valuation allowances.

Convertible senior unsecured bonds

In December 2015, the Company issued a convertible senior unsecured bond in the amount of CHF 200 million due on December 23, 2022. The bond carries a coupon of 2.75% per annum and the conversion price is CHF 126.1020. The convertible senior unsecured bonds were issued at 100% of the principal amount and will also mature at 100% of that amount on December 23, 2022, unless previously redeemed, converted or repurchased and cancelled.

Financial Income

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

Financial expenses

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

2 Investments

As of December 31, 2016, the Company holds the following investments[1]:

Company	Location	Ownership interest / Voting rights	Share capital	Purpose
Basilea Pharmaceutica International Ltd.	Switzerland, Basel	100%	CHF 10 000 000	Research, development, manufacturing, marketing, distribution
Basilea Medical Ltd.	UK, Rickmansworth	100%	GBP 200 000	Marketing authorization holder (EU), regulatory services
Basilea Pharmaceuticals Ltd.	UK, Rickmansworth	100%	GBP 700 000	Distribution
Basilea Pharmaceutica Deutschland GmbH	Germany, Munich	100%	EUR 25 000	Distribution
Basilea Pharma SAS[2]	France, Boulogne-Billancourt	100%	EUR 500 000	Distribution
Basilea Pharmaceuticals A/S[2]	Denmark, Copenhagen	100%	DKK 3 050 000	Distribution
Basilea Pharmaceutica Italia S.r.l.	Italy, Milan	100%	EUR 10 000	Distribution
Basilea Pharmaceutica España S.L.	Spain, Madrid	100%	EUR 3 000	Distribution
BPh Investitionen Ltd.	Switzerland, Baar	100%	CHF 131 950	Holding company

[1] In 2016 the Company subordinated accounts receivable from an affiliate in the amount of CHF 150.0 million (2015: CHF 100.0 million).
[2] Organizations are dormant entities.

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

3 Share capital

As of December 31, 2016, the Company had 11,811,973 registered shares issued and outstanding with a par value of CHF 1.00 per share. As of December 31, 2015, the Company had 10,800,623 registered shares with a par value of CHF 1.00 per share issued and outstanding respectively.

In 2016, 11,350 stock options were exercised, using conditional capital, which resulted in the issuance of 11,350 registered shares with a par value of CHF 1.00 per share. In 2015, 225,335 stock options were exercised resulting in the issuance of 225,335 registered shares with a par value of CHF 1.00 per share.

The Company had a total approved conditional capital of CHF 2,588,168 as of December 31, 2016 for the issuance of a maximum of 2,588,168 registered shares with a par value of CHF 1 per share. This conditional capital contained CHF 1,948,168 (1,948,168 registered shares with a par value of CHF 1.00 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1.00 each, available for the 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 was 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 was valid for two years and expired in April 2016. In January 2016 Basilea increased the share capital by CHF 1,000,000 out of this authorized capital by issuing 1,000,000 registered shares with a par value of CHF 1 per share to a subsidiary of Basilea. These issued shares

are held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and are presented as treasury shares in these financial statements.

By shareholder approval at the 2016 ordinary general meeting of shareholders, Basilea is authorized to increase its share capital by a maximum of CHF 1,000,000 by issuing a maximum of 1,000,000 registered shares with a par value of CHF 1 per share. This authorization is valid for two years.

4 Shareholdings and stock options

As of December 31, 2016, the shareholdings in the Company of members of the Board of Directors and the Management Committee are outlined below:

	Number of shares
Mr. Domenico Scala, Chairman	–
Dr. Thomas M. Rinderknecht, Vice-Chairman	–
Dr. Günter Ditzinger, Chief Technology Officer since February 1, 2016	580
Dr. Ingrid Heinze-Krauss, Chief Technology Officer until January 31, 2016*	–
Prof. Achim Kaufhold, Chief Medical Officer	–
Dr. Laurenz Kellenberger, Chief Scientific Officer	500
Prof. Daniel Lew, Director	4 110
Ms. Heidi McDaid, Head of Global Human Resources	–
Dr. Martin Nicklasson, 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	–

* Number of shares as of January 31, 2016.

As of December 31, 2015, the shareholdings in the Company 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	–

The following table shows the holdings of stock options in the Company of members of the Board of Directors and of the Management Committee as of December 31, 2016:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Mr. Domenico Scala, Chairman	3 600	550	4 150
Dr. Thomas M. Rinderknecht, Vice-Chairman	3 600	550	4 150
Dr. Günter Ditzinger, Chief Technology Officer since February 1, 2016	18 061	14 185	32 246
Dr. Ingrid Heinze-Krauss, Chief Technology Officer until January 31, 2016*	29 295	16 457	45 752
Prof. Achim Kaufhold, Chief Medical Officer	29 083	29 866	58 949
Dr. Laurenz Kellenberger, Chief Scientific Officer	46 586	26 734	73 320
Prof. Daniel Lew, Director	9 509	550	10 059
Ms. Heidi McDaid, Head of Global Human Resources	21 935	23 340	45 275
Dr. Martin Nicklasson, Director	1 801	600	2 401
Mr. Ronald Scott, Chief Executive Officer	58 566	51 215	109 781
Mr. Steven D. Skolsky, Director	11 570	550	12 120
Mr. Donato Spota, Chief Financial Officer	42 496	28 184	70 680
Mr. David Veitch, Chief Commercial Officer	8 232	24 394	32 626
Dr. Thomas Werner, Director	3 600	550	4 150

* Number of options as of January 31, 2016.

The following table shows the holdings of stock options in the Company of members of the Board of Directors and of the Management Committee as of December 31, 2015:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Dr. Martin Nicklasson, Chairman	1 201	1 200	2 401
Mr. Domenico Scala, Vice-Chairman	2 600	1 550	4 150
Mr. Hans-Beat Gürtler, Director	4 700	1 550	6 250
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	18 370	27 382	45 752
Prof. Achim Kaufhold, Chief Medical Officer	16 946	30 422	47 368
Dr. Laurenz Kellenberger, Chief Scientific Officer	35 437	27 209	62 646
Prof. Daniel Lew, Director	10 309	1 550	11 859
Ms. Heidi McDaid, Head of Global Human Resources	10 350	29 235	39 585
Dr. Thomas M. Rinderknecht, Director	2 600	1 550	4 150
Mr. Ronald Scott, Chief Executive Officer	38 437	50 772	89 209
Mr. Steven D. Skolsky, Director	10 570	1 550	12 120
Mr. Donato Spota, Chief Financial Officer	33 679	25 420	59 099
Mr. David Veitch, Chief Commercial Officer	2 744	19 208	21 952
Dr. Thomas Werner, Director	2 600	1 550	4 150

5 Significant shareholders

The following table shows the ownership percentage of shareholders which held a significant percentage of shares of the Company as of December 31, 2016 and 2015 according to the share register of the Company:

	Ownership of outstanding shares	
	December 31, 2016	December 31, 2015
Chase Nominees Ltd.	9.4%	8.4%
RBC Investor + Treasury Services	7.3%	5.5%

The ownership percentages in the table above are based on 11,811,973 shares outstanding as of December 31, 2016 and 10,800,623 shares outstanding as of December 31, 2015.

In addition, the Company 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 November 24, 2016, Credit Suisse Group AG, Zurich, Switzerland, notified Basilea that Credit Suisse AG, Zurich, Switzerland, Credit Suisse (Schweiz) AG, Zurich, Switzerland, Credit Suisse Securities (USA) LLC, New York, USA, Credit Suisse Prime Securities Services (USA) LLC, New York, USA, Credit Suisse Securities (Europe) Limited, London, England, and Credit Suisse Quantitative and Systematic Asset Management Limited, London, England, held 715,821 voting rights in Basilea from purchase positions, corresponding to 6.07% of the total voting rights, as of November 21, 2016. These purchase positions comprised 637,543 Basilea shares (thereof 562,261 borrowed shares), corresponding to 5.403% of the total voting rights, and 78,278 voting rights through other derivative holdings, corresponding to 0.663% of the total voting rights. In addition, Credit Suisse Group AG reported to hold 11,062 voting rights from sale positions through other derivative holdings, corresponding to 0.09% of the total voting rights.

On December 7, 2015, CI Investments Inc. notified the Company that Black Creek International Equity Fund, Black Creek Global Balanced Fund, Black Creek Global Balanced Corporate Class, Black Creek Global Leaders Fund, United International Equity Alpha Corporate Class, Select International Equity Managed Fund and Select International Equity Managed Corporate Class held 5.07% of the shares of the Company as of December 1, 2015.

On January 6, 2015, Franklin Resources, Inc. notified the Company that Franklin Templeton Investments Australia Limited, Franklin Templeton Investments Corp., Franklin Templeton Investment Management Limited, Templeton Global Advisors Limited and Templeton Investment Counsel, LLC held 9.24% of the shares of the Company as of January 5, 2015.

Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2016:

In CHF thousands	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(1 408)
Net loss of the year	(5 724)
Balance to be carried forward	**(7 132)**

Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2015:

In CHF thousands	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(1 138)
Net income of the year	(270)
Balance to be carried forward	**(1 408)**

At the ordinary general meeting of shareholders on April 21, 2016, the shareholders of the Company approved to carry forward the loss of CHF 1.4 million.

ANNUAL GENERAL MEETING
The annual general meeting of shareholders for the financial year 2016 will take place on April 27, 2017 in Basel, Switzerland.

The Basilea Pharmaceutica Ltd. Annual Report 2016 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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