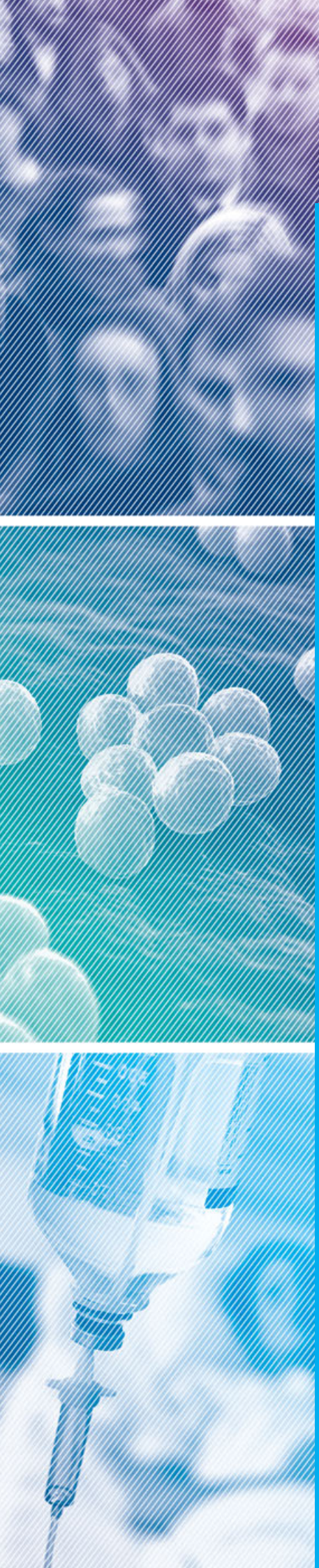


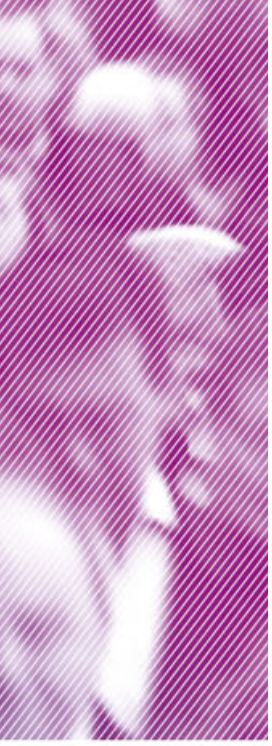
basilea
PHARMACEUTICA

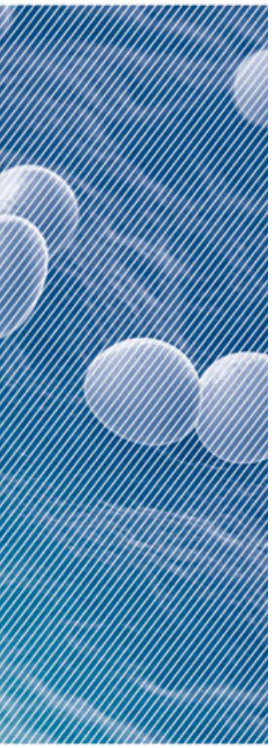
WE BREAK RESISTANCE

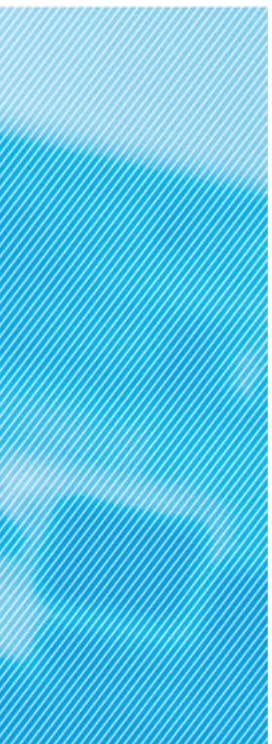
"You have to hit hard and early with the right antibiotic, and here ceftobiprole addresses an important medical need."

Prof. Achim Kaufhold,
Chief Medical Officer Basilea

ANNUAL REPORT 2013







BASILEA IN BRIEF

▸ www.basilea.com

OUR COMPANY

Basilea Pharmaceutica Ltd. is headquartered in Basel, Switzerland, and listed on the SIX Swiss Exchange (SIX: BSLN). Through the fully integrated research and development operations of its Swiss subsidiary Basilea Pharmaceutica International Ltd., the company focuses on innovative pharmaceutical products in the therapeutic areas of bacterial infections, fungal infections and oncology, targeting the medical challenge of rising resistance and non-response to current treatments.

Basilea employs approximately 200 people in Switzerland and China.

OUR VISION

We strive for excellence in integrated research and development in areas of infectious diseases and oncology, while retaining the option to commercialize our products. We aspire to provide innovative medications to patients with high medical needs through a sustainable business while maximizing shareholder value.

◂ Title page middle panel: methicillin-resistant *Staphylococcus aureus* (MRSA) bacteria

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2013 OVERVIEW

KEY EVENTS

CORPORATE

- Entered contract for up to USD 89 million of non-dilutive development funding for the Gram-negative antibiotic BAL30072 with the U.S. Biomedical Advanced Research and Development Authority (BARDA)
- Distribution of CHF 5.00 per share, corresponding to CHF 48 million, from capital contribution reserves following shareholder approval at the Annual General Meeting

FINANCIALS

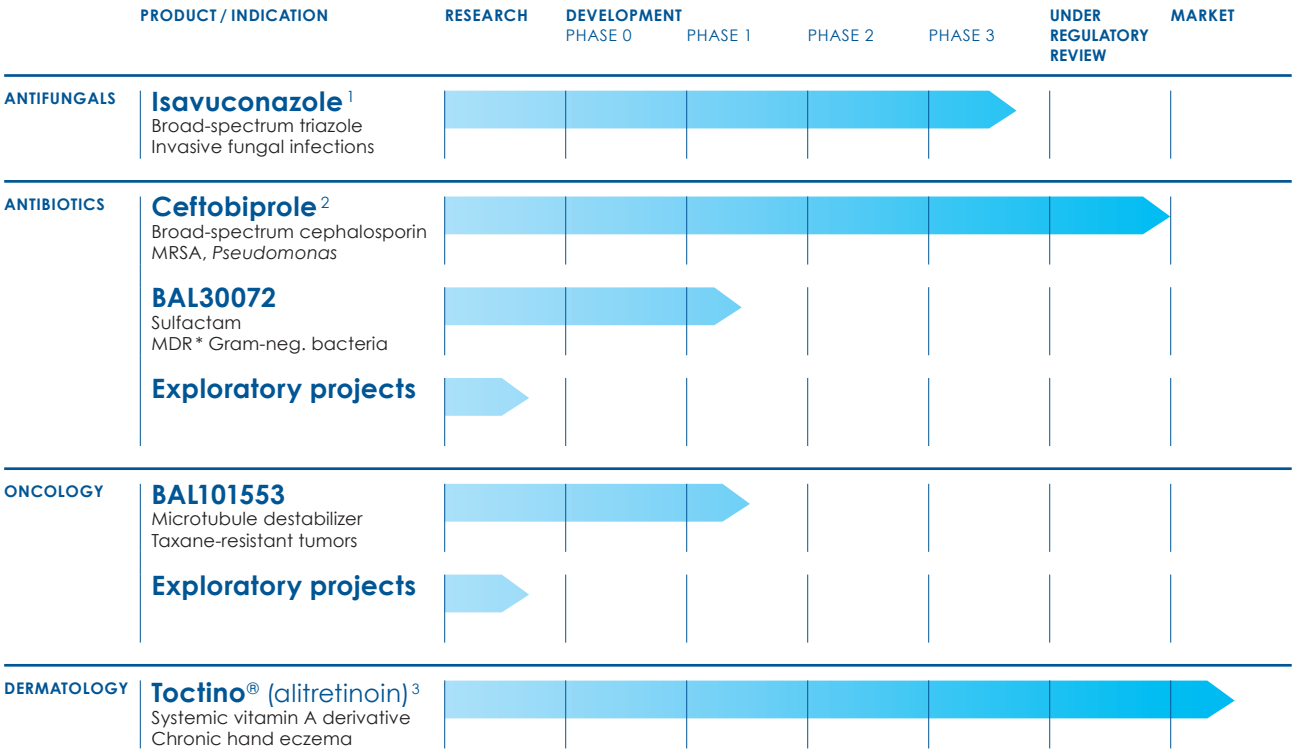
- Continued focused investments in key value driving activities
- End-2013 cash position of CHF 274 million including short term investments
- Significantly improved operating results due to continued prudent cost management and lower selling, general and administrative expenses

PROGRAM UPDATES

- Approval of ceftobiprole in Europe for the treatment of hospital- and community-acquired pneumonia in adults
- Positive topline data from isavuconazole phase 3 invasive aspergillosis study (SECURE) reported
- Recruitment completion of isavuconazole phase 3 study for the treatment of aspergillosis in renally impaired patients and infections caused by emerging fungi (VITAL)
- Isavuconazole designated "Qualified Infectious Disease Product" (QIDP) by the U.S. FDA, providing priority review and a five-year extension of market exclusivity
- Isavuconazole granted orphan drug designations, providing a seven-year market exclusivity extension for the treatment of invasive aspergillosis and zygomycosis, by the U.S. FDA
- Ceftobiprole Marketing Authorization Application accepted for review by Swiss regulatory authority Swissmedic
- Completion of second multiple ascending dose phase 1 study with Gram-negative antibiotic BAL30072
- Presentations of data on anti-infective pipeline drugs at the Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC) and the European Congress of Clinical Microbiology and Infectious Diseases (ECCMID)
- Presentation of interim phase 1 data of anti-cancer drug BAL101553 at the conference of the American Society of Clinical Oncology (ASCO)

BASILEA – ADDRESSING RESISTANCE

- Well-differentiated and competitive drug candidates for the treatment of drug-resistant bacterial infections, systemic fungal infections, and drug-resistant tumors
- Our oncology research complements our anti-infective focus: immunocompromised cancer patients are the largest patient group suffering from bacterial and fungal infections
- Preparing isavuconazole for first filing in aspergillosis and phase 3 clinical testing ongoing in candidemia
- Ceftobiprole approved in Europe for the treatment of pneumonia
- Innovative early-stage pipeline including two drug candidates from Basilea's research in phase 1 clinical development: Gram-negative antibiotic BAL30072 and the microtubule-destabilizing oncology compound BAL101553



[1] Partnered with Astellas Pharma Inc.
[2] Approved in Europe for the treatment of hospital- and community-acquired pneumonia
[3] Participation with Stiefel/GSK; Basilea eligible for a milestone payment related to the launch of alitretinoin in the U.S. and participation in future U.S. product sales
* Multidrug-resistant

DEAR SHAREHOLDERS

2013 has been a year of significant achievements for Basilea. It gives us great pleasure to share these with you, our stakeholders, in our new capacities as CEO and Chairman of the Board.

In October, we were very pleased that ceftobiprole obtained approval for the treatment of severe pneumonia in twelve initial European countries. Ceftobiprole is the first broad-spectrum anti-MRSA cephalosporin antibiotic that has been authorized for both hospital- and community-acquired pneumonia. No other single agent has such broad-spectrum activity that includes MRSA and *Pseudomonas*. Ceftobiprole may simplify physicians' treatment choice when the causative organism of an infection is not known and has the potential to replace a two-drug combination with a single drug. Positive feedback from medical and pharmacoeconomic opinion leaders confirms ceftobiprole's potential benefit to patients, physicians, and payers.

In September we reported positive and robust isavuconazole SECURE topline phase 3 data for the treatment of invasive aspergillosis, supporting a potential regulatory filing in the U.S. and Europe mid-2014. Also of importance is that isavuconazole is the first identified antifungal that has been granted Qualified Infectious Disease Product (QIDP) status for the treatment of invasive aspergillosis under the Generating Antibiotic Incentives Now (GAIN) Act in the U.S. This QIDP status recognizes the potential of isavuconazole to address the high medical need in patients suffering from life-threatening fungal infections. Isavuconazole has the potential to become a leading drug in treating life-threatening fungal infections and to overcome a number of the limitations of current treatment. We are now focused, with our partner, Astellas Pharma Inc., on finalizing the analyses of the isavuconazole SECURE and VITAL phase 3 studies for the treatment of life-threatening invasive mold infections and completing enrollment into the ACTIVE phase 3 study for the treatment of invasive *Candida* infections; and preparing the supply chain to support a launch.

Ceftobiprole is the first broad-spectrum anti-MRSA cephalosporin antibiotic that has been authorized for both hospital- and community-acquired pneumonia.

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

Basilea has a unique opportunity to optimize the value of two complementary potential anti-infective therapies, ceftobiprole and isavuconazole.

In June, the United States government division Biomedical Advanced Research and Development Authority (BARDA) entered into a contract with Basilea for the development of BAL30072, our novel monosulfactam antibiotic for the treatment of multidrug-resistant Gram-negative pathogens, including those that pose a bio threat. The contract secures non-dilutive funding for the development of BAL30072 of up to USD 89 million.

Our focus on resistance in the areas of anti-infectives and oncology is also reflected in our innovative phase 1 pipeline. Our novel antibiotic BAL30072 is intended for the treatment of multidrug-resistant Gram-negative bacteria, where current antibiotics increasingly fail, and our oncology drug BAL101553 is focused on the treatment of tumors resistant to current cancer therapies. Under the BARDA contract, BAL30072 moved into its next stage of phase 1 testing, and BAL101553 is expected to transition into phase 2a trials in the first half of 2014.

Going forward, Basilea has a unique opportunity to optimize the value of two complementary potential anti-infective therapies, ceftobiprole and isavuconazole. While determining the best overall commercialization strategy for ceftobiprole, we are preparing for the entry of ceftobiprole into key European markets. The ceftobiprole supply chain is set up to support launch once pricing and reimbursement assessments are completed by regulatory agencies. We intend to continue our ceftobiprole discussions with the FDA in the U.S. in the first half of 2014. Prior to the regulatory filing of isavuconazole, we are also carefully assessing the value of our co-promote option for isavuconazole in all key markets.

We are very proud that Basilea has maintained good financial discipline, exercising continued tight cost control while focusing on the de-risking of our high-value assets. We are in particular very pleased that in 2013 Basilea made significant progress toward delivering life-saving drugs to patients and in moving the company closer to sustainable profitability. We are ready and dedicated to drive growth and momentum in all aspects of our business.

We would like to thank all our stakeholders for their continued support and contributions to the company's progress.

Basel, December 31, 2013

Martin Nicklasson, PhD
Chairman of the Board

Ronald Scott
Chief Executive Officer

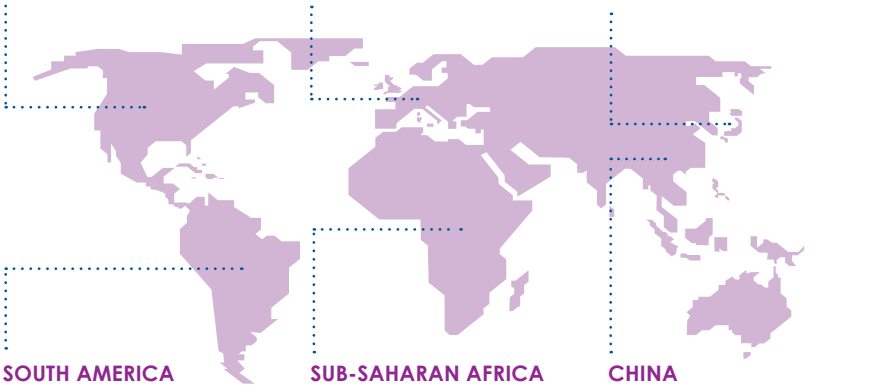
Antibiotic resistance – its emergence and spread has become a global healthcare problem

THE GLOBAL IMPACT OF ANTIBIOTIC RESISTANCE

USA
99,000
deaths per year from hospital-aquired infections

EU
Antibiotic-resistant infections cause
€ 1.5 BN/YEAR
in healthcare costs & productivity losses

JAPAN
EXTENSIVE LEVELS
of antibiotic-resistant bacteria in Tokyo's urban watershed



SOUTH AMERICA
MRSA rates of
40 – 50%

SUB-SAHARAN AFRICA
Death rates from antibiotic-resistant infections in children are
DOUBLE
that of malaria

CHINA
EXTREME OVER-PRESCRIPTION
of antibiotics and rapid growth rate of resistance

Adapted from: World Economic Forum Global Risks Report 2013

Antimicrobial resistance is recognized as **one of the greatest threats** to human health worldwide.
IDSA 2013

Each year, **2 million people** acquire antibiotic-resistant infections in the U.S. and **400,000** in the EU.
CDC 2013, ECDC/EMA 2009

FEATURE: BASILEA – THE "RESISTANCE COMPANY"

INTERVIEW WITH BASILEA'S CHIEF SCIENTIFIC OFFICER **DR. LAURENZ KELLENBERGER**

Dr. Kellenberger, are we on the edge of a "post-antibiotic era" when bacterial infections may again become a major cause of death?
Indeed, many antibiotics are no longer effective. Antibiotic resistance has dramatically increased and the pipeline of new drugs has dwindled. The once completely stocked armory for use against bacterial infections has become very limited. Only two new antibiotics have been approved by the U.S. Food and Drug Administration (FDA) since 2009, in comparison to sixteen between 1983 and 1987. New antibiotics with activity against resistant bacteria are urgently needed to save patients' lives. Modern medicine is not possible without effective antibiotics and common injuries such as cuts and scratches that become infected could result in death or serious illness.

Why does resistance occur?
Scientists estimate that some of the antibiotics we are familiar with today, and the resistance towards them, emerged about 40 million years ago. Microorganisms probably developed antibiotics as agents to protect themselves. Penicillin, the first beta-lactam antibiotic, was isolated from a *Penicillium* mold that produced it to prevent a surrounding growth of bacteria. Bacteria fight back by developing resistance mechanisms such as penicillinases, enzymes that destroy penicillin. Evolutionary pressure imposed by the use of antibiotics selects for the development of novel, ever more sophisticated resistance mechanisms, and widespread, intense use of antibiotics by humans has aggravated this problem.

How does antimicrobial resistance affect society?
Every life lost to an antibiotic-resistant infection is a tragedy. The European Centre for Disease Prevention and Control (ECDC) estimates that infections by multidrug-resistant bacteria result in 25,000 deaths each year in the European Union (EU). For the United States, excess healthcare

"It is essential to stay at the forefront of innovation to break the ever-occurring resistance."

Dr. Laurenz Kellenberger,
Chief Scientific Officer Basilea

costs for the treatment of antibiotic-resistant infections have been estimated to be as high as USD 20 billion per year, with additional annual lost productivity as high as USD 35 billion.

How has antibiotic resistance developed over the past decade?
In the early 2000s, methicillin-resistant *Staphylococcus aureus* (MRSA) was causing major concern in hospitals worldwide as the "superbug" responsible for life-threatening infections. More recently, resistant Gram-negative pathogens such as *E. coli*, *Klebsiella* and *Acinetobacter* have emerged. They are often multidrug-resistant, having become immune to most of the currently used antibiotics, and cause serious concern in the medical community as their appearance is expected to continue to increase. Gram-negative bacteria are particularly hard to fight, and even worse, they are able to rapidly share genetic information with other bacteria, thus swiftly spreading resistance.

MRSA rates seem to be on the decline. Does this mean we don't have to be concerned about this "superbug" anymore?
Quite the contrary. Despite recent efforts leading to a decline in MRSA rates in some countries, MRSA remains a public health priority in Europe and North America. According to the 2012 report of the European Antimicrobial Resistance Surveillance Network, MRSA rates remain high in many countries. In their 2013 report on antibiotic resistance threats in the United States, the U.S. Centers for Disease Control and Prevention (CDC) list MRSA as a "serious threat". Moreover, community-acquired MRSA infections are still on the rise, especially in the U.S. and are starting to appear in hospitals. Thus, the development of new anti-MRSA drugs remains an important goal.

Drug resistance is a global healthcare threat – are there global efforts to overcome it?
The decreasing number of new antibiotics being developed and rising resistance rates have triggered international action. Many organizations, including the World Health Organization (WHO), the Infectious Diseases Society of America (IDSA), and the European Commission have issued recommendations on how to improve the use of existing drugs and how to promote the development of new antibiotics, including providing economic incentives for the pharmaceutical industry.

What specific measures have been put in place?
In the U.S., the Generating Antibiotic Incentives Now (GAIN) Act was signed into law in 2012. It provides incentives such as priority review and longer market exclusivity for new antibacterial and antifungal drugs. Further support includes development funding through the Biomedical Advanced Research and Development Authority (BARDA), a division within the U.S. Department of Health and Human Services. In the EU, an action plan was issued with the goal to promote collaborative research and development efforts in the antibiotics field. This led to the launch of the NewDrugs4BadBugs (ND4BB) program within the Innovative Medicines Initiative, the world's largest public-private partnership in healthcare.

"Routine operations like hip replacements or organ transplants could be deadly because of the risk of infection."

Prof. Dame Sally C. Davies,
Chief Medical Officer and Chief Scientific Advisor,
U.K. Department of Health (2013)

Does Basilea benefit from those initiatives?
Our investigational antifungal isavuconazole was designated a "Qualified Infectious Disease Product" (QIDP) for the treatment of invasive aspergillosis under the GAIN Act. The QIDP status provides isavuconazole priority review and a further five-year extension of market exclusivity in addition to the seven-year exclusivity from its U.S. orphan drug designation, should it be approved in the United States. Under a contract with BARDA, Basilea will receive up to USD 89 million funding for the development of BAL30072, our antibiotic against infections with difficult-to-eradicate Gram-negative bacteria. Basilea is also actively involved in the ND4BB program.

Can resistance ever be overcome?
Evolution of resistance is a spontaneous process and will undoubtedly continue to occur. New mechanisms are constantly being discovered: in 2013 for example, U.S. scientists reported the discovery of proteins in certain strains of *Acinetobacter baumannii* that specifically pump chlorhexidine, a chemical antiseptic and disinfectant commonly used in hospitals, out of the bacteria. In 2012, the WHO warned that the speed at which drug resistance spreads has accelerated, partly as a consequence of the intensity of modern air travel. It is essential to stay at the forefront of innovation to break the ever-occurring resistance.

What is Basilea's contribution to fighting resistance?
New and powerful antibiotics are needed to prevail in the fight against drug resistance. Basilea is among the few fully integrated R&D companies with capabilities from discovery through regulatory approval in the antifungal and antibiotic therapeutic areas. It is focused on the development of novel drugs overcoming resistance. We have developed the cephalosporin antibiotic ceftobiprole. No other single agent has such broad-spectrum activity that includes MRSA and *Pseudomonas*. It received approval in Europe for pneumonia in October 2013. The investigational drug BAL30072, which was discovered by our research group, is highly active against multi-resistant Gram-negative bacteria and bacteria that could be used as biowarfare agents. In addition, we are working on antibiotics acting on new targets and on drug combinations that overcome resistance.

"The risk of antimicrobial resistance is just as important and deadly as international terrorism."
Prof. Dame Sally C. Davies (2013)

Basilea is also actively fighting drug resistance in other fields: our developmental oncology drug, BAL101553, is intended to overcome resistance against current cancer therapies. Our late-stage antifungal isavuconazole has the potential to become an important drug for the treatment of life-threatening invasive fungal infections due to a broader coverage of fungal pathogens and an improved safety profile.

Isavuconazole – potential to become the best-in-class azole antifungal for the treatment of invasive fungal infections

MORTALITY OF INVASIVE FUNGAL INFECTIONS

CANDIDA
25–38%

ASPERGILLUS
34–58%

ZYGOMYCETES
40–80%

Broad range due to differences in immune status and underlying disease
Van Thiel 2012, Baddley 2010, Roden 2005, Greenberg 2004

Morbidity and mortality associated with invasive fungal infections remain **unacceptably high.**
Pitman 2011

An estimated **10 million patients** in the EU, U.S. and Japan are at risk of **contracting invasive aspergillosis.**
The Fungal Infection Trust 2013

Scanning electron microscope picture of *Aspergillus fumigatus* ▶

OUR PORTFOLIO

ANTIFUNGALS

ISAVUCONAZOLE

Invasive fungal infections are debilitating or life-threatening infections that attack internal tissues or organs and can spread through the bloodstream, primarily affecting patients with weakened immune systems. Fungi commonly involved include *Aspergillus* (molds), *Candida* (yeasts), and increasingly Zygomycetes. Invasive fungal infections are associated with significant mortality rates, particularly among patients with serious underlying diseases such as cancer.

Current treatment options are often limited due to lack of broad-spectrum coverage, unreliable drug exposure, and toxicity issues. The evidence obtained to date from pre-clinical and clinical data suggests that isavuconazole may have the potential to overcome several of these limitations to provide an important treatment option for patients suffering from invasive fungal infections.

Isavuconazole is an investigational once-daily intravenous and oral azole antifungal for the potential treatment of invasive fungal infections. It has broad *in-vitro* and *in-vivo* coverage of molds and yeasts as well as activity against emerging and often fatal molds such as Zygomycetes. In clinical studies to date, isavuconazole achieved predictable drug levels and exhibited high oral bioavailability, suggesting the potential for reliable dosing.

In 2013, the U.S. FDA designated isavuconazole as a Qualified Infectious Disease Product (QIDP) for the treatment of invasive aspergillosis. QIDP status provides priority review and a five-year extension of market exclusivity, should the drug be approved in the United States. The five-year extension is in addition to the seven-year exclusivity based on isavuconazole orphan drug designation for the treatment of invasive aspergillosis in the U.S. Isavuconazole also received U.S. orphan drug designation for the treatment of zygomycosis (mucormycosis), a life-threatening invasive fungal infection caused by certain emerging molds.

Isavuconazole is being co-developed with Astellas Pharma Inc. The phase 3 program with isavuconazole includes three studies, SECURE, VITAL and ACTIVE. In September 2013, Basilea reported positive robust topline data from the SECURE study designed to evaluate the safety and efficacy of once-daily isavuconazole versus twice-daily voriconazole, the current standard-of-care, in the primary treatment of invasive fungal disease caused by *Aspergillus* species. Isavuconazole met the primary objective of demonstrating non-inferiority regarding all-cause mortality. Study drug-related adverse events were significantly lower in the isavuconazole (42.4%) compared to the voriconazole treatment group (59.8%). The key secondary endpoint of overall success rate (composite of clinical, mycological, radiological responses) was similar between isavuconazole and voriconazole.

The VITAL study is an open-label study including patients with invasive fungal disease caused by emerging fungal pathogens such as Zygomycetes and patients with aspergillosis and pre-existing renal impairment.

Analyses of the SECURE and VITAL study data are currently being completed to support a potential filing for the U.S. and Europe mid-2014.

The ACTIVE study evaluates the i.v. and oral use of isavuconazole versus i.v. caspofungin followed by oral voriconazole for the treatment of invasive *Candida* infections. The study continues to recruit with anticipated completion of enrollment in the first half of 2015.

Basilea retains co-promotion rights on isavuconazole in all key markets and is assessing the value of the co-promote option prior to the drug's regulatory filing.

Ceftobiprole – the first cephalosporin approved for the treatment of hospital- and community-acquired pneumonia

BAL30072 – one of the few antibiotics developed against multidrug-resistant Gram-negative bacteria, with potent activity against *Acinetobacter* and *Pseudomonas*

RESISTANCE RATES OF HIGH-PRIORITY "ESKAPE" PATHOGENS

ENTEROCOCCUS FAECIUM

77% vancomycin-**resistant**

STAPHYLOCOCCUS AUREUS

18% methicillin-**resistant**

KLEBSIELLA PNEUMONIAE

26% 3rd generation cephalosporin-**resistant**

ACINETOBACTER BAUMANNII

39% carbapenem-**resistant**

PSEUDOMONAS AERUGINOSA

21% fluoroquinolone-**resistant**

ESCHERICHIA COLI

57% aminopencillin-**resistant**

ECDC 2013 (*E. faecium*: CDC 2013)
"ESKAPE" pathogens defined by IDSA as major public health threats

Antibiotic resistance is leading to **increased healthcare costs, prolonged hospital stays, treatment failures or even death.**
ECDC 2013

Each year, antibiotic-resistant bacteria are estimated to **kill at least 23,000 people in the U.S. and 25,000 people in the EU.**
CDC 2013, ECDC/EMA 2009

ANTIBIOTICS

CEFTOBIPROLE

Community-acquired pneumonia is a common condition, with up to 60% of patients requiring hospital admission and intravenous antibiotics. Hospital-acquired pneumonia is one of the most common infections acquired in hospital, accounting for approximately 25% of all intensive care unit infections, and is associated with significant mortality. Prompt empiric intervention with an appropriate broad-spectrum antibiotic treatment is accepted as best medical practice. Studies have highlighted the importance of timely treatment: administration of i.v. antibiotics more than six hours after hospital admission versus within two hours almost doubled mortality; delayed administration of an appropriate antibiotic is associated with increased length of hospital stay and costs.

In 2013, ceftobiprole received approval from 12 member states of the European Union (EU), including major markets such as France, Germany, Italy, Spain and the UK, under the Decentralized Procedure. It is the first broad-spectrum anti-MRSA cephalosporin monotherapy approved for both hospital- and community-acquired pneumonia. Ceftobiprole has bactericidal activity and no other single agent has such broad-spectrum activity that includes methicillin-resistant *Staphylococcus aureus* (MRSA) and *Pseudomonas*. It also covers further Gram-positive bacteria such as vancomycin-resistant *Staphylococcus aureus* (VRSA) and penicillin-resistant *Streptococcus pneumoniae* (PRSP), as well as Gram-negative pathogens including Enterobacteriaceae [Walkty 2011].

Current practice of sequential administration of a two-drug antibiotic regimen may delay timely achievement of appropriate antibiotic coverage and negatively impact medical outcome and length of stay in the intensive care unit. Ceftobiprole may simplify physicians' treatment choice when the causative organism of an infection is not known, as it offers coverage over a broad range of bacteria right from the start of empiric therapy. In clinical trials ceftobiprole was comparable to a standard-of-care regimen consisting of two drugs – thus potentially replacing a two-drug combination with a single drug.

In Switzerland, the regulatory authority Swissmedic is currently reviewing the ceftobiprole Marketing Authorization Application for the treatment of hospital- and community-acquired pneumonia. Additionally, the European approvals will serve as a basis for approvals in other regions of the world. Basilea is continuing its discussions with the U.S. FDA.

The European launch is anticipated in 2014. Reimbursement and pricing approval are essential prior to accessing the markets. In Germany, ceftobiprole has been granted an exemption under the AMNOG (*Arzneimittelmarkt-Neuordnungsgesetz*) pricing and access rules. A value dossier has been submitted to the Scottish Medicines Consortium. In France, Italy, and Spain, pricing and value dossiers will be submitted in conjunction with the respective national licenses. To support a timely launch, Basilea has an established supply chain and has produced commercial launch material.

Basilea owns the worldwide rights to ceftobiprole and is continuing its discussions with potential global and regional partners. The commercialization strategy for ceftobiprole will be impacted by the extent to which Basilea participates in the commercialization of isavuconazole. Basilea has co-promotion rights for isavuconazole in major markets and is evaluating these rights prior to the regulatory filing of isavuconazole.

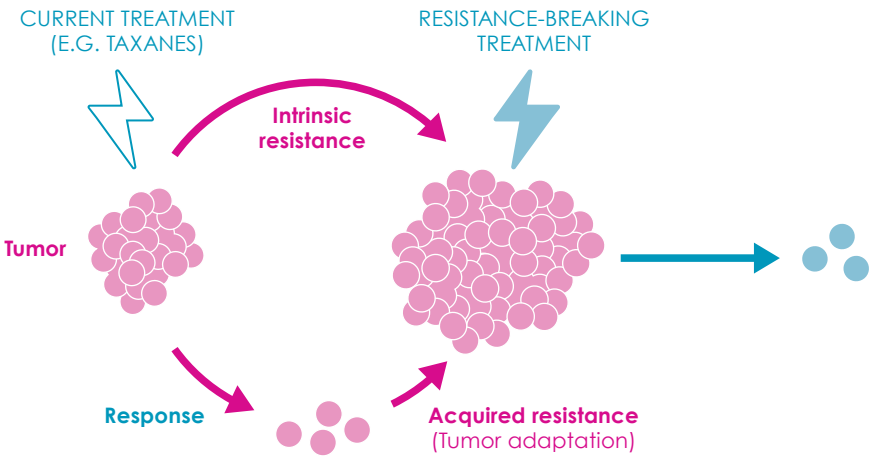
BAL30072

Gram-negative pathogens account for approximately half of all hospital-acquired bacterial infections. Of particular and increasing concern are multidrug-resistant Gram-negative bacteria such as *Acinetobacter baumannii* and *Pseudomonas aeruginosa*, which are widely disseminated and have become a frequent cause of severe infections in intensive care units worldwide. For example, up to 40% of *Acinetobacter baumannii* are resistant to carbapenems, the mainstay of Gram-negative antibacterial therapy, and more than 20% of *Pseudomonas aeruginosa* are resistant to fluoroquinolone antibiotics.

BAL30072 is a novel monosulfactam antibiotic with bactericidal activity against multidrug-resistant Gram-negative bacteria. It has demonstrated *in-vitro* and *in-vivo* coverage of Gram-negative pathogens including multidrug-resistant *Acinetobacter baumannii* and *Pseudomonas aeruginosa*. It has robust activity against common strains of resistant pathogens, including those that produce antibiotic-inactivating enzymes such as carbapenemases and metallo-beta-lactamases.

BAL101553 – a novel small molecule i.v. and oral microtubule-targeting agent with broad activity in taxane-resistant cancer models

RESISTANCE IN TUMOR THERAPY



The **therapeutic use-fulness** of taxanes is **limited by** inherent or acquired **resistance.**

Murray 2012

Resistance to chemo-therapy is believed to cause **treatment failure in over 90%** of patients with metastatic cancer.

Longley 2005

Scanning electron microscope picture of a cancer cell ▶

Given the evidence of synergistic or additive activity of BAL30072 in combination with carbapenems and its broad coverage of multidrug-resistant Gram-negative pathogens, the drug has the potential to become an important treatment option for serious infections. BAL30072 also has a potential role in biodefense, treating infections caused by potential bio-warfare pathogens.

Basilea has completed one single and two multiple ascending dose phase 1 studies with intravenous BAL30072 which assessed the pharmacokinetics, safety and tolerability of the drug.

In June 2013, Basilea entered into a contract with BARDA, a division within the U.S. Department of Health and Human Services, for the development of BAL30072. Under the terms of the contract, BARDA will provide funding of approximately USD 17 million over the initial agreement period of twenty-two months. Subsequent options which may be exercised over a total six-year period would bring the total funding under the contract up to USD 89 million. Exercise of these options is conditioned upon successful completion of pre-defined milestones.

Basilea is continuing the profiling of BAL30072 to establish the optimal dosing regimens for clinical testing and will initiate a further BAL30072 phase 1 study in combination with a carbapenem in 2014.

ONCOLOGY

BAL101553

Resistance to anti-cancer drugs remains a major challenge in the treatment of cancer patients. For example, a considerable number of patients show poor response to currently available microtubule inhibitors such as taxanes due to either intrinsic or acquired drug resistance.

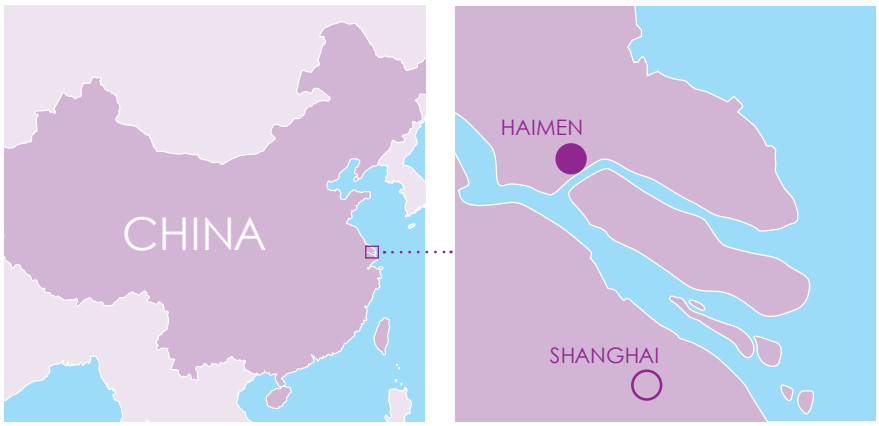
BAL101553 is a novel small-molecule anti-cancer drug in phase 1 clinical development. It directly attacks tumor cells by destabilizing the intracellular microtubule network that is essential for cell division. In addition, it disrupts tumor blood vessels, thus depriving the tumor of nutrition. The drug has shown potent anti-proliferative activity in a panel of tumor models, including many that are not responsive to conventional microtubule-targeting agents such as taxanes as a result of diverse resistance mechanisms. In contrast to all registered microtubule-targeting agents, which are derived from highly complex structures, BAL101553 is a simpler synthetic molecule. BAL101553 is a water-soluble prodrug of Basilea's BAL27862, formulated as an injectable dosage form without potentially harmful solubilizers. In addition, it is orally bioavailable, allowing for flexible dosing with i.v. and oral administration.

Interim phase 1 data providing first evidence of anti-tumor activity were presented in June 2013 at the Annual Meeting of the American Society of Clinical Oncology. Among the 16 evaluable solid-tumor patients treated at the time, who failed to respond to standard treatment, one patient experienced a partial response (decrease in tumor lesion size) and an additional five patients reported stable disease. Initial analyses showed vascular disrupting and anti-proliferative effects in post-treatment tumor biopsies. BAL101553 was well tolerated at the doses studied thus far. Pharmacokinetic profiles from the study indicated dose-proportionality.

The program is expected to transition into phase 2a following establishment of the maximum tolerated dose in the ongoing phase 1 study. The phase 2a study will enlarge patient numbers for given tumor types to identify tumor indications most likely to respond to this novel anti-cancer compound. In parallel, significant emphasis is placed on the exploration of novel biomarkers for patient stratification to determine which patients will potentially benefit from treatment.

Basilea China – support for all key R&D projects, focusing on chemical synthesis, analytical development, process research and development

BASILEA PHARMACEUTICA CHINA LTD.
巴塞利亚药业(中国)有限公司



Basilea China, located in the Haimen Technological Development Zone north of Shanghai, employs **over 80 scientists** and has 3,000 m^2 of chemical and 800 m^2 of analytical lab space.

Certifications: **ISO 9001** and **ISO 14001** by the British Standards Institution (BSI)

BASILEA'S RESEARCH SITE IN CHINA

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

Basilea China was founded in 2002 as one of the first foreign investment biotech companies in China. It has been repeatedly recognized for its sustained operational excellence. This includes the award of the *High-tech Enterprise* status on the provincial (2006) and national level (2008, 2011). In 2012, the company was awarded the *Bronze Medal for Outstanding Contributions*, an award recognizing its contribution to the local economy and society. In addition, from 2007 through 2011, the company was granted the "A" class of safety operation and received the *Best Safety Performance* award from the local government. Basilea China was also distinguished as *Best Employer* in 2008 and 2010; *Top-ten service company of Nantong city* in 2009–2011; and *Most Respected Enterprise* in 2010. Basilea China operates a quality and environmental management system which is compliant with ISO 9001:2008 and ISO 14001:2004 requirements and which has been successfully audited on a regular basis, including in 2013 by the British Standards Institution (BSI).

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 sub holding company; Basilea Pharmaceutica China Ltd. ("Basilea China"), a Chinese operating subsidiary held through BPh; and wholly-owned subsidiaries in Denmark, France, Germany, and the United Kingdom (collectively the "Company").

As of December 31, 2013, the Company engaged approximately 200 employees (full-time equivalents).

Basilea subsidiaries and subholdings (as of December 31, 2013)

- Basilea Pharmaceutica China Ltd., Haimen, China
- Basilea Pharmaceuticals A/S, Birkerød, Denmark [1]
- Basilea Pharma SAS, Boulogne-Billancourt, France [1]
- Basilea Pharmaceutica Deutschland GmbH, Munich, Germany [1]
- Basilea Pharmaceutica International Ltd., Basel, Switzerland
- BPh Investitionen Ltd., Baar, Switzerland
- Basilea Medical Ltd., Guildford, UK
- Basilea Pharmaceuticals Ltd., Guildford, UK [1]

[1] Organizations were operationally closed down following the Toctino® transaction with Stiefel/GSK.

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

In 2013, Basilea International was operationally organized along core activities with the Chief Executive Officer responsible for overseeing the Management Committee as well as legal, business development and licensing, and marketing functions. The members of the Management Committee were the Chief Financial Officer, the Chief Medical Officer, the Chief Scientific Officer, the Chief Technology Officer, and the Head of Global Human Resources. The Chief Executive Officer served as interim Chief Financial Officer following the departure of the CFO in February until the appointment of the new Chief Financial Officer in November 2013. For further information on the Management Committee, please refer to the section "Management Committee/Members, Functions and Other Activities" on page 28.

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

BASILEA PHARMACEUTICA LTD.

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

As of December 31, 2013, the market capitalization of Basilea amounted to CHF 1,075,104,558 (10,200,233 registered shares with a nominal value of CHF 1 per share). None of its shares were held by the Company on this date.

BASILEA PHARMACEUTICA CHINA LTD.

Basilea China is a wholly foreign owned enterprise ("WFOE"), founded on May 29, 2002, and incorporated with limited liability under the laws of The People's Republic of China, with a fully paid-up registered capital of USD 7 million as of December 31, 2013. Basilea China is located north of Shanghai in the Haimen Technological Development Zone, Jiangsu Province, People's Republic of China. The subsidiary supports Basilea International's key research and development projects with chemical synthesis, analytical development and process research and development. The shares of Basilea China are not listed on any stock exchange. All of its shares are held and controlled

by BPh, a Swiss stock corporation with registered office at Schochenmühlestrasse 4 in 6340 Baar, Switzerland. BPh has a share capital of CHF 131,950, divided into 10,150 fully paid-up registered shares with a par value of CHF 13 each, all held and controlled by Basilea.

For information on the non-listed companies belonging to the Company, please refer to note 3 (investments, page 74) to the financial statements.

SIGNIFICANT SHAREHOLDERS

As of December 31, 2013, Basilea had 10,200,233 registered shares issued and outstanding.

According to the Company's share register, Chase Nominees Ltd., London Wall 125, London EC2Y 5AJ, UK, held 1,313,687 Basilea shares as of December 31, 2013, nominally corresponding to 12.88% of the voting rights but registered without voting rights.

In addition, according to the Company's share register, Nortrust Nominees Ltd., Canary Wharf, Bank Street 50, London E14 5NT, UK, held 426,771 Basilea shares as of December 31, 2013, nominally corresponding to 4.18% of the voting rights.

In addition, Basilea received the following notifications in accordance with the Swiss Federal Act on Stock Exchanges and Securities from shareholders who held more than three percent as of December 31, 2013 (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 22, 2013, Massachusetts Mutual Life Insurance Company ("MassMutual"), 1295 State Street, Springfield, MA 01111, USA, notified Basilea that OppenheimerFunds, Inc., Two World Financial Center, 225 Liberty Street, New York, NY 10080, USA, Baring Asset Management Limited, 155 Bishopsgate, London, EC2M 3XY, UK, Baring Fund Managers Limited, 155 Bishopsgate, London, EC2M 3XY, UK, Baring International Investment Limited, 155 Bishopsgate, London, EC2M 3XY, UK, and Baring International Fund Managers (Ireland) Limited, 155 Bishopsgate, London, EC2M 3XY, UK, held 328,316 Basilea shares, corresponding to 3.42% of the voting rights, as of November 21, 2013.

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

On July 25, 2012, Credit Suisse Funds AG, Kalandergasse 4, 8045 Zurich, Switzerland, notified Basilea of its holdings of 287,875 Basilea shares, corresponding to 3.00% of the voting rights, as of July 19, 2012.

On October 29, 2010, Franklin Resources, Inc., One Franklin Parkway, San Mateo, CA 94403, USA, notified Basilea of its holdings of 960,203 Basilea shares, corresponding to 10.02% of the voting rights, as of October 28, 2010.

Additionally, Basilea reported that the number of outstanding options amounted to 1,511,256, corresponding to 15.76% of the voting rights, as of December 2, 2013.

All disclosures of shareholdings, including those of shareholders that fell below three percent during 2013, are published on the website of the SIX Disclosure Office and can be accessed there (http://www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?issuer=12329).

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

CROSS-SHAREHOLDINGS

No cross-shareholdings existed as of December 31, 2013.

CAPITAL STRUCTURE AND SHARES

SHARE CAPITAL

The share capital of Basilea as of December 31, 2013 amounted to CHF 10,200,233 consisting of 10,200,233 registered shares with a par value of CHF 1 per share. The share capital is fully paid up. As of December 31, 2013, the Company did not hold any shares of Basilea.

AUTHORIZED CAPITAL AND CONDITIONAL CAPITAL

As of December 31, 2013, total conditional capital amounted to CHF 2,699,908. The authorized capital expired in April 2013.

The share capital shall be increased by the maximum amount of CHF 2,059,908 by the issue of a

maximum of 2,059,908 fully paid-up registered shares having a par value of CHF 1 – each by the exercise of option rights granted under the Company's option plan program to members of the Board of Directors, members of the Management Committee, or certain employees. The preferential subscription rights of the existing shareholders are excluded. The issue price will be set by the Board of Directors.

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

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

CHANGES IN CAPITAL

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

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

In 2011, Basilea increased its share capital by CHF 700 (700 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 2013, 2012 and 2011, including changes in reserves and retained earnings, please refer to the consolidated statement of changes in shareholders' equity as well as note 13 (shareholders' equity, page 63) to the consolidated financial statements, and note 4 (share capital and conditional capital, page 75) to the financial statements of Basilea. Please also refer to the consolidated statement of changes in shareholders' equity included in the annual reports 2012 and 2011 for information on changes in equity in the respective years.

SHARES, PARTICIPATION AND PROFIT SHARING CERTIFICATES

Basilea has only one class of shares (registered shares) with a par value of CHF 1 per share. Each share is fully paid up and carries one vote and equal dividend rights, with no special privileges. Basilea has not issued any participation or profit sharing certificates.

LIMITATIONS ON TRANSFERABILITY OF SHARES AND NOMINEE REGISTRATIONS

Basilea's shares are not certificated since its IPO. Basilea may issue registered shares in the form of single certificates, global certificates or uncertificated securities. Within the limits of the law Basilea is free to convert the registered shares issued in one of those forms into another form at any time and without the approval of the shareholders. Basilea bears the related costs.

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

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

A transfer of shares further requires that a shareholder files a share registration form in order to be registered in the share register of Basilea with voting rights. Failing such registration by the respective deadline set by the Board of Directors, a shareholder or usufructuary (*Nutzniesser*) may not vote at or participate in a shareholders meeting, but is still entitled to receive dividends and other rights of financial value. No exemptions were granted from the above restrictions in 2013.

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

Basilea's Articles do not further limit the transferability of shares. A qualified majority of at least two-thirds of the share votes represented as well as the majority of the par values of shares represented at a shareholders meeting are required for resolutions on transfer restrictions of Basilea's shares. For further information on the registration in the share register, please refer to the section "registration in the share register" on page 33.

CONVERTIBLE BONDS AND OPTIONS

As of December 31, 2013 there were no convertible bonds of the Company outstanding.

For information on the stock option plan for directors, management, and certain employees, and on the number of options granted thereunder, please refer to note 12 (stock-based compensation, page 61) 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, 2013:

Name	Year of first election	End of current term [1]
Dr. Martin Nicklasson, Chairman	2013	2016
Mr. Domenico Scala, Vice-Chairman	2011	2014
Mr. Hans-Beat Gürtler	2009	2015
Prof. Daniel Lew	2003	2015
Dr. Thomas M. Rinderknecht	2011	2014
Mr. Steven D. Skolsky	2008	2014
Dr. Thomas Werner	2011	2014

[1] Due to the changes in law the Chairman and the members of the board must be re-elected in 2014 and thereafter annually.

Changes in the Board of Directors

Werner Henrich, whose term as Chairman of the Board ended at the annual shareholder meeting on April 9, 2013, did not stand for re-election in 2013.

In 2012, Claude Schreiner reached the statutory age limit for board members. As a consequence, Mr. Schreiner was not reelected after the end of his term at the annual shareholder meeting of April 9, 2013.

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

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

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

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

Board of Directors as of December 31, 2013 (from left to right and top to bottom):
Dr. Martin Nicklasson
Mr. Domenico Scala
Mr. Hans-Beat Gürtler
Prof. Daniel Lew
Dr. Thomas M. Rinderknecht
Mr. Steven D. Skolsky
Dr. Thomas Werner

Daniel Lew was born in 1948 and is a Swiss citizen. He is clinical infectious diseases physician and President of the Clinical Ethics Committee of the Geneva University Hospitals as well as Honorary Professor of Medicine at the University of Geneva Medical School. He is President of the Swiss Academic Foundation for Education in Infectious Diseases and member of the Swiss Academy of Medical Sciences. He obtained his MD degree from Geneva University in 1976 and specialized in infectious diseases both in Geneva and then subsequently at Harvard Medical School and Massachusetts General Hospital in Boston, USA. In the past he served as Chief of the Service of Infectious Diseases, and Chief of the Academic Department of Internal Medicine at the Geneva University Hospital. He is a recipient of numerous scientific awards and grants for his research work. Professor Lew lectures widely, acts both as reviewer and editor for several major scientific journals, and is author of many publications on neutrophil function, bacterial pathogenesis and drug resistance. Prof. Daniel Lew is past President of the International Society for Infectious Diseases (ISID).

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

Steven D. Skolsky was born in 1956 and is a U.S. citizen. He holds a BA degree in Biology from the University of North Carolina at Chapel Hill, USA. Mr. Skolsky has over 25 years of general management and international pharmaceutical industry experience with emphasis on product strategy, commercialization and product development. He currently holds the position of Global Head of Clinical and Data Operations at Quintiles Transnational, a leading Clinical Research Organization, after serving as Principal of EXPIS Partners, USA, a strategic life science consultancy. He previously served as President and Chief Executive Officer of Sequoia Pharmaceuticals, a privately held U.S. based company specializing in novel antiviral therapeutics. Prior to his appointment at Sequoia, he held the position of Chief Executive Officer at Trimeris, Inc., a publicly held company that discovered and commercialized Fuzeon®, a first-in-class HIV therapeutic in collaboration with partner F. Hoffmann-La Roche. Previously, Mr. Skolsky served for more than 20 years at GlaxoSmithKline

(GSK) in a range of senior leadership roles, including Senior Vice President, Global Product Strategy and Clinical Development, and Managing Director of GSK's operations in Australia and New Zealand.

Thomas Werner was born in 1956 and is a German citizen. He has almost 30 years of experience in the pharmaceutical industry, most recently as Senior Vice President of GlaxoSmithKline where he was Managing Director for Germany and also coordinated the European oncology business. Prior to that, he was responsible for Glaxo Wellcome Germany and Central Europe, Bristol-Myers Squibb Germany and Convatec Germany/ Central Europe. Dr. Werner sits on the boards of SkyePharma plc, 4SC AG, SuppreMol GmbH, BSN Medical and Blackfield AG. Beside his business responsibilities he served for many years on the board of trustees of the Paul Ehrlich Foundation and also on the board of trustees of the Robert Koch foundation as well as on the Board of the German *Verband der forschenden Arzneimittelunternehmen* (vfa). He also served as a Director of the American Chamber of Commerce Germany with the focus area of healthcare. He holds a PhD in chemistry from the University of Göttingen, Germany.

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

Mr. Henrich, Chairman of the Board until April 9, 2013, acted as CEO of Basilea from February to October 2001. In addition, Mr. Henrich acted as a consultant in licensing and patent matters to Basilea in 2013. None of the other members of the Board of Directors have served in the management of Basilea or any of its subsidiaries since inception of Basilea.

There are no other significant business connections between members of the Board of Directors and Basilea or any of its subsidiaries. For further information, please refer to note 18 (related party transactions, page 68) 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.

ELECTIONS AND TERMS OF OFFICE

Basilea's Articles provide for a Board of Directors consisting of between one and eleven members. Members of the Board of Directors are appointed and removed exclusively by shareholders' resolution. Their term of office is up to three years, re-election being allowed. According to the Articles, elections are made by rotation in such a way that the terms of office of about one third of the members of the Board of Directors may expire every year. The Chairman and the Vice-Chairman of the Board of Directors are designated by the Board of Directors.

According to the current Organizational Regulations of Basilea enacted by the Board of Directors, each member of the Board of Directors shall resign effective as per the ordinary shareholders meeting immediately following completion of his or her 70th year of age, even if the term of office has not yet expired. In this instance, a newly elected board member would enter into the term of his or her predecessor.

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

AREAS OF RESPONSIBILITY

Responsibilities of the Board of Directors

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

In addition, the Board of Directors specifically retains certain main decision-making competencies, including setting the strategy and short and long-term goals of Basilea; all M&A transactions for which no shareholder approval is required; decisions on annual budgets; the general direction of research and development (e.g. therapeutic areas covered, areas of priority and third party

co-operations); general policies in relation to personnel matters, including basic principles related to benefit and incentive plans; certain communication tasks towards shareholders and the public as required by applicable laws and regulations; and general policies on outsourcing versus internal functions for manufacturing, sales and marketing.

INTERNAL ORGANIZATION

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

Chairman of the Board of Directors

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

Vice-Chairman of the Board of Directors

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

Board committees

The Board of Directors established an Audit Committee and a Compensation Committee in 2003. In addition, the Board of Directors established a Corporate Governance Committee in 2012. The tasks and responsibilities of these committees are set forth in the Organizational Regulations and their committee charters. The committees make proposals to the Board of Directors in their areas of responsibilities. In 2013, the full Board of Directors nominated members for each committee. Due to changes in the law (effective as of January 1, 2014) the shareholders will elect Compensation Committee members at the 2014 annual general meeting.

In the meeting of the Board of Directors subsequent to the ordinary general meeting of shareholders on April 9, 2013, the following board members were appointed to the **Audit Committee**: Mr. Domenico Scala (Chairman), Mr. Hans-Beat Gürtler and Dr. Thomas M. Rinderknecht. Until the ordinary general meeting, Mr. Claude Schreiner was Chairman of the Audit Committee.

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

The Audit Committee held three meetings at the offices of Basilea in 2013, lasting between three and four hours. The main topics at these meetings were the review of the year-end financial statements and annual report 2012; the review of the half-year financial statements 2013; the review of the annual budget 2013 and 2014 as well as mid-term financial forecasts; financial and non-financial risk management and the scope of the external audit 2013 as well as scope and results of the internal audit 2013. The external auditors were present at two Audit Committee meetings in 2013 to report on the results of the audit 2012 and the half-year review 2013. The respective recommendations of the Audit Committee were then provided for approval or modification to the full Board of Directors.

In the meeting of the Board of Directors subsequent to the ordinary general meeting of shareholders on April 9, 2013, the following board members were appointed to the **Compensation**

Committee: Dr. Martin Nicklasson (Chairman), Mr. Steven D. Skolsky and Dr. Thomas Werner. Until the ordinary general meeting, Mr. Werner Henrich was Chairman and Mr. Hans-Beat Gürtler was a member of the Compensation Committee.

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

The Compensation Committee held four meetings in 2013, lasting approximately between one and three hours. The main topics at these meetings included the review of the 2012 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 Compensation Committee also discussed in detail the requirements of the ordinance against excessive compensation at public corporations ("Minder Ordinance"). The respective recommendations of the Compensation Committee were then provided for approval or modification by the full Board of Directors.

In the board meeting following the annual general meeting on April 9, 2013, the following board members were appointed to the **Corporate Governance Committee**: Dr. Thomas M. Rinderknecht (Chairman), Mr. Hans-Beat Gürtler and Prof. Daniel Lew. Until the ordinary general meeting, Mr. Werner Henrich was a member of the Corporate Governance Committee.

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 the compliance with such principles and policies.

The Corporate Governance Committee held two meetings in 2013 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.

In January and February of 2013, the board authorized an ad hoc Nomination Committee to support the board in identifying a chairman candidate; this committee was chaired by Dr. Thomas M. Rinderknecht and attended by other board members on an as-needed basis.

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 2013, the Board of Directors held ten meetings. Six 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-half to one day. Four meetings were held by telephone conference. The overall attendance rate (in person or by phone) was more than 90%.

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

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

Responsibilities of the Management Committee

In accordance with the Articles and the Organizational Regulations, the Board of Directors has delegated all areas of management of Basilea that are not reserved to the Board of Directors by law, the Articles or the Organizational Regulations (see section "responsibilities of the Board of Directors" on page 24), to the CEO and the Management Committee reporting to the CEO. The main duty of the CEO with the assistance of the Management Committee is to operationally manage the Company, to implement the strategies and other decisions of the Board of Directors, to make proposals to the Board of Directors regarding matters constituting decision making competencies of the Board of Directors, to set the operative focus and priorities as well as to procure the necessary resources.

INFORMATION AND CONTROL INSTRUMENTS OF THE BOARD OF DIRECTORS

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

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

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

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

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

MANAGEMENT COMMITTEE

MEMBERS, FUNCTIONS AND OTHER ACTIVITIES

The Management Committee, under the responsibility of the CEO and the supervision of the Board of Directors, is responsible for the operational management of the Company pursuant to the Organizational Regulations and reports to the Board of Directors under the direction of the CEO. 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, 2013.

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

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

Changes in the Management Committee

On November 4, 2013, the Company promoted Mr. Donato Spota to Chief Financial Officer. As announced in 2012, the Board of Directors had promoted Ms. Heidi McDaid, Head of Global Human Resources, to serve as a member of the Management Committee, starting on January 1, 2013.

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

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

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

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






Management Committee as of December 31, 2013 (from left to right and top to bottom):
Mr. Ronald Scott
Dr. Ingrid Heinze-Krauss
Prof. Achim Kaufhold
Dr. Laurenz Kellenberger
Ms. Heidi McDaid
Mr. Donato Spota

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

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

Donato Spota, Chief Financial Officer (CFO), is an Italian citizen. He has over 16 years of experience in the pharmaceutical industry, including finance, strategic financial planning and analysis, budgeting, information technology as well as audit and risk management. Prior to his appointment to CFO he was Basilea's Global Head of Finance and Services, assuming responsibilities for Finance, Information Technology and General Services. Before joining Basilea in 2002, Mr. Spota worked for F. Hoffmann-La Roche, Basel, in the area of Pharma Global Informatics, within which he was responsible for financial planning and controlling. He holds a master degree in business administration of the University of Applied Sciences Nürtingen, Germany. He also holds a diploma in information technology.

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

MANAGEMENT CONTRACTS

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

COMPENSATION, SHAREHOLDINGS AND LOANS

CONTENT AND METHOD OF DETERMINING THE COMPENSATION INCLUDING THE STOCK OPTION PROGRAM

The compensation of the members of the Board of Directors and of the Management Committee is reviewed and set annually by the Board of Directors, based on recommendations of the Compensation Committee in accordance with Basilea's compensation policies. In its review, the Compensation Committee takes into account the professional experience and areas of responsibility of the respective board and management members and also considers compensation packages of other companies in the biotech and pharmaceutical industry in Switzerland and Europe that are comparable to Basilea with respect to size or business model. To offer competitive compensation packages in order to attract and retain highly qualified employees in a highly competitive environment, the Compensation Committee may also consider compensation at Swiss biotech and pharmaceutical companies, and may evaluate respective compensation surveys of public companies in Switzerland and Europe. Based on its review, the Compensation Committee provides the Board of Directors with recommendations on the compensation of the members of the Board of Directors and the Management Committee, the policies for the compensation of the Management Committee and the Company's employees, and the basic principles for the establishment, amendment, and implementation of the Company's stock option plan.

Board of Directors

The compensation package for board members consists of: a fixed annual monetary compensation per board term from AGM to AGM; the reimbursement of social security contributions, where such contributions occur; a compensation based on board meeting attendance and participation in board committees, and stock options. In addition, Basilea reimburses board members' out-of-pocket expenses incurred in relation to their service on the board on an on-going basis upon presentation of the corresponding receipts. The latest board review of the compensation for board members took place in December 2013.

The amounts for the calendar year 2013 and 2012 were:

In CHF	**2013**	2012
Chairman of the Board of Directors [1]		
Fixed compensation	96 875	46 875
Board meeting fee [2]	9 375	9 375
Committee fee [3]	7 875	7 875
Members [1]		
Fixed compensation	51 250	31 250
Board meeting fee [4]	6 250	6 250
Committee fee [5]	5 250	5 250

[1] An overview about the total compensation for all the current and former members of the Board of Directors is included in note 5 to the financial statements (see page 76).
[2] Fee per meeting attended with the maximum cumulative amount paid for meeting attendance limited to CHF 46,875 in a calendar year.
[3] Fee per board committee membership.
[4] Fee for each board meeting attended with the maximum cumulative amount for meeting attendance limited to CHF 31,250 in a calendar year.
[5] Fee per board committee membership.

Management Committee

The compensation of the members of the Management Committee includes a base salary, as well as a bonus and stock options. In addition, the Company contributes to the pension plan and maintains certain insurance for death and invalidity. The amount of the base salary depends on the position, responsibilities, experience and skills and takes into account individual performance. The base salaries are reviewed at the beginning of each year by the Compensation Committee. Changes in the base salaries, if any, are effective from April of each year. The bonus and the stock options vary annually and are based on individual and company performance. The potential bonus is determined in the employment contract and calculated as a percentage of the base salary. The maximum bonus available for 2012 and 2013 ranged between 35% and 45% of the base salary depending on position, adjusted by performance as further described below. In 2013, one member of the Management Committee had a guaranteed minimum bonus of 20% of the base salary. Such guaranteed bonus is only paid out if a bonus is distributed by Basilea for the respective fiscal year.

At the beginning of each year the Board of Directors decides, considering the recommendations of the Compensation Committee, on the total amount of bonus to be granted for the previous year based on the achievement of com-

pany goals set by the Board of Directors annually. In the current development stage of Basilea, the company goals are related to key value drivers such as successful completion of clinical trials and submission of marketing authorization and new drug applications, providing drug supply for clinical trials and commercial requirements, identification of clinical product candidates, successful achievement of commercial goals, financial performance, and financing company activities. For 2013, key company goals included ceftobiprole approval in Europe, obtaining isavuconazole topline phase 3 study results, BAL30072 phase 1 study progress, BAL101553 phase 1 progress, support of GSK/Stiefel related to preparations for a Toctino® U.S. filing, managing expenses, and relative performance indicators such as the Basilea share price compared to the SIX Swiss Stock Exchange Swiss Market Index (SMI). In a second step, the individual cash bonus for members of the Management Committee is determined by the Board of Directors upon recommendation of the Compensation Committee based on the individual performance and the Management Committee member's respective contribution to achieving the Company's goals and performance. The individual performance objectives of the members of the Management Committee relate to their roles and responsibilities and are aligned with the company strategy and annual company goals.
The weighting of the company goals (40%) and individual objectives (60%) is the same for all members of the Management Committee and is multiplied by the available bonus as described above. The company goals portion may be rated above 100% in the event that the board determines that certain "upsides" were achieved to a maximum of 130% of the respective 40% weighting. The individual portion may be rated above 100% to a maximum of 130% of the respective 60% weighting on an individual basis in the event of extraordinary performance; however, the total average companywide individual performance bonus cannot exceed 100% of the respective 60%. A special bonus is available for extraordinary performance by an employee in accordance with a total amount which is agreed annually by the Board of Directors. One member of the Management Committee may receive certain bonuses upon Company achievement of goals and a fixed bonus of 45% of salary and stock options for a notice period in lieu of any other bonus. The Company made payments to the former CEO of CHF 769,851 in 2013, which were accrued and reported in 2012 (see page 29 of Annual Report 2012). Other than as set forth above, Basilea has no contractual termination payment obligations to members of the Board of Directors or of the Management Committee.

Members of the Management Committee are subject to the Standard Basilea Terms and Conditions for Basilea employees. The notice period of the employment agreement for one member of the Management Committee is 12 months and for all others it is six months. For one member of the Management Committee, termination is restricted until June 30, 2014.

The Company has not granted any loans, credits or guarantees to members of the Board of Directors or of the Management Committee in 2013 or 2012.

Stock option program

The purpose of the Basilea stock option program is to provide directors, management and certain employees with an opportunity to obtain stock options and to benefit from the appreciation thereof, thus providing an increased incentive for participants to contribute to the future success and prosperity of the Company, enhancing the value of the shares for the benefit of the shareholders of the Company and increasing the ability of the Company to attract and retain individuals of exceptional skill. The grant of any option under the stock option program is wholly discretionary. Key factors considered by the Board of Directors in the stock option grant are the amount of shareholder approved conditional capital, the dilution of Basilea shares, the benchmarking with other companies as well as the individual performance. Any value, income or other benefit derived from any stock option is not to be considered part of the participant's salary or compensation for the purposes of calculating any pension or retirement benefits. The strike price is determined by the Board of Directors and is based on the closing price of the Basilea shares on the SIX Swiss Exchange on the grant date. The strike price of the options granted in the business year 2013 was CHF 105.60 (2012: CHF 37.90). Following the annual general meeting's approval of a distribution of CHF 5.00 to the shareholders, the Board of Directors made an equitable adjustment under the rules governing the stock option plan of CHF 5.00 to the strike price for outstanding options to compensate for the adjustment in fair value. 25% of the options received under an

annual stock option grant vest one year from the grant date, 25% of such options vest two years from the grant date, 25% of such options vest three years from the grant date and 25% of such options vest four years from the grant date.

For further information on compensation and stock option plan, please refer to note 12 (stock-based compensation, page 61) to the consolidated financial statements as well as note 5 (compensation and shareholdings, page 76) to the financial statements.

SHAREHOLDERS PARTICIPATION

VOTING RIGHTS AND REPRESENTATION RESTRICTIONS

Voting rights may be exercised only after a shareholder has been recorded in Basilea's share register (*Aktienbuch*) as a shareholder or usufructuary (*Nutzniesser*) with voting right. No exceptions from these restrictions were granted in 2013.

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

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

For further information on the conditions for registration in the share register (including in relation to nominees) and for attending and voting at a shareholders meeting, please refer to the sections "limitations on transferability of shares and nominee registrations" on page 20 and "registration in the share register" on page 33.

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

STATUTORY QUORUMS

According to article 11 of the Articles, resolutions generally require the approval of the absolute majority of at least 50% (*absolutes Mehr*) of the share votes represented at the shareholders meeting. Shareholders' resolutions requiring such a majority include amendments to the Articles (subject to the exceptions below), elections of members of the Board of Directors, elections of the auditors and the group auditors, approvals of the annual report, the annual financial statements and consolidated financial statements of the Company, decisions regarding dividends, decisions to discharge the members of the Board of Directors and the management from liability for matters disclosed to the shareholders meeting, and the ordering of an independent investigation into specific matters proposed to the shareholders meeting (*Sonderprüfung*).

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

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

CONVENING OF SHAREHOLDERS MEETINGS AND AGENDA ITEMS

The shareholders meeting is the highest governing institution of Basilea. Under Swiss law, the ordinary shareholders meeting takes place annually within six months after the close of the business year. Shareholders meetings may be convened by the Board of Directors or, if necessary, by the audi-

tors. The Board of Directors is furthermore required to convene an extraordinary shareholders meeting if so requested in writing by holders of shares representing at least 10% of the share capital of Basilea, setting forth the items to be included on the agenda and the proposals. Shareholders representing shares with a par value of at least CHF 100,000 have the right to request in writing that an item be included on the agenda of the next shareholders meeting, setting forth the item and the proposals. According to article 7 of the Articles, the request to put an item on the agenda has to be made at least 45 days prior to the shareholders meeting. Extraordinary shareholders meetings can be called as often as necessary, in particular, in all cases required by law.

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

REGISTRATION IN THE SHARE REGISTER

The Board of Directors determines the relevant deadline for registration in the share register giving the right to attend and to vote at the shareholders meeting (*Stichtag*). Such deadline is published by Basilea in the Swiss Official Gazette of Commerce and the Company's website, usually in connection with the publication of the invitation to the shareholders meeting. In case that such deadline for the ordinary annual shareholders meeting is already determined by the Board of Directors prior to the printing of the annual report, it will also be included in the annual report.

In 2013, the deadline for registration in the share register in order to participate and to vote at the ordinary general meeting of shareholders of April 9, 2013 was March 28, 2013.

The registration deadline for the ordinary general meeting of shareholders to be held on April 9, 2014 has been set as March 28, 2014.

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 20.

CHANGES OF CONTROL AND DEFENSE MEASURES

DUTY TO MAKE AN OFFER

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

CLAUSES ON CHANGES OF CONTROL

Basilea's stock option plan contains provisions in respect of changes of Basilea's shareholder base. The change of control definition in the stock option plan 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 change of control, all unexercised stock options of all option holders, including but not limited to stock options held by members of the Board of Directors and of the Management Committee, vest and become exercisable.

In this case, Basilea will endeavor 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 procure that the offeror will offer to purchase the options.

Furthermore, upon a change of control, the provisions of the stock option plan cannot be changed to the detriment of the option holders and Basilea will hold the option holders harmless for any income taxes or social security contributions that are due or may become due related to the exercise, conversion or sale of stock options. These provisions would also apply to stock appreciation rights under Basilea's stock option plan.

In addition, with regard to all employment agreements of indefinite nature, the period for terminations for any cause by the Company, will automatically and immediately be extended to 12 months. In the event of any material change of the particulars of the contract regarding the position and location, the employee shall have the right to terminate employment with immediate effect resulting in a severance payment of an annual salary by the Company. Material change

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

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

AUDITORS

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

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

AUDITING FEES

In 2013, PricewaterhouseCoopers AG and its affiliates charged the Company auditing fees in the amount of CHF 188,834 (2012: CHF 243,672).

ADDITIONAL FEES

In 2013, PricewaterhouseCoopers AG and its affiliates have not charged the Company any additional fees.

INFORMATION INSTRUMENTS OF THE AUDITORS

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

In 2013, the Audit Committee met with the auditors twice to discuss the scope and results of their year-end audit for 2012, the scope of the 2013 audit as well as the scope and results of their review of the half-year financial statements per June 30, 2013.

INFORMATION POLICY

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

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

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

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

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

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

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

POLICY ON PREVENTION OF INSIDER TRADING

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

ETHICAL BUSINESS CONDUCT

The Company is committed to the highest standards of ethical business conduct. As a biopharmaceutical company, the Company is operating in a highly regulated business environment. Strict compliance with all legal and health authority requirements, as well as requirements of other regulators, is mandatory. To fulfill these goals, the Board of Directors issued a Code of Conduct which was reviewed and updated in 2011. The Code of Conduct sets forth the Company's policy embodying the high standards of business ethics and integrity required of all employees, contractors and agents when conducting business affairs on behalf of the Company. The Company's internal Compliance Committee, established by the Management Committee in 2011, met regularly during 2013. 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.

FINANCIAL REPORT

FINANCIAL REVIEW

OVERVIEW

The following discussion of the financial condition and results of the operations of Basilea Pharmaceutica Ltd. 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 and development of innovative pharmaceutical products in the therapeutic areas of bacterial infections, fungal infections, and oncology.

The Company has a broad and balanced product portfolio focusing on anti-infectives and oncology drugs. In 2013, the Company obtained regulatory approval in Europe for its antibiotic ceftobiprole for the treatment of hospital- and community-acquired pneumonia in adults. It also reported positive phase 3 data from the isavuconazole invasive aspergillosis study (SECURE) supporting a potential regulatory filing in the U.S. and Europe mid-2014. In addition, the Company's clinical pipeline includes the phase 1 sulfactam antibiotic BAL30072 and the phase 1 oncology compound BAL101553.

The Company entered into a contract on June 24, 2013 with the Biomedical Advanced Research and Development Authority ("BARDA"), a division within the U.S. Department of Health and Human Services, for the development of Basilea's antibiotic BAL30072. Under this contract, BARDA will provide funding of up to USD 17 million over the initial agreement period of 22 months in the form of reimbursement of agreed development costs. In 2013, the Company recognized reimbursement of CHF 0.0 million in research and development expenses related to the BARDA contract.

In 2013, the Company recognized operating income (excluding other income) of CHF 41.0 million (2012: CHF 57.8 million). Operating income in 2013 included CHF 36.9 million (2012: CHF 16.1 million) contract revenue related to the agreement with Stiefel, a GSK company for Toctino® and contract revenue related to the license agreement with Astellas for isavuconazole of CHF 3.6 million (2012: CHF 8.2 million). Moreover, operating income included other income in the amount of CHF 0.4 million (2012: CHF 0.5 million).

In 2013, the Company invested CHF 53.3 million (2012: CHF 58.9 million) in research and development activities related to its antibiotic ceftobiprole for the treatment of hospital- and community-acquired pneumonia in adults, its phase 1 development of sulfactam antibiotic BAL30072, the development of its phase 1 oncology drug candidate BAL101553 as well as related to its research portfolio.

General and administrative expenses amounted to CHF 21.3 million in 2013 (2012: CHF 45.9 million including selling expenses through July 2012). The cash and cash equivalents and short-term investments amounted to CHF 273.9 million as of December 31, 2013, compared to CHF 344.0 million at year-end 2012.

RESULTS OF OPERATIONS

The following table outlines the Company's consolidated results of operations for the fiscal years 2013 and 2012:

In CHF million	**2013**	2012
Product sales*	–	20.2
Contract revenue	40.5	37.4
Revenue from R&D services	0.4	0.2
Other income	0.4	0.5
Total operating income	**41.4**	**58.3**
Cost of sales*	–	(4.4)
Research & development expenses	(53.3)	(58.9)
Selling*, general & administrative expenses	(21.3)	(45.9)
Total operating expenses	**(74.7)**	**(109.2)**
Operating loss	**(33.3)**	**(50.8)**
Net financial income/expenses	0.3	(1.5)
Income taxes	0.0	(0.7)
Net loss	**(33.0)**	**(53.0)**

* 2012 numbers: Through July.
Note: Consistent rounding was applied.

Revenues and other income

Operating income included contract revenue in the amount of CHF 40.5 million (2012: CHF 37.4 million), which mainly results from the recognition of contract revenue from Stiefel of CHF 36.9 million (2012: CHF 16.1 million) related to the upfront payment of CHF 224.1 million in 2012 and CHF 1.9 million (2012: CHF 6.4 million) are related to the recognition of contract revenue from Astellas related to the upfront payment of CHF 67.5 million in 2010, which was recorded as deferred revenue. In 2013, the Company recognized additional contract revenue in the total amount of CHF 1.7 million (2012: CHF 1.8 million) related to services provided by the Company to Astellas for isavuconazole. Moreover, the Company recognized revenue from R&D services in the amount of CHF 0.4 million in 2013 (2012: CHF 0.2 million).

Research and development expenses

Research and development expenses primarily consist of expenses for third-party services in connection with clinical studies and research projects, costs for producing substance to be used in such studies and projects, personnel expenses for the research and development groups of the Company, and

depreciation of equipment used for its research and development activities. In addition, research and development expenses contain expenses for producing pharmaceutical material for clinical studies or which may be used for commercialization and was produced prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected.

Research and development expenses amounted to CHF 53.3 million in 2013 (2012: CHF 58.9 million), representing 71% of the total operating expenses (2012: 54%).

Research and development expenses in 2013 mainly related to activities to support the regulatory review, maintaining the supply chain and preparing for the entry of ceftobiprole in key European markets, the phase 1 development of sulfactam antibiotic BAL30072 as well as the phase 1 development of oncology drug candidate BAL101553. The Company recognized CHF 0.0 million in 2013 related to the BARDA contract from June 24, 2013 where BARDA provides funding in the form of reimbursement of agreed development costs.

Research and development expenses decreased by CHF 5.6 million compared to 2012, mainly due to the completion of the alitretinoin phase 3 clinical study in the U.S. and Basilea fulfilling its financial participation commitment in the development of isavuconazole in 2012. 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 2013 and 2012 also included stock-based compensation expenses of CHF 1.7 million.

General and administrative expenses

General and administrative expenses mainly consist of expenses related to corporate management, legal, finance, human resources, business development, licensing and investor relations, including personnel expenses for these functions.

General and administrative expenses amounted to CHF 21.3 million (2012: CHF 45.9 million) in 2013. General and administrative expenses included stock-based compensation expenses of CHF 1.6 million (2012: CHF 3.4 million). The decrease of CHF 24.6 million as compared to 2012 is mainly due to the Company operationally closing down its commercial organizations in Denmark, France, Germany and the UK following the agreement with Stiefel related to Toctino®.

Net financial income/expenses

Net financial income amounted to CHF 0.3 million in 2013 (2012: net financial expenses of CHF 1.5 million). The decrease is mainly due to currency translation adjustments of CHF 1.2 million in 2012 related to the operational close-down of the organizations and the liquidation of subsidiaries, transferred from accumulated other comprehensive income/loss to the consolidated statements of operations.

Income taxes

Due to the losses incurred to date and the insufficient evidence related to realizability of deferred tax assets, the Company has not recognized any deferred tax assets as of December 31, 2013 and December 31, 2012. The Company incurred income taxes of CHF 0.0 million in 2013 (2012: CHF 0.7 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 a non-refundable upfront payment of CHF 224.1 million under the agreement with Stiefel related to Toctino®. In June 2013, the Company distributed CHF 5.00 per share corresponding to CHF 48.0 million from capital contribution reserves following shareholder approval at the annual general meeting. In addition, the Company further realized proceeds from the issuance of shares in connection with exercises of stock options.

The cash used by the Company in 2013 was primarily related to its operating activities, in particular the research and development programs. The cash and cash equivalents and short-term investments, available as of December 31, 2013, amounted to CHF 273.9 million (December 31, 2012: CHF 344.0 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, 2013, CHF 155.0 million (December 31, 2012: CHF 120.0 million) were invested in short-term bank deposits denominated in Swiss Francs.

The Company has not entered and has not planned to enter into any commitments for any material investments other than for investments in the normal course of the business. The financial needs of Basilea's wholly-owned and fully consolidated subsidiaries are exclusively covered by the Company. None of the subsidiaries had any significant third-party debt outstanding as of December 31, 2013 and December 31, 2012.

CRITICAL ACCOUNTING POLICIES

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

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

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company recorded total expenses related to stock-based compensation of CHF 3.3 million in 2013 (2012: CHF 5.1 million).

Research and development costs are expensed as incurred. Costs of research and development equipment with alternative future use are capitalized and depreciated over its respective useful life. Payments that the Company makes or receives related to its co-development arrangement for isavuconazole and related to the contract with the Biomedical Advanced Research and Development Authority, BARDA, for the development of Basilea's antibiotic BAL30072 are recorded in research and development expenses. Costs related to the manufacturing of inventories which occurred after the receipt of regulatory approval or evidence being available that regulatory approval can reasonably be expected, are capitalized. The Company expenses costs as research and development expenses related to manufacturing of inventories when incurred prior to obtaining regulatory approval or evidence being available that regulatory approval can reasonably be expected. If regulatory approval is subsequently obtained, the recorded expenses are not reversed. Accordingly, the cost of sales does not and will not include manufacturing costs for material, which was produced prior to obtaining regulatory approval, when the respective commercial material is sold.

The Company assesses deferred taxes regularly and provides for a valuation allowance on deferred tax assets if it is more likely than not that deferred tax assets are not realized. As a consequence, the Company has recorded a valuation allowance on net deferred tax assets in the amount of CHF 138.9 million as of December 31, 2013 due to the history of operating losses and the uncertainty related to the realizability of such deferred tax assets.

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

FOREIGN CURRENCY EXCHANGE RATE RISK

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

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

RECENT DEVELOPMENTS

There have been no material adverse changes in the business or financial situation of the Company since December 31, 2013.

REPORT OF THE STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As Statutory Auditors, we have audited the consolidated financial statements of Basilea Pharmaceutica Ltd. and subsidiaries (the consolidated balance sheet and the related consolidated statement of operations, cash flows and changes in shareholders' equity and accompanying notes) for the year ended December 31, 2013, included on pages 44 to 69.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2013 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Thomas Brüderlin
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 6, 2014

CONSOLIDATED FINANCIAL STATEMENTS

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Consolidated balance sheets as of December 31, 2013 and 2012 (in CHF)

	Footnote reference	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents	7	118 897 653	223 955 498
Short-term investments	6	155 000 000	120 000 000
Accounts receivable	5	3 883 335	7 554 534
Other receivables		3 422 488	3 939 242
Other current assets		4 963 281	4 725 429
Total current assets		**286 166 757**	**360 174 703**
Non-current assets			
Tangible assets, net	2	13 043 381	14 376 938
Intangible assets, net	3	432 153	600 033
Other non-current assets		113 990	193 029
Total non-current assets		**13 589 524**	**15 170 000**
TOTAL ASSETS		**299 756 281**	**375 344 703**
LIABILITIES			
Current liabilities			
Accounts payable		1 701 453	1 705 205
Deferred revenue	9	38 831 549	38 831 549
Accruals and other current liabilities	10	19 772 714	18 076 659
Total current liabilities		**60 305 716**	**58 613 413**
Non-current liabilities			
Deferred revenue, less current portion	9	161 930 837	200 762 387
Other non-current liabilities	15	6 646 000	10 466 933
Total non-current liabilities		**168 576 837**	**211 229 320**
Total liabilities		**228 882 553**	**269 842 733**
Commitments and contingencies	19		
SHAREHOLDERS' EQUITY			
Share capital [1]	13	10 200 233	9 587 621
Additional paid-in capital		849 519 057	856 299 215
Accumulated other comprehensive income/loss	13	(11 832 087)	(16 391 322)
Accumulated deficit:			
Loss carried forward		(743 993 544)	(690 960 439)
Net loss for the year		(33 019 931)	(53 033 105)
Total shareholders' equity		**70 873 728**	**105 501 970**
TOTAL LIABILITIES AND EQUITY		**299 756 281**	**375 344 703**

[1] As of December 31, 2013, 10,200,233 registered shares issued and outstanding with a par value of CHF 1 per share.
As of December 31, 2012, 9,587,621 registered shares issued and outstanding with a par value of CHF 1 per share.

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

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Consolidated statements of operations for the years ended December 31, 2013 and 2012 (in CHF)

	Footnote reference	2013	2012
Product sales	4	–	20 224 413
Contract revenue	4, 9	40 520 549	37 422 222
Revenue from R&D services	4	430 119	231 300
Other income	9	425 175	457 817
Total operating income		**41 375 843**	**58 335 752**
Cost of sales		–	(4 398 422)
Research & development expenses		(53 349 474)	(58 862 821)
G&A expenses/SG&A expenses		(21 312 601)	(45 922 653)
Total operating expenses		**(74 662 075)**	**(109 183 896)**
Operating loss		**(33 286 232)**	**(50 848 144)**
Interest income		373 290	409 059
Other financial expenses/income, net		(79 689)	(1 900 322)
Loss before taxes		**(32 992 631)**	**(52 339 407)**
Income taxes	11	(27 300)	(693 698)
Net loss		**(33 019 931)**	**(53 033 105)**

Earnings/Loss per share	14	**2013**	2012
Basic loss per share, in CHF		(3.40)	(5.53)
Diluted loss per share, in CHF		(3.40)	(5.53)

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Consolidated statements of comprehensive income/loss for the years ended December 31, 2013 and 2012 (in CHF)

	2013	2012
Net loss	**(33 019 931)**	**(53 033 105)**
Currency translation adjustments [1]	14 235	1 650 212
Unrecognized pension costs	3 615 000	(2 331 000)
Amortization of unrecognized pension costs	930 000	855 000
Other comprehensive income, net of tax	**4 559 235**	**174 212**
Comprehensive loss	**(28 460 696)**	**(52 858 893)**

[1] Net loss of CHF 0.0 million related to operationally closed down organizations (2012: net loss of CHF 1.2 million related to the operationally close-down of organizations and the liquidation of subsidiaries) were transferred from accumulated other comprehensive income/loss to the consolidated statements of operations. For further details please refer to footnote 13.

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, 2013 and 2012 (in CHF)

	Footnote reference	2013	2012
Cash flow from operating activities			
Net loss		(33 019 931)	(53 033 105)
Adjustments to reconcile net loss to net cash used for/provided by operating activities:			
Depreciation and amortization		2 715 466	3 642 365
Loss on disposal of assets, net		(16 820)	8 912
Stock-based compensation		3 287 296	5 090 195
Change in operating assets/liabilities:			
Accounts receivable		3 667 271	2 910 445
Other receivables		525 068	(1 730 349)
Inventories		–	3 828 597
Accounts payable		(6 689)	323 692
Deferred revenue		(38 831 549)	188 750 899
Accruals and other current liabilities		1 769 142	(6 216 692)
Other operating cash flow items		440 931	4 599 496
Net cash used for/provided by operating activities		**(59 469 815)**	**148 174 455**
Cash flow from investing activities			
Payments for financial investments		(155 000 000)	(200 000 000)
Maturities of financial investments		120 000 000	105 000 000
Proceeds from sale of assets		16 891	5 951
Investments in tangible assets	2	(1 102 644)	(1 107 534)
Investments in intangible assets	3	(103 677)	(213 799)
Net cash used for investing activities		**(36 189 430)**	**(96 315 382)**
Cash flow from financing activities			
Net proceeds from exercise of stock options	12	38 500 338	1 396
Distribution of capital to shareholders	13	(47 955 180)	–
Net cash used for/provided by financing activities		**(9 454 842)**	**1 396**
Effect of exchange rate changes on cash and cash equivalents		**56 242**	**(50 973)**
Net change in cash and cash equivalents		**(105 057 845)**	**51 809 496**
Cash and cash equivalents, beginning of period		**223 955 498**	**172 146 002**
Cash and cash equivalents, end of period	7	**118 897 653**	**223 955 498**
Supplemental information			
Cash paid for interest		–	41
Cash paid for income taxes		168 364	503 632

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

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES
Consolidated statements of changes in shareholders' equity
for the years ended December 31, 2013 and 2012 (in CHF, except for number of shares)

	Number of shares	Share capital	Additional paid-in capital	Accumu-lated deficit	Accumulated other comprehensive income/loss	**Total**
Balance at December 31, 2011	**9 587 571**	**9 587 571**	**851 207 674**	**(690 960 439)**	**(16 565 534)**	**153 269 272**
Net loss	–	–	–	(53 033 105)	–	(53 033 105)
Other comprehensive income	–	–	–	–	174 212	174 212
Exercise of stock options, net	50	50	1 346	–	–	1 396
Stock-based compensation, net	–	–	5 090 195	–	–	5 090 195
Balance at December 31, 2012	**9 587 621**	**9 587 621**	**856 299 215**	**(743 993 544)**	**(16 391 322)**	**105 501 970**
Net loss	–	–	–	(33 019 931)	–	(33 019 931)
Other comprehensive income	–	–	–	–	4 559 235	4 559 235
Exercise of stock options, net	612 612	612 612	37 887 726	–	–	38 500 338
Distribution of capital to shareholders	–	–	(47 955 180)	–	–	(47 955 180)
Stock-based compensation, net	–	–	3 287 296	–	–	3 287 296
Balance at December 31, 2013	**10 200 233**	**10 200 233**	**849 519 057**	**(777 013 475)**	**(11 832 087)**	**70 873 728**

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 and development 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 all key R&D projects through focusing on chemical synthesis, analytical development, process research and development.

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

Basis of presentation

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

Principles of consolidation

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

Use of estimates

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

Fair value measurements

The Company applies the Accounting Standard Codification ("ASC") 820 "Fair Value Measurements and Disclosures". ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Cash and cash equivalents

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

Foreign currencies

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

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

Short-term investments

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

Accounts receivable and other receivables

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

Inventories

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

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

Tangible assets

Tangible assets are recorded at cost less accumulated depreciation and impairment. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets of approximately 20 years for buildings, 5 years for R&D 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 are recorded at cost less accumulated amortization and impairment. Intangible assets with finite lives consist mainly of acquired or developed internal use software. The intangible assets are amortized on a straight-line basis over the estimated useful lives, which is 3 years for software. Product rights are amortized over the remaining life of the underlying patent.

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

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

Impairment of long-lived assets

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

Leases

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

Revenue recognition

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

Product sales

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

Contract revenue

Contract revenue includes realized amounts from upfront and milestone payments in connection with licensing and distribution agreements, royalties, and income from reimbursement of costs related to the co-promotion activities of the Company. The costs related to the co-promotion activities are included in selling, general and administrative expenses. Contract revenue also includes payments received from a licensee for services provided by the Company in accordance with the respective license agreement. Furthermore, the Company recognizes contract revenue for sale of semi-finished products and clinical material to licensees.

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

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

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

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

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

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

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

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

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

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

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

Income taxes
The Company applies the asset and liability method for the determination of provisions for income taxes. The income taxes for the reporting period consist of the current taxes (taxes paid and taxes payable) plus the change in the deferred taxes for the respective period. Deferred taxes represent the estimated

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

Earnings/Loss per share

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

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

Pension plans

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

Certain risks and uncertainties

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

New accounting pronouncements

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

On December 16, 2011, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2011-11, "Disclosures about Offsetting Assets and Liabilities". The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. ASU 2011-11 was effective for interim and annual periods beginning or after January 1, 2013. The Company adopted this accounting standard as of January 1, 2013.

In February 2013, the FASB issued ASU 2013-02, "Other Comprehensive Income (Topic 220: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income)" to improve the transparency of reporting reclassifications

out of accumulated other comprehensive income. The amendments require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under US GAAP that provide additional detail about those amounts. The Company adopted this accounting standard as of January 1, 2013.

2 Tangible assets

In CHF million	Land/Land-use rights	Buildings	Equipment	**Total**
2013				
Cost				
January 1, 2013	1.4	18.6	25.3	**45.3**
Additions	0.0	0.0	1.1	**1.1**
Disposals	0.0	0.0	(0.9)	**(0.9)**
Currency effect	0.0	0.0	0.0	**0.0**
December 31, 2013	1.4	18.6	25.5	**45.5**
Accumulated depreciation				
January 1, 2013	0.0	9.5	21.4	**30.9**
Additions	0.0	0.9	1.5	**2.4**
Disposals	0.0	0.0	(0.8)	**(0.8)**
Currency effect	0.0	0.0	0.0	**0.0**
December 31, 2013	0.0	10.4	22.1	**32.5**
Net book value as of December 31, 2013	**1.4**	**8.2**	**3.4**	**13.0**
2012				
Cost				
January 1, 2012	1.4	18.4	26.1	**45.9**
Additions	0.0	0.2	0.9	**1.1**
Disposals	0.0	0.0	(1.6)	**(1.6)**
Currency effect	0.0	0.0	(0.1)	**(0.1)**
December 31, 2012	1.4	18.6	25.3	**45.3**
Accumulated depreciation				
January 1, 2012	0.0	8.5	21.2	**29.7**
Additions	0.0	1.0	1.9	**2.9**
Disposals	0.0	0.0	(1.6)	**(1.6)**
Currency effect	0.0	0.0	(0.1)	**(0.1)**
December 31, 2012	0.0	9.5	21.4	**30.9**
Net book value as of December 31, 2012	**1.4**	**9.1**	**3.9**	**14.4**

The insurance value of tangible assets amounts to CHF 110.7 million as of December 31, 2013.

3 Intangible assets

The intangible assets as of December 31, 2013 and 2012 consist mainly of internal use software:

In CHF million	**2013**	2012
Cost		
January 1	4.4	5.9
Additions	0.1	0.2
Disposals	0.0	(1.7)
Currency effect	0.0	0.0
December 31	4.5	4.4
Accumulated amortization		
January 1	3.8	4.7
Additions	0.3	0.7
Disposals	0.0	(1.6)
Currency effect	0.0	0.0
December 31	4.1	3.8
Net book value as of December 31	**0.4**	**0.6**

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

	Amount in CHF million
2014	0.3
2015	0.1
2016	0.0
2017	0.0
2018	0.0
Thereafter	0.0
Total	**0.4**

4 Segment and geographic information

The Company operates in one segment, which is the discovery and development of innovative pharmaceutical products. The Board of Directors and the CEO of the Company review the statement of operations of the Company on an aggregated basis and manage the operations of the Company as a single operating segment.

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

In CHF million	**2013**	2012
Switzerland	11.3	12.6
China	1.7	1.8
Total	**13.0**	**14.4**

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

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

In CHF million	2012
Spain	12.6
UK	19.4
Germany	9.6
Japan	8.2
Other	8.1
Total	**57.9**

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

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

In 2012, the Company recognized total revenues in the amount of CHF 16.1 million with Stiefel, CHF 12.6 million with Almirall and CHF 8.2 million with Astellas.

5 Accounts receivable

The accounts receivable primarily consist of receivables related to co-development activities for isavuconazole. The Company did not record a valuation allowance as of December 31, 2013 and 2012.

6 Short-term investments

The short-term investments as of December 31, 2013 contain short-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 155.0 million (December 31, 2012: CHF 120.0 million).

7 Cash and cash equivalents

Cash and cash equivalents consisted of the following components:

In CHF million	2013	2012
Cash	60.7	204.0
Short-term time deposits	58.2	20.0
Total	**118.9**	**224.0**

8 Inventories

The following table shows the components of inventories as of December 31, 2013 and 2012:

In CHF million	**2013**	2012
Raw materials	10.7	–
Semi-finished products	5.3	5.0
Finished products	–	0.1
Inventory provisions	(16.0)	(5.1)
Total	**0.0**	**0.0**

The Company owns manufacturing material valued at cost, which was produced prior to obtaining regulatory approval for ceftobiprole. As the consequence of the regulatory approval, the ceftobiprole inventory is presented gross. The Company intends to use such material for commercialization as regulatory approval was obtained in 2013.

Due to the agreement with Stiefel, inventory related to Toctino® was written-off in 2012, for further details please refer to note 9, agreements.

9 Agreements

Contract with BARDA for the development of the antibiotic BAL30072

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

Global agreement with Stiefel related to Toctino®

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

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

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

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

The Company recognized CHF 36.9 million as contract revenue in 2013 (2012: CHF 16.1 million) related to this upfront payment.

In 2012 assets and liabilities were reassessed related to the signed agreement with Stiefel and recognition or release, accelerated amortization or depreciation as per December 31, 2012 was completed. Based on this reassessment, there was an accelerated recognition of CHF 11.8 million upfront and milestone payments from Toctino® distribution partners as contract revenue, CHF 3.2 million were recognized as cost of sales as a result of the depreciation of inventory, offset by inventory sold to Stiefel of CHF 3.4 million, and CHF 3.7 million were recognized as selling, general and administrative expenses (contract termination costs, legal costs, depreciation and amortization of tangible and intangible assets and other costs).

License agreement with Astellas related to isavuconazole

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

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

The Company and Astellas jointly participate in the development of isavuconazole. Development costs for isavuconazole are shared between Astellas and the Company with Astellas bearing the majority of the costs. The Company is initially responsible to manage manufacturing while Astellas has the right to take over the management of manufacturing. Astellas bears manufacturing costs for commercial supply.

In 2010, the Company received a non-refundable net upfront payment of CHF 67.5 million (gross payment of CHF 75.0 million less withholding tax of CHF 7.5 million, which is non-refundable for the Company). This net upfront payment was recognized as deferred revenue. A portion of this upfront payment was allocated to the grant of the license to Astellas and the respective amount is accordingly recognized as revenue on a straight line basis over the remaining estimated term of the agreement. The remaining portion of the upfront payment represents compensation for the Company's co-payment of the development costs as well as other services which the Company provides in connection with the development of isavuconazole and accordingly, was recognized as co-development payments were made by the Company or the respective services were provided by the Company.

In 2013, the Company recognized CHF 1.9 million as contract revenue related to the upfront payment and recognized additional contract revenue in the total amount of CHF 1.7 million related to services provided by the Company to Astellas for isavuconazole.

In 2012, the Company recognized CHF 6.4 million related to the upfront payment and recognized additional contract revenue in the total amount of CHF 1.8 million related to the sale of semi-finished products and clinical material to Astellas and services provided by the Company for isavuconazole.

Distribution agreement with Almirall

In June 2010, the Company entered into an exclusive distribution agreement with Almirall for Basilea's Toctino® in Austria, Belgium, Czech Republic, Italy, Luxembourg, Mexico, the Netherlands, Poland, Portugal, Slovakia and Spain. The Company retained the future right to co-promote Toctino® in selected markets covered under this agreement.

In 2010 the Company received non-refundable upfront and milestone payments of CHF 14.3 million in connection with this distribution agreement, which were recorded as deferred revenue.

Under this distribution agreement, the Company was eligible for non-refundable upfront and milestone payments related to the launch of Toctino® in the two key markets of the territory and the commercialization of Toctino® in the territory. In addition, the Company sold Toctino® to Almirall for the distribution in the respective countries in the territory, and recognized the related revenue in product sales.

In July 2012 the agreement was assigned to Stiefel, for further details please refer to "Global agreement with Stiefel related to Toctino®".

Due to the assignment of the agreement to Stiefel the Company recognized CHF 11.8 million as contract revenue related to these payments in 2012.

10 Accruals and other current liabilities

Accruals and other current liabilities as of December 31, 2013 and 2012 consisted of the following:

In CHF million	**2013**	2012
Accrued R&D expenses	3.7	3.1
Accrued personnel and compensation costs	10.1	8.7
Other	6.0	6.3
Total accruals and other current liabilities	**19.8**	**18.1**

11 Income taxes

The Company has tax loss carry forwards of CHF 438.4 million as of December 31, 2013 (December 31, 2012: CHF 357.6 million) of which CHF 266.2 million will expire within the next five years, CHF 172.1 million will expire between six and eight years. CHF 0.1 million of the tax losses carry forwards do not expire. In 2013, tax loss carry forwards of CHF 2.5 million expired.

The significant components of net deferred taxes as of December 31, 2013 and 2012 are shown in the following table:

In CHF million	**2013**	2012
Deferred tax assets:		
Net benefit from tax loss carryforwards[1]	84.9	69.8
Deferred revenue	40.2	49.1
Stock-based compensation cost	13.3	16.5
Other, net	0.5	0.4
Valuation allowance	(138.9)	(135.8)
Net deferred taxes	**0.0**	**0.0**

[1] As of December 31, 2013 the position includes CHF 0.1 million related to shortfall from stock-based compensation that would be debited to shareholders' equity, if realizable. As of December 31, 2012 the position includes CHF 0.4 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 2013 and 2012 to reduce the net deferred taxes, as there is not sufficient positive evidence in the jurisdictions related to the realizability of the deferred tax assets.

The effective tax rate was 0.1% for the year 2013 (2012: 1.4%). The following table shows the income taxes in 2013 and 2012:

In CHF million	**2013**	2012
Current tax expenses	0.0	0.7
Total income tax expenses	**0.0**	**0.7**

The current tax expenses in 2013 and 2012 are solely related to foreign tax income.

The expected tax rate for 2013 was 20.1% (2012: 20.0%). The following table shows the reconciliation between expected and effective tax rate:

In percent	**2013**	2012
Expected tax rate	20.1	20.0
Effect of not-taxable differences[1]	(1.2)	0.1
Valuation allowance on deferred tax assets	(18.8)	(18.7)
Effective tax rate	0.1	1.4

[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 2010.

As of December 31, 2013 and 2012, there were no unrecognized tax benefits. The Company did not incur any significant interest or penalties in connection with income taxes in the years 2013 and 2012.

12 Stock-based compensation

Stock options

The Company established a stock option plan effective on December 13, 2000 to incentize directors, executives, and certain employees with an opportunity to obtain stock options on registered shares of Basilea. The shareholders approved conditional capital necessary for the issuance of shares upon the exercise of stock options, of which CHF 2.1 million remain available as of December 31, 2013. CHF 1.5 million of this remaining available conditional capital are reserved for stock options, which are issued and outstanding as of December 31, 2013.

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, 2013, which represent the requisite service periods, range from one to four years with contractual terms of the stock options of ten years. The stock option plan foresees accelerated vesting if there is a change of control as defined by the stock option plan.

In 2010, the Company offered participants of its stock option plan an option to amend the terms and conditions of certain outstanding stock options, in return for the cancellation of a number of stock options. The amendment of the stock options was value-neutral, as at the date of amendment the fair value of these original stock options equalled the fair value of the reduced number of stock options at amended terms. The amendment of the stock options included an amendment of the strike price to the closing share price of Basilea's shares as of the date of the amendment, plus 15%. In addition, the term of the amended options ends in December 2018. The vesting periods of the outstanding stock options were not amended. As the amendment of stock options was value neutral, this modification of stock options did not result in any incremental compensation costs to be recognized.

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

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

	Weighted average exercise price (in CHF)	Number of options
Balance at December 31, 2011	**69.29**	**1 722 436**
Options granted	42.90	213 989
Options forfeited	57.42	(9 298)
Options exercised	30.00	(50)
Options expired	–	–
Balance at December 31, 2012	**66.42**	**1 927 077**
Options granted	105.60	199 650
Options forfeited	39.14	(15 674)
Options exercised	63.65	(612 612)
Options expired	55.00	(730)
Balance at December 31, 2013	**66.63**	**1 497 711**

The following table provides information on the stock options outstanding and the stock options exercisable as of December 31, 2013:

	Options exercisable plus options expected to vest[1]	Options exercisable
Number of options	1 488 983	993 930
Weighted average exercise price, in CHF	66.59	67.81
Weighted average remaining contractual life, in years	6.3	5.1

[1] Number of options considers expected forfeitures.

Based on (a) the stock options exercisable as of December 31, 2013, including stock options expected to vest in the future and (b) the stock options exercisable as of December 31, 2013, the aggregate intrinsic values of such number of options were CHF 59.0 million and CHF 38.5 million, respectively. The exercise prices of the options granted in 2013 and 2012 equalled the market price of the shares at the respective grant date.

The weighted average grant-date fair value of options granted in 2013 was CHF 45.06 (2012: CHF 17.61). The total aggregate intrinsic value of stock options exercised during 2013 was CHF 15.4 million (2012: CHF 0.0 million).

The fair value of the stock options granted in 2013 and 2012 was determined at the grant date using a binomial model. The weighted average assumptions used for these determinations are outlined in the table below:

	2013	2012
Risk-free interest rate	1.49%	0.9%
Expected term of stock options	7 years	7 years
Expected volatility	45%	46%
Expected dividend	–	–

The expected volatility was determined based on the historic volatility of Basilea's share price. The expected term of stock options granted was determined based on managements' 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, 2013 related to stock options amounts to CHF 10.5 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 3.3 million in 2013 related to its stock-based compensation award programs (2012: CHF 5.1 million), of which CHF 1.7 million was recorded in research and development expenses (2012: CHF 1.7 million) and CHF 1.6 million as part of general and administrative expenses (2012: CHF 3.4 million) in the statement of operations.

13 Shareholders' equity

As of December 31, 2013, Basilea had 10,200,233 registered shares (*Namenaktien*) issued and outstanding with a par value of CHF 1 per share. As of December 31, 2012, Basilea had 9,587,621 registered shares with a par value of CHF 1 per share issued and outstanding respectively.

In 2013, 612,612 stock options were exercised, using conditional capital, which resulted in the issuance of 612,612 registered shares with a par value of CHF 1 per share. In 2012, 50 stock options were exercised resulting in the issuance of 50 registered shares with a par value of CHF 1 per share.

At the ordinary general meeting of shareholders on April 9, 2013, Basilea's shareholders approved the proposal of HBM Healthcare Investments (Cayman) Ltd. to distribute CHF 5.00 per share corresponding to CHF 48.0 million.

Basilea had a total approved conditional capital of CHF 2,699,908 as of December 31, 2013 for the issuance of a maximum of 2,699,908 registered shares with a par value of CHF 1 per share. This conditional capital contained CHF 2,059,908 (2,059,908 registered shares with a par value of CHF 1 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1 each, available for the exercise of option or conversion rights granted with new option or convertible bonds.

Change in accumulated other comprehensive income/loss as of December 31, 2013 and 2012:

In CHF million	Currency translation adjustment	Unrecognized pension cost	**Total**
December 31, 2011	**(2.3)**	**(14.3)**	**(16.6)**
Change during the period	0.5	(1.5)	**(1.0)**
Reclassification adjustment, included in the consolidated statements of operations	1.2[1]	–	**1.2**
Total change during the period	**1.7**	**(1.5)**	**0.2**
December 31, 2012	**(0.6)**	**(15.8)**	**(16.4)**
Change during the period	0.0	4.6	**4.6**
Reclassification adjustment, included in the consolidated statements of operations	(0.0)[2]	–	**(0.0)**
Total change during the period	**(0.0)**	**4.6**	**4.6**
December 31, 2013	**(0.6)**	**(11.2)**	**(11.8)**

[1] Currency translation adjustment related to operationally close-down of organizations in Denmark, France, Germany and UK and liquidations of the Spanish and Italian subsidiaries.
[2] Currency translation adjustment related to operationally closed down organizations in Denmark, France, Germany and UK.

14 Earnings/Loss per share

The calculation of the basic and diluted loss per share in 2013 and 2012 is shown in the table below:

	2013		2012	
	Basic	Diluted	Basic	Diluted
Numerator				
Net loss, in CHF million	(33.0)	(33.0)	(53.0)	(53.0)
Net loss for loss per share calculation, in CHF million	(33.0)	(33.0)	(53.0)	(53.0)
Denominator				
Weighted average shares outstanding, including actual conversion of stock options	9 712 616	9 712 616	9 586 771	9 586 771
Incremental shares according to treasury stock method for assumed conversion of stock options	–	–	–	–
Weighted average shares outstanding, including actual and assumed conversion of stock options	9 712 616	9 712 616	9 586 771	9 586 771
Loss per share in CHF	**(3.40)**	**(3.40)**	**(5.53)**	**(5.53)**

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

As of December 31, 2012, there were 1,504,097 stock options outstanding with a weighted-average exercise price of CHF 74.83, which were not included in the calculation of loss per share for 2012, as the effect of such stock options would have been anti-dilutive.

15 Pension plan

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

Both, the Company and the participants provide monthly contributions to the pension plan, which are based on the covered salary. The respective saving parts of premium are credited to employees' accounts. In addition, interest is credited to the 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 2013 and 2012:

In CHF million	**2013**	2012
Service cost	3.7	4.4
Interest cost	1.1	1.1
Expected return on plan assets	(1.3)	(1.2)
Amortization of pension related net loss	0.9	0.8
Amortization of prior service cost	0.1	0.0
Gross benefit expense	4.5	5.1
Participant contributions	(1.0)	(1.1)
Net periodic pension cost	3.5	4.0

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

In CHF million	**2013**	2012
Benefit obligation, beginning of period	**54.3**	**46.6**
Service cost	3.7	4.4
Interest cost	1.1	1.1
Transfers-in and (-out), net	(2.5)	(2.0)
Actuarial (gain)/loss	(4.9)	4.2
Benefit obligation, end of period	**51.7**	**54.3**
Plan assets, beginning of period	**43.9**	**39.3**
Actual return on plan assets	0.1	3.1
Employer contributions	2.6	2.4
Participant contributions	1.0	1.1
Transfers-in and (-out), net	(2.5)	(2.0)
Plan assets, end of period	**45.1**	**43.9**
Accrued pension liability	**(6.6)**	**(10.4)**

As of December 31, 2013, the Company recorded an accrued pension liability of CHF 6.6 million in other non-current liabilities (December 31, 2012: CHF 10.4 million).

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

The Company records net gains/losses, consisting of actuarial gains/losses, curtailment gains/losses and differences between expected and actual returns on plan assets, in other comprehensive income/loss. Such net gains/losses are amortized to the consolidated statements of operations to the extent that they exceed 10% of the greater of projected benefit obligations or pension assets. The Company further records prior service costs/credits from plan amendments in other comprehensive income/loss in the period of the respective plan amendment and amortizes such amounts to the consolidated statement of operations over the future service period of the plan participants. As of December 31, 2013, the accumulated other comprehensive income/loss includes unrecognized

pension cost of CHF 11.2 million, consisting of a net loss of CHF 10.8 million and a prior service cost of CHF 0.4 million, that have not yet been recognized as a component of net periodic pension cost. As of December 31, 2012, the accumulated other comprehensive income/loss included unrecognized pension cost of CHF 15.8 million, consisting of a net loss of CHF 15.3 million and a prior service cost of CHF 0.5 million, that have not yet been recognized as a component of net periodic pension cost. The Company expects that a net amount of CHF 0.5 million will be reclassified from accumulated other comprehensive income/loss and recognized as a component of net periodic pension cost in 2014 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:

	2013	2012
Net loss, beginning of period	(15.3)	(13.8)
Other gain/loss during the period	3.6	(2.3)
Amortization of pension related net loss	0.9	0.8
Net loss, end of period	(10.8)	(15.3)
Prior service cost, beginning of period	(0.5)	(0.5)
Amortization of prior service cost	0.1	0.0
Prior service cost end of period	(0.4)	(0.5)
Total unrecognized pension cost, end of period	(11.2)	(15.8)

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

	2013	2012
Discount rate	2.5%	2.0%
Rate of increase in compensation level	2.0%	2.0%
Expected long-term rate of return on plan assets	3.25%	2.75%

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, 2013 and 2012 amounts to CHF 49.0 million and CHF 51.2 million respectively.

Beginning from January 1, 2012, the investment risk is borne by the insurer and the reinsurer respectively, and the investment decision by the board of trustees of the collective insurance.

The expected amount of employer contributions to the Company's defined benefit pension plan in 2014 is CHF 2.2 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
2014	2.5
2015	2.4
2016	2.6
2017	2.4
2018	2.8
2019 - 2023	14.1

In addition to the defined benefit plan described above, the Company recognized CHF 0.3 million of expenses related to defined contribution plans of Basilea's subsidiaries in 2012. In 2013, no expenses related to defined contribution plans were incurred.

16 Lease commitments

The Company entered into operating lease contracts for office space. The leases expire between 2015 and 2016. The aggregate minimum operating lease payments are expensed on a straight-line basis over the term of the related lease. The total expenses under operating leases were CHF 0.4 million and CHF 2.3 million for the years ending December 31, 2013 and 2012, respectively.

The future minimum payments as of December 31, 2013 for operating leases with initial or remaining non-cancellable terms in excess of one year are as follows:

	Amount in CHF million
2014	0.3
2015	0.2
2016	0.0
2017	0.0
2018	0.0
Thereafter	0.0
Total	**0.5**

17 Concentration of risk

The Company is generally subject to credit risk related to financial investments. The Company mitigates such credit risk by investing the funds only with counterparties, which are rated as high quality investment grade by a major rating agency or are fully guaranteed by Swiss cantons at the time of the Company's investment. As of December 31, 2013, the short-term investments were invested with four different banks and amounted to CHF 155.0 million. As of December 31, 2012, the short-term investments were invested with two different banks and amounted to CHF 120.0 million.

The cash and cash equivalents as of December 31, 2013 amounted to CHF 118.9 million, of which CHF 112.6 million was held with four different banks. The cash and cash equivalents as of December 31, 2012 amounted to CHF 224.0 million, of which CHF 187.2 million was held with five different banks. As of December 31, 2013, the highest total amount of cash and cash equivalents and short-term investments held at one bank amounted to CHF 70.0 million (December 31, 2012: CHF 110.0 million).

The Company is also subject to credit risk related to accounts receivable. The highest total amount of accounts receivable with an individual counterparty as of December 31, 2013 is from Astellas in the amount of CHF 3.7 million in connection with the license agreement related to isavuconazole (December 31, 2012: CHF 5.7 million).

18 Related party transactions

In 2013, the Company paid fees to one of its board members in the amount of CHF 0.0 million (2012: CHF 0.1 million) for consulting services. For further information related to compensation to members of the Board of Directors and executive management, please refer to the financial statements of Basilea Pharmaceutica Ltd.

The accounts receivable, accounts payable and accruals and other current liabilities do not include significant positions due to or from related parties as of December 31, 2013 and 2012.

19 Commitments and contingencies

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

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

As of December 31, 2013, there are no significant contingencies.

20 Risk assessment

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

The permanent observation and control of the risks is a management objective. For identified risks, which arise from the accounting and financial reporting, a risk assessment is performed. Throughout the Internal Control System framework on financial reporting, relevant control measures are defined, which reduce the respective risks. The Audit Committee reviewed the Company's Internal Control System over financial reporting as of December 31, 2013 and 2012. The Board of Directors concluded, based on this review that an appropriate internal control system related to financial reporting of the Company was in place as of December 31, 2013 and 2012.

21 Restructuring

In 2012, the Company closed down its organizations in Denmark, France, Germany and the UK as Stiefel assumed responsibility for the development, manufacturing and commercialization of Toctino® (alitretinoin) and the business was transferred to Stiefel.

In 2012, the Company incurred restructuring costs of CHF 3.7 million related to exit activities in connection with its subsidiaries in Denmark, France, Germany, UK and at its headquarters in Switzerland, which are included in selling, general and administrative expenses and are related to contract termination and other associated costs. The restructuring was completed in 2012.

As of December 31, 2013 and 2012, there were no material outstanding liabilities related to other associated costs and no material outstanding liability related to contract termination costs.

22 Subsequent events

The Company has evaluated subsequent events through February 6, 2014, the date on which the financial statements were available to be issued.

REPORT OF THE STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS

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

As Statutory Auditors, we have audited the accompanying financial statements of Basilea Pharmaceutica Ltd., which comprise the balance sheet, statement of operations and notes for the year ended December 31, 2013, included on pages 72 to 80.

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

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

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

Opinion
In our opinion, the financial statements for the year ended December 31, 2013 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Thomas Brüderlin
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 6, 2014

FINANCIAL STATEMENTS OF BASILEA PHARMACEUTICA LTD.

BASILEA PHARMACEUTICA LTD.
Balance sheets as of December 31, 2013 and 2012 (in CHF)

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	62 943 963	21 624 850
Accounts receivable:		
Affiliates	86 860 983	70 475 062
Other receivables	157 700	302 700
Total current assets	**149 962 646**	**92 402 612**
Non-current assets		
Investment in subsidiaries, net	208 126 374	258 126 374
Capital increase costs, net	–	13 377
Total non-current assets	**208 126 374**	**258 139 751**
TOTAL ASSETS	**358 089 020**	**350 542 363**
LIABILITIES		
Current liabilities		
Payables, affiliates	430 402	–
Accruals and other current liabilities	1 047 364	350 448
Total current liabilities	**1 477 766**	**350 448**
Total liabilities	**1 477 766**	**350 448**
SHAREHOLDERS' EQUITY		
Share capital [1]	10 200 233	9 587 621
General reserve:		
Reserve from capital contributions	348 356 149	343 051 949
Accumulated deficit	(2 447 655)	(1 896 936)
Net income/loss	502 527	(550 719)
Total shareholders' equity	**356 611 254**	**350 191 915**
TOTAL LIABILITIES AND EQUITY	**358 089 020**	**350 542 363**

[1] As of December 31, 2013, 10,200,233 registered shares were issued and outstanding with a par value of CHF 1 per share.
As of December 31, 2012, 9,587,621 registered shares were issued and outstanding with a par value of CHF 1 per share.

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

BASILEA PHARMACEUTICA LTD.
Statements of operations for the years ended December 31, 2013 and 2012 (in CHF)

	2013	2012
Dividend income from investments in subsidiaries	50 000 000	70 000 000
Other income	8 560	–
Total operating income	**50 008 560**	**70 000 000**
Net gain from investments	–	31 863
Administrative expenses	(532 262)	(570 677)
Depreciation	(50 013 776)	(70 016 591)
Total operating expenses	**(50 546 038)**	**(70 555 405)**
Operating loss	**(537 478)**	**(555 405)**
Interest income	1 056 169	4 893
Other financial expenses, net	(16 164)	(207)
Income/loss before taxes	**502 527**	**(550 719)**
Income taxes	–	–
Net income/loss	**502 527**	**(550 719)**

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

BASILEA PHARMACEUTICA LTD.
Notes to the financial statements as of December 31, 2013

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

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

The permanent observation and control of the risks is a management objective. For identified risks, which arise from the accounting and financial reporting, a risk assessment is performed. Throughout the Internal Control System framework on financial reporting, relevant control measures are defined, which reduce the respective risks. The Audit Committee reviewed Basilea's Internal Control System over financial reporting as of December 31, 2013 and 2012. The Board of Directors concluded, based on this review that an appropriate internal control system related to financial reporting of Basilea is in place as of December 31, 2013 and 2012.

3 Investments
As of December 31, 2013, Basilea holds the following investments:

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

[1] Organizations are operationally closed down.

In 2012, Basilea entered into an agreement with Stiefel, a GlaxoSmithKline (GSK) company, who assumed responsibility for the development, manufacturing and commercialization of the hand eczema drug Toctino® (alitretinoin). As a result, the Company operationally closed down its organizations in Denmark, France, Germany and the UK, whereas the subsidiaries remained as legal entities.

In addition, Basilea liquidated its subsidiaries in Italy and Spain in 2012.

In addition to the direct investments, Basilea indirectly holds 100% of Basilea Pharmaceutica China Ltd., Haimen, China, that supports all key R&D projects through focusing on the chemical synthesis, analytical development, process research and development.

4 Share capital and conditional capital

As of December 31, 2013, Basilea had 10,200,233 registered shares issued and outstanding with a par value of CHF 1 per share. As of December 31, 2012, Basilea had 9,587,621 registered shares with a par value of CHF 1 per share issued and outstanding respectively.

In 2013, 612,612 stock options were exercised, using conditional capital, which resulted in the issuance of 612,612 registered shares with a par value of CHF 1 per share. In 2012, 50 stock options were exercised resulting in the issuance of 50 registered shares with a par value of CHF 1 per share.

Basilea had a total approved conditional capital of CHF 2,699,908 as of December 31, 2013 for the issuance of a maximum of 2,699,908 registered shares with a par value of CHF 1 per share. This conditional capital contained CHF 2,059,908 (2,059,908 registered shares with a par value of CHF 1 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1 each, available for the exercise of option or conversion rights granted with new option or convertible bonds.

5 Compensation and shareholdings

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

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

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

The total compensation of the members of the Board of Directors in 2012 is outlined below:

In CHF	Cash compensation fix	Cash compensation variable	Stock options [1]	Other fringe benefits [2]	**Total**
Mr. Werner Henrich, Chairman	182 000 [3]	–	47 547	10 066	239 613
Mr. Hans-Beat Gürtler, Vice-Chairman	73 000	–	31 698	6 104	110 802
Prof. Daniel Lew, Director	67 750	–	31 698	9 034	108 482
Dr. Thomas M. Rinderknecht, Director	67 750	–	31 698	9 034	108 482
Mr. Domenico Scala, Director	67 750	–	31 698	9 034	108 482
Mr. Claude Schreiner, Director	67 750	–	31 698	5 532	104 980
Mr. Steven D. Skolsky, Director	67 750	–	31 698	9 034	108 482
Dr. Thomas Werner, Director	67 750	–	31 698	9 034	108 482
Total	**661 500**	**–**	**269 433**	**66 872**	**997 805**

[1] Based on the grant-date fair value of stock options granted in 2012 using a binomial valuation model.
[2] Includes employers' contributions to pension plans, social security, life insurances etc.
[3] Compensation as Chairman of the Board of Directors: CHF 109,500.

In addition to the compensation as Chairman of the Board of Directors of Basilea for the period until April 9, 2013, Mr. Henrich acted as consultant to the Company in the field of licensing and patent matters and received a total compensation of CHF 9,000 for his consulting services for the period until April 9, 2013 (2012: CHF 72,500). These compensations are included in the cash compensations as presented in the tables above.

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

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

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

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

The total compensation and the highest individual compensation of the members of the Management Committee in 2012 are outlined below:

In CHF	Cash compensation fix	Cash compensation variable	Stock options [1]	Other fringe benefits [2]	**Total**
Chief Executive Officer	533 699	254 517	393 760	134 191	1 316 167
Total Management Committee	**2 555 607**	**1 142 441**	**1 353 505**	**636 314**	**5 687 867**

[1] Based on the grant-date fair value of stock options granted in 2012 using a binomial valuation model.
[2] Includes employers' contributions to pension plans, social security, life insurances etc.

In addition, the Company recorded CEO compensation for 2013 on an accrued basis including notice period of CHF 244,811 and an additional compensation equivalent to 12 months salary of CHF 525,040.

The Company has not granted any loans or guarantees to members of the Board of Directors or the Management Committee in 2013 and 2012.

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

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

As of December 31, 2012, the shareholdings in Basilea of members of the Board of Directors and the Management Committee are outlined below:

	Number of shares
Mr. Werner Henrich, Chairman	5 600
Mr. Hans-Beat Gürtler, Vice-Chairman	–
Mr. Joachim Blatter, Chief Financial Officer	–
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	–
Prof. Achim Kaufhold, Chief Medical Officer	–
Dr. Laurenz Kellenberger, Chief Scientific Officer	500
Prof. Daniel Lew, Director	2 982
Dr. Anthony Man, Chief Executive Officer	2 530
Dr. Thomas M. Rinderknecht, Director	–
Mr. Domenico Scala, Director	690
Mr. Claude Schreiner, Director	570
Mr. Ronald Scott, Chief Operating Officer	7 750
Mr. Steven D. Skolsky, Director	–
Dr. Thomas Werner, Director	700

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

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

The following table shows the holdings of stock options in Basilea of members of the Board of Directors and of the Management Committee as of December 31, 2012:

	Number of vested stock options	Number of unvested stock options	Total number of stock options
Mr. Werner Henrich, Chairman	27 001	6 927	33 928
Mr. Hans-Beat Gürtler, Vice-Chairman	3 060	4 620	7 680
Mr. Joachim Blatter, Chief Financial Officer	–	2 500	2 500
Dr. Ingrid Heinze-Krauss, Chief Technology Officer	48 855	25 400	74 255
Prof. Achim Kaufhold, Chief Medical Officer	10 570	27 530	38 100
Dr. Laurenz Kellenberger, Chief Scientific Officer	33 905	28 345	62 250
Prof. Daniel Lew, Director	8 995	4 620	13 615
Dr. Anthony Man, Chief Executive Officer	135 122	48 228	183 350
Dr. Thomas M. Rinderknecht, Director	38	1 912	1 950
Mr. Domenico Scala, Director	38	1 912	1 950
Mr. Claude Schreiner, Director	5 969	4 620	10 589
Mr. Ronald Scott, Chief Operating Officer	97 383	39 437	136 820
Mr. Steven D. Skolsky, Director	5 300	4 620	9 920
Dr. Thomas Werner, Director	38	1 912	1 950

6 Significant shareholders

The following table shows the ownership percentage of shareholders which held a significant percentage of shares of Basilea as of December 31, 2013 and 2012 according to the share register of Basilea:

	Ownership of outstanding shares	
	Dec 31, 2013	Dec 31, 2012
HBM Healthcare Investments (Cayman) Ltd.[1]	Not registered	15.9%
Chase Nominees Ltd.	12.9%	12.5%

The ownership percentages in the table above are based on 10,200,233 shares outstanding as of December 31, 2013 and 9,587,621 shares outstanding as of December 31, 2012.

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

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

On October 22, 2013, Morgan Stanley, The Corporation Trust Company, notified Basilea that the holding of Morgan Stanley & Co International Plc, Morgan Stanley & Co. LLC, and Morgan Stanley Smith Barney LLC fell below 5% of the shares of Basilea as of October 16, 2013.

On October 29, 2010, Franklin Resources, Inc. notified Basilea of its holdings of 10.0% of the shares of Basilea as of October 28, 2010.

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

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

Proposal of the Board of Directors for the appropriation of loss carried forward as of December 31, 2012:

In CHF	Proposed by the Board of Directors
Accumulated deficit beginning of the year	(1 896 936)
Net loss of the year	(550 719)
Balance to be carried forward	**(2 447 655)**

At the ordinary general meeting of shareholders on April 9, 2013, the shareholders of Basilea approved to carry forward the loss of CHF 2.4 million. In addition Basilea's shareholders approved the proposal of HBM Healthcare Investments (Cayman) Ltd. to distribute CHF 5.00 per share corresponding to CHF 48.0 million from reserve from capital contributions to shareholders.

ANNUAL GENERAL MEETING
The annual general meeting of shareholders for the financial year 2013 will take place on April 9, 2014 in Basel, Switzerland.

The Basilea Pharmaceutica Ltd. Annual Report 2013 consists of the business review, the corporate governance section and the financial report. The document is published in English and German. In case of discrepancies the English version prevails.

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