

BBBIOTECH

BB BIOTECH AG

Offering Prospectus /
Company Report
1997

Offering Prospectus according to German Law.
The English translation is for convenience only!
The German text is exclusively legally binding!

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BB Biotech AG

**Schaffhausen, Canton of Schaffhausen
Switzerland**

Issuing Prospectus

Offering Prospectus/Company Report 1997

Issuing Prospectus

at the same time

Offering Prospectus

for

SFr 4,000,000.00

composed of 400,000 bearer shares with a par value of SFr 10.00 per share issued on the basis of the partial utilization resolved by the Board of Directors on 8 December 1997 of the authorized capital increase approved by the Extraordinary General Meeting on 18 November 1997

and up to

SFr 600,000.00

composed of 60,000 bearer shares with a par value of SFr 10.00 per share from the portfolio of Biotech Target S.A. in respect of the Greenshoe option granted to Dresdner Bank Aktiengesellschaft

carrying full dividend rights for fiscal year 1997

and

deliverable as co-ownership shares in a global bearer certificate for 1/10 fractional interests

in

bearer shares with a par value of SFr 10.00 per share of BB Biotech AG

Schaffhausen, Canton of Schaffhausen
Switzerland

– ten co-ownership shares represent one bearer share with a par value of SFr 10.00 per share –

– Securities Code Number 910 468 –

and

Company Report

for

SFr 18,900,000.00

composed of 1,890,000 bearer shares with a par value of SFr 10.00 per share carrying full dividend rights for fiscal year 1997

and

SFr 600,000.00

composed of 60,000 bearer shares with a par value of SFr 10.00 per share from the portfolio of Biotech Target S.A. in respect of the Greenshoe option granted to Dresdner Bank Aktiengesellschaft

and

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of

BB Biotech AG

Schaffhausen, Canton of Schaffhausen

Switzerland

for Admission to the Geregelter Markt (Second Trading Segment) and Admission to Trading on the

Neuer Markt

of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange)

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General Information

Liability for the contents of the Issuing Prospectus

BB Biotech AG (hereinafter also termed "BB BIOTECH AG", "BB Biotech", "Biotech", the "Company" or, together with its subsidiaries, the "Biotech Group") and the underwriting banks listed at the end of this Issuing Prospectus assume liability for the contents of this Issuing Prospectus pursuant to Art. 13 of the Verkaufsprospektgesetz (German Offering Prospectus Act) and Art. 77 of the Börsengesetz (German Stock Exchange Act), in conjunction with Arts. 45 ff. of the Börsengesetz, and herewith state that to the best of their knowledge, the information contained in this Issuing Prospectus is accurate, and that no material circumstances have been omitted. The Issuing Prospectus has been filed in this form with the Bundesaufsichtsamt für den Wertpapierhandel (the German Federal Securities Supervisory Office) as the depository.

Inspection of documents

All public documents named in this Issuing Prospectus relating to the Company, and the Company's Annual Report for 1996, may be inspected at the Company's Registered Office in 8200 Schaffhausen, Canton of Schaffhausen, Switzerland, Vordergasse 3, and at the offices of Dresdner Bank Aktiengesellschaft in 60301 Frankfurt am Main, Jürgen-Ponto-Platz 1 ("Dresdner Bank"), during normal business hours.

Subject of the Issuing Prospectus

The subject of the Issuing Prospectus as Offering Prospectus is the SFr 4,000,000.00 composed of 400,000 bearer shares with a par value of SFr 10.00 per share issued on the basis of the partial utilization resolved by the Board of Directors on 8 December 1997 of the authorized capital increase approved by the Extraordinary General Meeting on 18 November 1997 (hereinafter also termed the "New Shares") and the up to SFr 600,000.00, composed of 60,000 bearer shares with a par value of SFr 10.00 per share from the portfolio of Biotech Target S.A. (hereinafter also termed the "Greenshoe Shares") in respect of the Greenshoe option granted to Dresdner Bank, all carrying full dividend rights for fiscal year 1997 and deliverable as co-ownership shares in a global bearer certificate for 1/10 fractional interests in bearer shares with a par value of SFr 10.00 per share of BB Biotech AG, Schaffhausen, Canton of Schaffhausen, Switzerland – ten co-ownership shares represent one bearer share with a par value of SFr 10.00 per share.

The subject of the Issuing Prospectus as Company Report is the SFr 18,900,000.00 composed of 1,890,000 bearer shares with a par value of SFr 10.00 per share carrying full dividend rights for fiscal year 1997 and the SFr 600,000.00 composed of 60,000 bearer shares with a par value of SFr 10.00 per share from the portfolio of Biotech Target S.A. in respect of the Greenshoe option granted to Dresdner Bank, and the SFr 4,000,000.00 composed of 400,000 bearer shares with a par value of SFr 10.00 per share issued on the basis of the partial utilization resolved by the Board of Directors on 8 December 1997 of the authorized capital increase approved by the Extraordinary General Meeting on 18 November 1997, all carrying full dividend rights for fiscal year 1997 and deliverable as co-ownership shares in a global bearer certificate for 1/10 fractional interests in bearer shares with a par value of SFr 10.00 per share of BB Biotech AG, Schaffhausen, Canton of Schaffhausen, Switzerland – ten co-ownership shares represent one bearer share with a par value of SFr 10.00 per share – ("Aggregate Share Capital").

The Offering

General Information

The SFr 4,000,000.00 New Shares, deliverable as co-ownership shares in a global bearer certificate for 1/10 fractional interests in bearer shares with a par value of SFr 10.00 per share of BB Biotech AG, Schaffhausen, Canton of Schaffhausen, Switzerland (hereinafter also termed "co-ownership shares"), were offered for sale to interested investors by a banking consortium with Dresdner Bank as the lead manager and with Westdeutsche Landesbank Girozentrale ("WestLB") as the co-lead manager, during the period from 1 December 1997 to 5 December 1997 (the "selling period") in Germany by way of a public offering, and internationally by way of private placement, using a bookbuilding process. The underwriting consortium reserved the right to terminate the sale of the shares before the date specified by curtailing the selling period.

Bids could be submitted without a limit or with a maximum price ("price limit"). The selling price at which the co-ownership shares, and if applicable also the up to SFr 600,000.00 Greenshoe Shares, deliverable as co-ownership shares in a global bearer certificate for 1/10 fractional interests in bearer shares with a par value of SFr 10.00 per share will be settled, was fixed on 6 December 1997 at DM 53.50 on the basis of the bids received before the end of the selling period, and was published in the Frankfurter Allgemeine Zeitung on 8 December 1997, and will be published as soon as possible in the Börsen-Zeitung. Bids were accepted without obligation by the underwriting banks listed at the end of this Issuing Prospectus during normal banking hours. In particular in the event that the placement volume is insufficient to service all bids at the selling price, the underwriting banks had reserved the right to reject bids in full or in part. Investors who have submitted their bid through an underwriting bank can obtain information from this bank regarding the number of co-ownership shares allotted to them as from 8 December 1997.

Purchasers will likely be required to pay the purchase price for the co-ownership shares plus the standard securities commission on 10 December 1997.

After the implementation of the aforementioned capital increase, which was subscribed by Bellevue Asset Management AG, Grafenauweg 4, 6301 Zug, Canton of Zug, Switzerland (hereinafter termed "BAM"¹⁾), against a non-cash contribution by the contribution of Biotech Growth S.A.²⁾, the New Shares, deliverable as co-ownership shares, were purchased from BAM by an underwriting consortium led by Dresdner Bank as the lead manager and with WestLB as co-lead manager, at a placement price of DM 53.50 per co-ownership share. The underwriting consortium has undertaken to ensure the placement of these shares.

The co-ownership shares have been allocated Securities Code Number ("Wertpapier-Kenn-Nummer/WKN") – 910 468 –.

Stock exchange listing

The Aggregate Share Capital of the Company was admitted to the Geregelter Markt (Second Trading Segment) on 8 December 1997, with Admission to Trading on the Neuer Markt of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange). Admission to Trading on the Neuer Markt, initially³⁾ for the bearer shares with a par value of SFr 10.00 per share described under the Subject of the Preliminary Offering Prospectus, deliverable and tradable as co-ownership shares⁴⁾, is envisaged for 10 December 1997.

Utilization of the new funds accruing to the Company under the capital increase

The proceeds from the placement of the New Shares, deliverable as co-ownership shares, offered in this Preliminary Offering Prospectus amount to DM 214,000,000.00. The entire costs, including the remuneration of the underwriting banks amounting to DM 8,778,480.00 will amount to approximately DM 10,570,000.00.

It is envisaged that the new funds amounting to approximately DM 203,430,000.00 accruing to the Company from the aforementioned capital increase and the placement of the co-ownership shares will be used to acquire participations in accordance with the purpose of the company and its investment strategy.

In turn, these new investments will be held by Biotech Growth S.A., a company registered in Panama, Republic of Panama, a wholly-owned subsidiary of the Company ²⁾.

¹⁾ cf. p. 42 "Asset management – Bellevue Asset Management".

²⁾ cf. p. 40 "Holdings of BB Biotech AG".

³⁾ cf. p. 6 "Availability, tradability and settlement".

⁴⁾ cf. p. 4 "Subject of the Issuing Prospectus".

Utilization of the funds accruing to Biotech Target S.A. following the placement of Greenshoe shares

The proceeds from the placement of the Greenshoe Shares offered in this Preliminary Offering Prospectus/Company Report, deliverable as co-ownership shares, will be used to acquire participations in accordance with the purpose of the company and its investment strategy.

Exchange rate

On 8 December 1997, the official middle rate on the Frankfurt Foreign Exchange Market for SFr 100.00 (SFr is also termed "CHF" hereinafter) = DM 123.289.

Availability, tradability and settlement

The bearer shares of the Company with a par value of SFr 10.00 per share (hereinafter also termed "shares"), lodged in the special custody account established at the Schweizerische Effekten-Giro AG, Zurich, Switzerland, as the custodian for Deutsche Börse Clearing AG (hereinafter also termed "Clearing AG"), will be deliverable on the Neuer Markt of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) in the form of co-ownership shares in a global bearer certificate, issued by Clearing AG, for 1/10 fractional interests in bearer shares with a par value of SFr 10.00 per share of BB Biotech AG, Schaffhausen, Canton of Schaffhausen, Switzerland (hereinafter also termed the "global bearer certificate"). Ten co-ownership shares represent one bearer share with a par value of SFr 10.00. Each owner of bearer shares with a par value of SFr 10.00 per share is entitled to transfer his or her bearer shares with a par value of SFr 10.00 per share to Clearing AG by granting corresponding co-ownership shares in the global bearer certificate of Clearing AG, at the shareholder's cost and through the agency of his or her custodian bank, thereby ensuring their availability, and thus their tradability, on the Neuer Markt of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange).

Clearing AG will forward to the co-owners the dividends, other amounts, bonus shares, subscription rights, voting proxies and other rights attributable to the bearer shares with a par value of SFr 10.00 per share without delay as set out in the certificate terms and conditions¹⁾.

In accordance with the certificate terms and conditions applying to the global bearer certificate of Clearing AG, each co-owner of the global bearer certificate is entitled to require from Clearing AG at any time the delivery of a number of bearer shares with a par value of SFr 10.00 per share corresponding to his or her co-ownership shares in the global bearer certificate, such delivery to be made either to the shareholder or to a third party designated by the shareholder, where such an application is made for ten co-ownership shares or a multiple thereof.

On receipt of such an application by a co-owner of the global bearer certificate, Clearing AG will notify the custodian without delay to make available in Zurich the relevant number of bearer shares with a par value of SFr 10.00 per share to the beneficiary named by Clearing AG in this instruction. At the same time, Clearing AG will reduce the number of bearer shares with a par value of SFr 10.00 per share certificated in the global bearer certificate by the number of bearer shares with a par value of SFr 10.00 per share made available in this way.

For the delivery of bearer shares with a par value of SFr 10.00 per share in accordance with the preceding clause, Clearing AG shall charge the co-owner a fee of currently DM 65.00 per delivery. Other costs, taxes, fees or levies incurred in conjunction with the delivery shall be borne by the co-owner.

On delivery of the bearer shares with a par value of SFr 10.00 per share, the availability, and thus the tradability, on the Neuer Markt of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) shall expire.

¹⁾ cf. p. 8 "Certificate terms and conditions".

Global Bearer Certificate

for

1/10 fractional interests

in

bearer shares with a par value of CHF 10.00 per share

of

BB BIOTECH AG

Schaffhausen, Canton of Schaffhausen,
Switzerland

For the assertion of rights arising from the bearer shares, Deutsche Börse Clearing Aktiengesellschaft, registered in Frankfurt am Main, holds as cover bearer shares with a par value of CHF 10.00 per share of BB BIOTECH AG, Schaffhausen, Canton of Schaffhausen, Switzerland, in a special custody account at Schweizerische Effekten-Giro AG (SEGA), Zurich, in trust for all holders of co-ownership shares in this Global Bearer Certificate.

Each co-owner of this Global Bearer Certificate is entitled to require from Deutsche Börse Clearing Aktiengesellschaft at any time delivery of a number of bearer shares with a par value of CHF 10.00 per share resulting from the division of his or her holding of co-ownership shares by ten, such delivery to be made to the shareholder or a third party designated by the shareholder. It is not possible to deliver fractions of bearer shares with a par value of CHF 10.00 per share or 1/10 fractional interests (co-ownership shares). The bearer shares with a par value of CHF 10.00 per share will be made available at Schweizerische Effekten-Giro AG (SEGA), Zurich.

The certificate terms and conditions attached to this Global Bearer Certificate, which form part of this document, also apply.

Frankfurt am Main

DEUTSCHE BÖRSE CLEARING AG

Certificate terms and conditions

1. The Global Bearer Certificate bears the signatures of two members of the Managing Board or one member of the Managing Board and one authorized signatory of Deutsche Börse Clearing Aktiengesellschaft (hereinafter termed "Clearing AG").
2. Each co-owner of this Global Bearer Certificate is entitled to require from Clearing AG at any time the delivery or crediting of a number of bearer shares with a par value of CHF 10.00 per share (hereinafter termed "bearer shares") of BB BIOTECH AG, Schaffhausen, Canton of Schaffhausen, Switzerland (hereinafter termed the "Company") corresponding to his or her co-ownership shares (number of co-ownership shares divided by ten). They will be made available at Schweizerische Effekten-Giro AG, Zurich (hereinafter termed the "custodian"). The co-owner is required to issue such an instruction through his or her custodian bank. No fractions of bearer shares can be made available, as ten co-ownership shares collectively grant a full entitlement to one bearer share. Ten co-ownership shares or a multiple thereof are required for the delivery or crediting of a bearer share or corresponding multiples of bearer shares.

In addition to the fee for delivery designated by Clearing AG under the terms of Art. 315 of the German Civil Code, the co-owner bears any other costs, taxes, fees or levies incurred in conjunction with delivery.

Co-owners are not entitled to require the delivery of odd lots from this Global Bearer Certificate.

3. Clearing AG transfers to the co-owner through his or her custodian bank all rights from the bearer shares attributable to his or her share in the Global Bearer Certificate.

Clearing AG will forward cash dividends to the co-owner.

Stock dividends, shares from stock splits and bonus shares will be credited to the co-owner in the form of additional co-ownership shares in the Global Bearer Certificate. Where no pro rata allocation to the co-owners is possible, Clearing AG will try to realize the corresponding rights in the best way possible. It will make the realization proceeds available to the co-owners.

In the event that subscription rights are granted, Clearing AG will, where possible, give the co-owner an opportunity to subscribe. If the subscription right is not exercised within the specified period, Clearing AG will try to realize the subscription right in the best way possible. It will make the realization proceeds available to the co-owner.

Clearing AG is entitled to realize new shares, subscription rights, fractional interests or other rights arising from the bearer shares in the best way possible if it deems this to be in the interest of all co-owners, or if it judges that pro rata allocation to the co-owners is not possible. It will make the realization proceeds available to the co-owners.

Any periods and conditions notified by Clearing AG shall also apply.

All payments to the co-owners shall be made in Deutsche Marks in accordance with the prevailing foreign exchange regulations, unless the co-owner has requested payment in CHF in good time before the due date.

4. Clearing AG will not exercise the voting right arising from the bearer shares. On request, it will procure an entry pass to the General Meeting for the co-owner or a third party¹⁾ designated by the co-owner or ensure the exercise of the voting right in accordance with instructions.

As ten co-ownership shares grant full entitlement to a bearer share, the issuance of an entry pass or the exercise of voting rights is only possible for ten co-ownership shares or a multiple thereof. Such a multiple must be an integer.

The Company has assumed an obligation to announce the agenda before each General Meeting and the conditions for participation in the General Meeting and for exercising voting rights.

5. If the issuance of the Global Bearer Certificate is subject at any time to taxes, fees or levies in the Federal Republic of Germany or in Switzerland, the co-owners shall bear these taxes, fees or levies in proportion to their shares in the Global Bearer Certificate.

Clearing AG is entitled to apportion among all co-owners, in proportion to their shares in the Global Bearer Certificate, any taxes, fees or levies to which it is subject at any time in the Federal Republic of Germany or in Switzerland solely because it holds the bearer shares.

¹⁾ cf. p. 20 "The General Meeting".

6. In the event that the bearer shares are replaced by other shares or another asset as a consequence of a change in capital, a merger, conversion, change of name or for another reason, the right of the co-owner to the bearer shares are to be converted into a right in the replacement asset. The certificate terms and conditions will then apply analogously.
7. Clearing AG is entitled to replace the custodian by another person. The liability of Clearing AG shall be limited to prudent selection. This shall not affect the power of Clearing AG to assume the function of the custodian itself.
8. In the event that the bearer shares are deliverable at German stock exchanges in a way no longer requiring the participation of Clearing AG in this form, or if the admission of the bearer shares deliverable as co-ownership shares in the Global Bearer Certificate for trading on the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) is revoked, Clearing AG will request the co-owners to issue it instructions in accordance with Clause 2 Para. 1. If these instructions are not issued within 12 months of the publication of the request, Clearing AG is entitled at its own discretion to deposit the bearer shares at a place stated in the request on behalf of the co-owner and at his or her cost and risk. The duties of Clearing AG arising out of the Global Bearer Certificate then lapse.
9. The co-owners bear all economic and legal disadvantages and losses on a pro rata basis affecting the bearer shares held as cover for the Global Bearer Certificate resulting from force majeure, war, riots, acts of authorities in Germany or abroad or other circumstances for which Clearing AG cannot be held liable.

Clearing AG will fulfil all obligations arising from the Global Bearer Certificate with the diligence of a prudent businessman. If it is prevented from fulfilling its obligations as a consequence of force majeure, war, riots, acts of authorities in Germany or abroad or other circumstances for which it cannot be held liable, it shall be discharged from any responsibility.

The custodian is obliged in respect of Clearing AG to exercise the duties incumbent upon it in an orderly fashion. Clearing AG will assert any claims against the custodian in favour of the co-owners. Above and beyond this, Clearing AG shall be liable only for the prudent selection of the custodian.

10. In the event that any of these provisions is or becomes inoperative or unenforceable, this shall not affect the remaining provisions. Inoperative or unenforceable provisions will be replaced by a provision corresponding to the spirit and objectives of these certificate terms and conditions.
11. All legal relations between the co-owner and Clearing AG shall be governed by the law of the Federal Republic of Germany. The competent court at Frankfurt am Main shall have sole jurisdiction.
12. An amendment to these certificate terms and conditions is allowable only to the extent that it does not impair the rights of the co-owners, unless it is caused by statutory regulations or by the articles of association of the Company.

Taxation

This section contains a brief summary of a number of key Swiss and German taxation principles which are or could be of material relevance in conjunction with the Swiss company BB Biotech AG and the co-ownership shares. This summary is not a comprehensive or complete picture of all taxation aspects which could be of relevance. The summary is based on current national Swiss and German law at the time of preparation of this Preliminary Offering Prospectus/Company Report as well as on the German-Swiss double taxation agreement. Regulations may change at any time in these areas. Prospective purchasers of co-ownership shares should therefore consult their tax adviser regarding the tax consequences of purchase, ownership, disposal or cost-free transfer and regarding the procedure to be observed in any refund of withholding taxes. Only a tax adviser is in a position to adequately assess the particular tax position in individual cases.

Swiss Law

– General remarks on the Swiss tax system

Three public authorities are entitled to levy taxes in Switzerland: the Federal government, the cantons and the communes (local authorities). As a rule, the communes levy their taxes as surcharges to the cantonal taxes.

The Federal government normally accounts for around one third of taxes on income, with the cantons and communes accounting for two thirds.

Several references are made below to a planned reform of company tax law by the Federal government. This reform has already been adopted by the national parliament. This change in legislation may be subject to the outcome of a referendum, but this is still not certain. If no referendum against the change in the law is held, the amendment will probably come into force on 1 January 1998.

– The Company's tax liability

a) Federal taxes

Under prevailing law, the Federal government levies a tax on profit based on net income of maximum 9.8%. As from 1 January 1998, the planned amendment to the Federal Tax Act will probably see this tax rate fall to 8.5%, irrespective of net income.

An investment reduction is allowed on income from investments if the parent company holds at least 20% of the share capital of the subsidiary or the market value of the investment amounts to at least SFr 2 million. The purpose of the investment reduction is to avoid the double taxation of the profits of the subsidiary, since the profits of the latter are already taxed in its income tax liability. The investment reduction cuts the tax on profit as a proportion of the net income from investments to the aggregate net profit. At BB Biotech AG, the statutory tax levied on dividend income is at the most marginal, and thus negligible.

Under prevailing law, capital gains from the disposal of investments are subject to regular taxation on profits. As from 1 January 1998, the planned change in the law allows capital gains from the disposal of investments to benefit from the investment reduction, provided that the parent company holds at least 20% of the share capital of the investment, and it has been held by the parent company for at least one year. This will apply immediately to investments acquired after 1 January 1998. In the case of investments acquired before this date, the new rules will not apply until 1 January 2007.

Under prevailing law, the Federal government imposes a capital levy of 0.08% of the taxable capital. The taxable capital is composed of the paid-up share capital, disclosed reserves, taxed hidden reserves and profit brought forward. Under the planned change in the law, the capital levy will probably be abolished as from 1 January 1998.

b) Cantonal and communal taxes

As BB Biotech AG is a holding company whose assets are primarily composed of investments, it is exempt from cantonal and communal taxes on profit on the basis of the "holding company privilege".

The annual capital levy liability payable by BB Biotech AG is around 0.05% of the paid-up share capital.

c) Transaction duty

Purchases and sales of securities and investments by BB Biotech AG are subject to transaction duty, which amounts to 0.15% on Swiss securities and 0.3% on foreign securities. Transactions conducted by the subsidiaries of BB Biotech AG¹⁾ are not subject to Swiss transaction duty.

¹⁾ cf. p. 37 "Investment activities and strategy".

d) New issue duty

Under prevailing law, a new issue duty of 2 % is levied on the capital resources accruing to the Company when shares are issued as part of a capital increase. The planned change in the law will probably result in a cut in the new issue duty to only 1 % as from 1 January 1998.

– Taxation of dividends

Swiss corporations are obliged to deduct a withholding tax of 35 % on their distributed profits and remit it to the tax administration of the Confederation. Depending on applicable double taxation agreements, shareholders may claim a refund of the withholding tax or deduct it from their tax liability.

The national law of the country of domicile of the shareholder or the country of the operating establishment also applies to the taxation of dividends.

– Taxation of gains on disposal

For persons not resident in Switzerland who do not have any operating establishment in Switzerland, the disposal of shares in BB Biotech AG incurs no income or profit tax liability in Switzerland.

The national law of the country of domicile of the selling shareholder or the country of the operating establishment applies to the taxation of gains on disposal.

German law

– Taxation of gains on disposal/capital gains

Gains from the disposal of shares held in the operating assets of a shareholder resident in Germany or by a foreign shareholder in the assets of an operating establishment or a permanent facility in Germany are subject to standard taxation.

In contrast, gains from the disposal of privately held shares are only taxable if disposal takes place within six months of acquisition or – following the expiry of this capital gains liability period – if the shareholder directly or indirectly held an interest in the company exceeding 25 % at any time during the five years preceding the disposal. Foreign shareholders without an operating establishment or a permanent facility in Germany are only subject to taxation in Germany if they directly or indirectly held an interest in the company exceeding 25 % at any time during the five years preceding the disposal. Most double taxation agreements even provide complete exemption from German taxation in this respect.

– Wealth tax

For assessment periods commencing on or after 1 January 1997, a wealth tax is no longer levied in the Federal Republic of Germany.

– Inheritance and Gift tax

The transfer of shares to another person by way of a gift or on account of death is only subject to German inheritance or gift tax if

- (a) the testator (donor) or the heir (donee or other acquirer) was resident or ordinarily resident in Germany at the time of the transfer of assets, or as a German national had not been resident abroad for more than five years without having a place of resident in Germany, or
- (b) other than in the case described in (a) above, the shares of the testator or donor were operating assets for which an establishment was maintained in Germany or a permanent representative was appointed, or
- (c) the testator or donor either alone or in conjunction with other persons closely associated with him or her directly or indirectly held at least 10 % of the nominal or ordinary share capital of the German corporation.

– Other taxes

No German capital transfer tax, value added tax, stamp duty or similar tax is levied on the purchase, sale or disposal of shares by other means.

Double taxation agreements

Taxation of dividends in Switzerland

Dividends on shares of Swiss companies are currently subject to a Swiss withholding tax of 35 % of the gross dividend. Under the terms of the German-Swiss double taxation agreement, German claimants are normally refunded the portion of this tax exceeding 15 % on application, provided that they can prove

their residence in the Federal Republic of Germany to the Swiss authorities on the form issued by these authorities by means of a certificate issued by their tax office.

The refund application should be submitted to the Tax Administration of the Confederation in Bern using form R 85. Applications must be filed within three years of the end of the calendar year in which the investment income has fallen due.

Taxation of dividends in the Federal Republic of Germany

In Germany, the dividends of Swiss companies are paid out without deduction of an investment income tax (withholding tax) and without deduction of the interest income tax levied since 1 January 1993. In the case of taxpayers with an unlimited tax liability ("persons resident for tax purposes"), however, the gross dividend is subject to German income or corporation tax, and, if appropriate, to trade tax. Under the terms of the increase in the savings allowance which took effect on 1 January 1993, the income of private investors from capital assets is tax-free up to the amount of DM 6,100.00/DM 12,200.00 (single/married: including the flat-rate allowance for business expenses). This also applies to dividend income. The 15% withholding tax in Switzerland remaining under the terms of the German-Swiss double taxation agreement can be deducted from German income or corporation tax on Swiss dividend income. Persons resident for tax purposes can choose between the imputation system described above and the deduction of Swiss withholding tax when calculating their taxable income.

For persons with a limit tax liability ("non-residents for tax purposes"), dividends in Germany are exempt from German tax. However, different rules apply if, for example, the shares in question form part of the German operating assets of the non-resident.

The Neuer Markt

The Neuer Markt is designed to provide access to the capital market for innovative, small to medium-size companies with a high growth potential (termed “issuers” in this chapter). This officially recognized and supervised trading segment at the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) has been operating since 10 March 1997 (between 10.30 and 13.30 on trading days).

The Neuer Markt appeals to private and institutional investors willing to take a risk.

In addition to satisfying the admission requirements for the Geregelter Markt (Second Trading Segment), the issuer must also meet the following admission requirements, designed to enhance transparency and other factors:

- Minimum free float after listing 15 %, 25 % if possible;
- Ordinary shares must be the primary class of share;
- Prospectus with annual financial statements complying with IAS (International Accounting Standards), US GAAP (US Generally Accepted Accounting Principles) or GoB (“Grundsätze ordnungsgemäßer Buchführung” – German Generally Accepted Accounting Standards) (with reconciliation) in German and English. An exemption from this admission requirement may be granted on request for a maximum of two years;
- Acceptance of the “Übernahmekodex” (German Takeover Code);
- Fundamental principle; prohibition on disposal by old shareholders (lock-up) for at least six months;
- At least 50 % of the placement must derive from a capital increase;
- A placement volume of at least DM 10 million.

The following ongoing requirements apply to issuers:

- Preparation of quarterly reports in German and English;
- Publication of annual financial statements no later than four months (exceptions possible), publication of quarterly reports no later than two months after the closing date;
- Presentations to analysts at least once a year;
- Publication of an annual corporate action calendar with all relevant dates;
- Publication of changes to the shareholdings of members of executive bodies, with separate disclosures for the Managing and Supervisory Boards, at least once a year.
- Recruitment of a permanent Sponsor (“Betreuer”);

Sponsors (“Betreuer”) are either companies authorized to trade on the Frankfurter Wertpapierbörse or dealers who function as market makers during trading sessions. The duties of the Sponsor include:

- Continuous provision of firm bid and ask prices to ensure a high level of share liquidity;
- Immediate execution of customer orders;
- Limiting the bid/ask spread to max. 5 % makes pricing as fair as possible;
- Absorption of excess market positions not reflected in price fixing;
- Regular analysis of the issuer from a capital market perspective;
- Provision of advice to the issuer to ensure ad hoc publicity and provide continuous information coverage for its investors;
- The ledger broker (price-fixing independent broker) continuously establishes estimated prices based on the aggregate volume for the issuer’s shares.

Sponsor supervision is governed by separate rules. The Neuer Markt is scheduled to take part in the switch to the new Xetra (Exchange Electronic Trading) trading system which started at the end of November 1997.

Risk Factors

Before deciding to buy co-ownership shares under the terms of this offering, prospective investors should consider carefully all the specific risk factors described below in conjunction with the other information presented in this Issuing Prospectus.

General risk of investments in shares

Investments in shares involve dependencies on the general movements of international and local stock markets. The stock markets may be exposed to heavy short- and long-term fluctuations with a corresponding price risk for investors.

No supervisory restrictions as regards investment policy

BB Biotech AG is not a capital investment or investment company in the narrower sense, and its investment policy is therefore not subject to special regulations designed to protect investors. According to information provided by the Company, the Swiss Federal Law on Investment Funds ("Anlagefondsgesetz"/AFG) of 18 March 1994 does not apply to BB Biotech AG. On account of its entrepreneurial investment strategy the Company is not subject to the supervisory regulations of the German Law on the Sale of Foreign Mutual Fund Shares and on the Taxation of Income from Foreign Mutual Fund Shares ("Ausland-investment-Gesetz"/Ausl-investmG) of 28 July 1969.

Legal structure of the participations

The participations of BB Biotech AG are not held directly by the Company itself. The shares in the target companies are acquired and ultimately held by its wholly owned subsidiaries Biotech Focus S.A., Biotech Invest S.A. and Biotech Target S.A., companies formed under the law of the Republic of Panama and domiciled there. In the event that in future, there is a wish or a requirement to transfer these assets to the Swiss parent company or another person, the legal and political environment in the Republic of Panama will therefore be of material significance.

In addition, experience shows that the co-existence of different legal systems associated with this legal structure may considerably hamper and delay the enforcement of legal claims.

The Company draws attention to the fact that no problems have arisen in the past in this respect.

Nature of the investments

The subsidiaries¹⁾ invest in young companies in the biotechnology industry. Such investments have a high price appreciation potential, but also a high risk, which may lead to substantial losses. The major most important risk factors for such investments are the minimal operating experience of the companies, the losses of the companies for the foreseeable future or marked fluctuations in their income, as well as the additional substantial capital requirements of the companies to continue product development and market launches. In addition, most of the companies have only a few products, and these are still at an early stage with a correspondingly high development risk. The companies are heavily dependent on the success of these few products.

Limited diversification, Industry and sector focus

The subsidiaries invest in 5–8 main participations as well as a similar number of secondary participations. These investments are focused on just a few technology and therapy fields. In addition, they are of a substantial size, and consist of up to 20% and more of the shares of the target companies. This strategy, which is at odds with the principle of diversification, may result in substantial losses in the case of negative scientific, financial, patent-related or other events at only one of the participations.

Low liquidity of the participations, Volatility

The ability of the subsidiaries¹⁾ to sell particular participations may be seriously restricted as a result of legal restrictions, low market capacity and the size of the positions. In addition, the prices of biotechnology shares are frequently very volatile. In consequence, the liquidation of such may prove to be difficult and prolonged, and may only be possible if a heavy price loss is accepted.

¹⁾ see "Legal structure of the participations" above.

Legal environment for drug development

The legislation on the marketing authorization of biotechnology products is of considerable importance for the biotechnology industry. In most countries, research and development, trials, production, marketing and sale of biotechnology and similar products is subject to strict legal controls. In many countries, lengthy procedures are prescribed by law and must be successfully completed before marketing authorization can be issued for a product. Products may prove to be insufficiently effective during clinical trials, or authorization may be denied for other reasons. Marketing authorization may also be issued later than expected, or be burdened with conditions. In all these cases, the result may be substantial losses for the share prices of the companies affected.

Cuts in subsidies

In many cases, companies in the biotechnology industry are young and small, and are heavily dependent on subsidies for financing. Any cut in public subsidies may have a corresponding negative impact on earnings prospects.

Measures to curb costs in the health service

Health insurance companies and comparable organizations are planning, and increasingly introducing, restrictions on the reimbursement of therapy and medication costs. Such cuts in reimbursement may impair, or even make almost impossible the marketing of the products of a participation. In addition, the cost pressure from insurers and comparable organizations may result in lower selling prices than expected, and thus in depressed profitability.

Liability

Biotechnology companies are exposed to product liability risks associated with the testing, manufacture and marketing of their products. Liability claims against participations may result in their suffering heavy losses.

Dependence on the asset manager

The existing asset management contracts may be terminated by the respective parties with one year's notice. In such a case, the companies would have to award new asset management contracts.

Valuation of unlisted assets

The subsidiaries may also invest in unlisted companies. As a rule, the participations whose shares are not listed at a stock exchange are valued at the most at the acquisition value. Setbacks in product development or other factors resulting in a sustained reduction in profit expectations may result in the need for a heavy cut in the valuation of the participations.

Risks from option contracts

Under the terms of the investment rules¹⁾, the subsidiaries may open option positions or sell options. Such option contracts may expose the Company to disproportionate risks from the stock market in general, and from specific participations in particular.

Pledges

There are global pledge agreements between a lending bank and BB Biotech AG, Biotech Focus S.A., Biotech Invest S.A. and Biotech Target S.A., in which each of these companies pledges all its securities, valuables, goods or receivables deposited at the lending bank or held in custody for it elsewhere on behalf of the lending bank, including all outstanding, current and future interest, dividends and other income of any nature whatsoever, as well as its entire assets at the lending bank, for the purpose of securing all current and future claims by the lending bank against each of these companies.

Currency risk

The subsidiaries²⁾ may acquire participations in companies in the biotechnology industry worldwide. The Net Asset Value³⁾ of the bearer shares with a par value of SFr 10.00 per share is calculated daily in Swiss

¹⁾ cf. p. 39 "Investment guidelines of BB Biotech".

²⁾ cf. p. 14 "Legal structure of the participations".

³⁾ cf. p. 19 "Net Asset Value".

francs on the basis of the market valuation in the relevant investment countries. This Net Asset Value forms the basis of the valuation of the co-ownership shares available/tradable on the Neuer Markt of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange). Investors are thus exposed on the one hand to the currency risk between the investment currency – where there is clear domination by investments in the USA—and the Swiss franc, and on the other to the currency risk between the Swiss franc and the Deutsche Mark.

General Information on the Company

Formation, name, registered office and duration of the Company

BB Biotech AG was established on 9 November 1993 as a stock corporation under Swiss law.

It was registered in the commercial register of the Canton of Schaffhausen – main register (“commercial register”) on 10 November 1993 under company number CH-290.3.001.376–8.

The name of the Company is BB Biotech AG.

The registered place of business of the company is in Schaffhausen, Canton of Schaffhausen, Switzerland.

The Company’s business year is the calendar year.

According to the Articles of Association the Company has been formed for an unlimited time.

Purpose of the Company according to the Articles of Association

The purpose of the Company is joint investment in companies in the biotechnology, genetic engineering and pharmaceuticals industry as well as related sectors to achieve the greatest possible return on investment. To achieve this goal, the Company may acquire, sell and administer participations. The Company may conduct all transactions suitable for promoting this purpose directly or indirectly.

The Company is entitled to acquire, encumber and sell real estate. Under the terms of its purpose, the Company is entitled to invest in other undertakings in Switzerland and abroad, to form subsidiaries and to establish branches in Switzerland and representative offices abroad.

Capitalization

Before the planned Initial Public Offering on the Neuer Markt of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange), the share capital of the Company, which has remained unchanged in the past three years, amounted to SFr 19,500,000.00. In 1996, the par value of SFr 100.00 per bearer share was reduced to a par value of SFr 50.00 per bearer share by splitting each bearer share with a par value of SFr 100.00 per bearer share into two new bearer shares with a par value of SFr 50.00 per bearer share.

The Articles of Association of the Company include the following provisions:

“Bearer shares may be converted into registered shares or registered shares into bearer shares at any time by an amendment to the Articles of Association.”

“A purchaser of shares of the Company is not obliged to make a public bid in accordance with articles 32 and 52 of the Federal Law on Stock Markets and Securities Trading.”

In the Extraordinary General Meeting on 18 November 1997, the following changes to the capital structure and amendments to the Articles of Association were moved and resolved:

“1. Stock split

The Board of Directors moves that each bearer share with a par value of SFr 50.00 per share shall be split into five bearer shares with a par value of SFr 10.00 per share and that the Articles of Association shall be amended accordingly.

2. Authorized capital increase

The Board of Directors moves that the General Meeting shall approve the creation of an authorized capital of a maximum of SFr 5 million at par for the purpose of the placement and listing of the shares in Germany (Neuer Markt) and that the Articles of Association shall be amended accordingly.

3. Amendment to the Articles of Association

The Board of Directors moves that the Articles of Association shall be amended as follows:

Art. 3 Para. 2 (new)

It is divided into 1,950,000 bearer shares with a par value of SFr 10.00 per share. The shares are fully paid up.

Art. 3a (new)

The Board of Directors is authorized to increase the share capital in accordance with Art. 3 of the Articles of Association at any time by a maximum of SFr 5 million at par by the issue of no more than

500,000 bearer shares with a par value of SFr 10.00 per share. The issuance of the new bearer shares shall be paid up in full. Increases by way of firm underwriting and increases in partial amounts are permitted. The respective issue amount, the timing of the dividend entitlement, the type of contributions and the procedure will be decided by the Board of Directors.

The Board of Directors is entitled to exclude the subscription right of the shareholders and to instruct third parties when such new shares may be used for the placement of the shares abroad for their listing on a foreign stock exchange. The issue of new shares to the exclusion of the subscription right must be performed at market terms.”

The corresponding resolutions of the Extraordinary General Meeting on 18 November 1997 were recorded in the commercial register on 18 November 1997.

Shareholders

The bearer shares with a par value of SFr 10.00 per share of BB Biotech AG were admitted to trading on the Swiss Exchange, where they have been traded since 27 December 1993. The bearer shares with a par value of SFr 10.00 per share are widely dispersed. However, the precise shareholder structure is not known to the Company.

Distribution policy

As in the past, the Board of Directors intends proposing to the General Meeting that no dividends shall be distributed. Instead, profits will be reinvested in full in accordance with the purpose of the Company and the investment strategy.

Information on the bearer shares with a par value of SFr 10.00 per share of BB Biotech AG traded on the Swiss Stock Exchange

Turnover/Ranges	1994	1995	1996	30 September 1997	up to 31 October 1997
Highest/Lowest share price in SFr ¹⁾	272/204	290/202	348/274	488/332	488/332
Highest/Lowest Net Asset Value ²⁾ in SFr ¹⁾ ..	252/192	296/199	348/256	505/310	505/310
Average daily trading volume in millions of SFr	1,9	2,1	2,1	3,5	3,5
Closing price in SFr ¹⁾	225	290	333	478	428
Net Asset Value in SFr ¹⁾	225	296	341	491	421

Publication

*Net Asset Value:*²⁾

- Bloomberg: BIO SW Equity NAV
- Datastream: S:BINA
- Finanz & Wirtschaft: 2x weekly
- Internet: <http://www.bellevue.ch>
- Reuters: BABB
- Telekurs: BIO or 85, BB1 (Investdata)

Share price:

- Bloomberg: BIO SW Equity
- Internet: <http://www.bellevue.ch>
- Reuters: BIOZ.S
- Telekurs: BIO
- Datastream: S:BIO

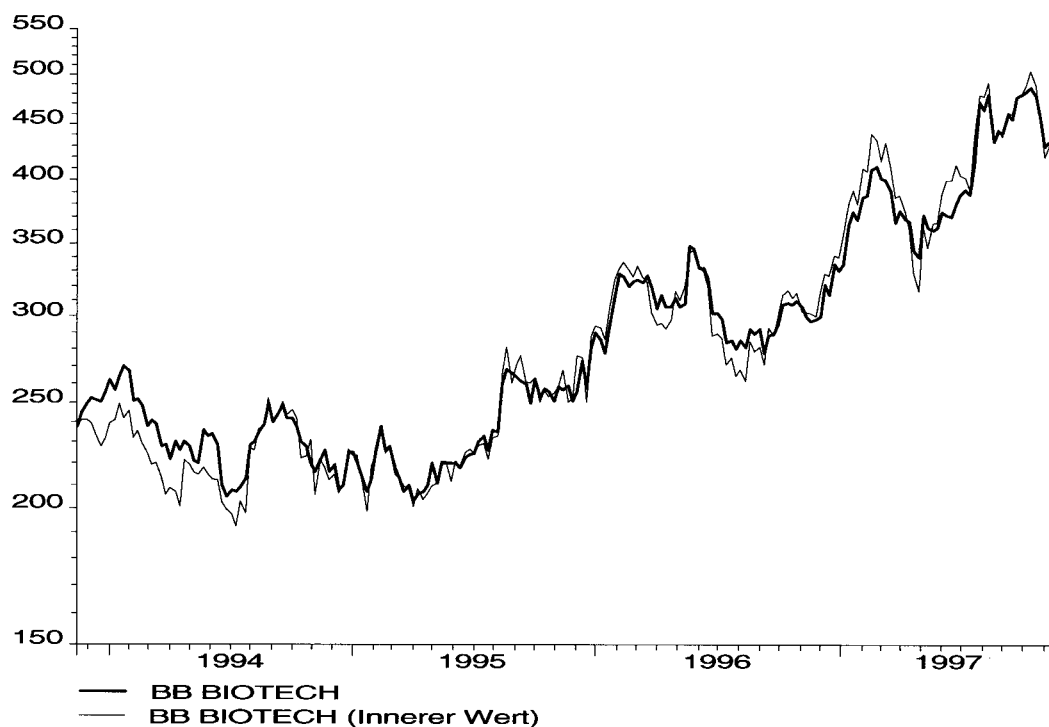
Portfolio: quarterly

Interim reports: currently half-yearly, in the future quarterly

¹⁾ Figures are adjusted to allow for the stock split and the capital increase described in “Capitalization” on p. 17.

²⁾ cf. p. 19 “Net Asset Value”.

Share price and Net Asset Value in SFr since the Company was founded in November 1993



Net Asset Value)

Source: DATASTREAM

Net Asset Value

The net asset value corresponds to the share capital and reserves of the Biotech Group. In simple terms, the net asset value of the Biotech Group is obtained by adding together:

- all securities at the current market value,
- plus the participations whose securities are not listed (valued at the most at the cost of acquisition),
- plus liquid funds,
- less securities (positions requiring cover),
- less liabilities to banks,
- less the accrued cost of management (pro rata temporis).

The Net Asset Value per bearer share with a par value of SFr 10.00 per share results from the allocation of the net asset value of the Biotech Group across all bearer shares with a par value of SFr 10.00 per share issued.

Notices

In accordance with the Articles of Association of the Company, notices are published exclusively in the Schweizerisches Handelsamtsblatt ("SHAB"). In addition, the notices relating to the bearer shares with a par value of SFr 10.00 per share and the co-ownership rights will be published in at least one national journal for statutory notices of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange).

Auditors

Revisuisse Price Waterhouse AG, Baarerstrasse 94, 6302 Zug, Switzerland, has been appointed as the Company's auditor for fiscal year 1997. Revisuisse Price Waterhouse AG also audited the annual financial statements for 1996, 1995 and 1994, as well as the corresponding consolidated financial statements. An unqualified audit opinion was issued for all financial statements.

Executive Bodies of the Company

The General Meeting

The supreme executive body of the Company is the General Meeting. It has the following exclusive powers:

- a) To adopt and amend the Articles of Association;
- b) To elect and dismiss the members of the Board of Directors and the Auditors under Swiss "Obligationenrecht" (stock law);
- c) To approve the annual report and the annual financial statements and resolve the utilization of the balance sheet profit;
- d) To discharge the Board of Directors;
- e) To pass resolutions on matters reserved for the General Meetings by law or by the Articles of Association, or which are submitted to it by the Board of Directors.

The Ordinary General Meeting is held every year within four months of the close of the fiscal year. Extraordinary General Meetings are convened when required, in particular in those cases provided for by law.

The convening of a General Meeting may be requested in writing by one or more shareholders who together represent at least one tenth of the share capital, stating the purpose of convening the meeting.

The General Meeting is convened by the Board of Directors, or if necessary by the Auditors. The liquidators are also entitled to convene the General Meeting.

The General Meeting must be convened at least twenty days before the date of the meeting by publication of a notice in the SHAB. The notice must include the matters to be discussed as well as the applications by the Board of Directors and the shareholders who have requested the General Meeting or the discussion of a matter.

Subject to the provisions on the global meeting, no resolutions can be passed on matters not announced in this way except by means of an application to convene an Extraordinary General Meeting or to conduct a special audit.

There is no requirement of prior notification for the moving of applications relating to the matters under discussion and to discuss matters without passing a resolution.

If no objection is raised, the owners or representatives of all shares can hold a General Meeting without observing the formalities prescribed for convening a meeting (global meeting). In such a meeting, all matters falling within the remit of the General Meeting can be discussed effectively and resolutions passed on such matters, as long as the owners or representatives of all shares are present.

The management report and the audit report must be available for inspection at the registered place of business of the company by the shareholders no later than twenty days before the Ordinary General Meeting. This must be notified in the notice convening the General Meeting. Each share has one vote in the General Meeting. Unless prescribed otherwise by law or the Articles of Association, the General Meeting passes its resolutions and conducts its elections by an absolute majority of the voting rights represented. If no candidate achieves a majority in the first round of an election, a relative majority in the second round is sufficient. The Chairman has no casting vote.

In the General Meeting, each shareholder can be represented by a person holding a written proxy. Such person must also be a shareholder.

The General Meeting is chaired by the Chairman of the Board of Directors, or in his absence by the Vice-Chairman, or in his absence by the member of the Board of Directors with the longest period of office.

A meeting chair may be elected in any case at the application of a shareholder.

The Chairman designates the scrutineer and the secretary. These do not have to be shareholders of the Company. The minutes are signed by the Chairman and the secretary.

Votes and elections in the General Meeting are open unless directed otherwise by the Chairman or requested by a shareholder.

The Board of Directors

The Board of Directors is composed of three to seven members.

The current composition of the Board of Directors, whose members can all be contacted via the Company, is as follows:

	Function	Type of signature
Thomke, Dr. Ernst	Chairman	collectively with another member
Bischoff, Dr. Victor	Vice-Chairman	collectively with another member
Baltimore, Prof. Dr. David	Member	collectively with another member

Dr. Ernst Thomke, 58, has been a member of the Board of Directors since the founding of the Company in 1993. In 1995 and 1996, he was Chief Executive Officer of Saurer AG, Arbon, Switzerland. He has been Chairman of the Board of Directors of the Company since 1996. After completing natural science (lic. phil. nat.) and medical (Dr. med.) studies at the Universities of Bern and Lausanne, he worked for several years as a researcher at the Swiss Centre for Clinical Tumour Research in Bern. He subsequently held executive positions in various multinational companies such as Beecham, SMH Schweizerische Gesellschaft für Mikroelektronik und Uhrenindustrie, Motor Columbus and others. In 1990, he was awarded an honorary doctorate of technical science by the "Eidgenössische technische Hochschule" in Lausanne.

Dr. Victor A. Bischoff, 50, has also been a member of the Board of Directors since the founding of the Company in 1993. Since 1995, he has also been a member of the Board of Directors of CITCO in Curacao. After completing business science studies at the University of Florence, he was awarded a doctorate at Columbia University in New York, where he was also awarded an MBA. He subsequently worked for several years for Citicorp NA and Sandoz AG, most recently as its director of finance.

Prof. David Baltimore, 59, has also been a member of the Board of Directors since the founding of the Company in 1993. He has held a teaching post at Rockefeller University in New York since 1990, where he also studied and took his doctorate. He subsequently worked as a scientist at various institutions and universities, including: The Massachusetts Institute of Technology, The Albert Einstein College of Medicine, The Salk Institute for Biological Studies and the American Cancer Society. He was awarded the Nobel Prize for Physiology/Medicine in 1975.

The total remuneration granted to the members of the Board of Directors in fiscal year 1996 amounted to SFr 1,375,000.00.

The members of the Board of Directors currently hold 10,750 bearer shares of the Company with a par value of SFr 10.00 per share.

As a rule, the Board of Directors is elected by the Ordinary General Meeting for one year. The period of office of the members of the Board of Directors ends on the date of the next Ordinary General Meeting, subject to retirement or dismissal. New members complete the period of office of their predecessor.

Members can be re-elected at any time.

The Board of Directors constitutes itself. It elects the Chairman, the Vice-Chairman and, if necessary, the Secretary, who does not have to be a member of the Board of Directors.

The Board of Directors meets at least once every half year, normally every six weeks.

The Board of Directors is the highest management body of the Company and is responsible for supervising management. It deals with all matters not reserved for another executive body of the Company by reason of law, Articles of Association or regulations.

The Board of Directors can assign management or management elements to one or more persons, members of the Board of Directors or third parties, who do not have to be shareholders. It issues the organizational rules and regulates the corresponding contractual relationships.

The duties of the Board of Directors which cannot be transferred or withdrawn include in particular:

- a) Stipulation of the business policy and supreme management of the Company;
- b) Organization of the accounting system, of financial control and financial planning;

- c) Preparation of the business of the General Meeting including submission of the annual financial statements and the annual report and the report of the auditors; implementation of the resolutions passed by the General Meeting;
- d) Nomination and dismissal of persons entrusted with management and representation;
- e) Stipulation of signature powers;
- f) Supreme supervision of persons entrusted with management, in particular with regard to compliance with laws, the Articles of Association, regulations and instructions;
- g) Stipulation of the remuneration of the executive bodies of the Company;
- h) The passing of resolutions on the subsequent payment of contributions on shares not paid up in full;
- i) The passing of resolutions on capital increases and the associated amendments to the Articles of Association.

The Board of Directors is quorate if the majority of its members participates in a resolution. The participation of a single member is sufficient for the declaratory resolutions provided for in the Swiss "Obligationenrecht" (stock law) (Art. 652g Swiss "Obligationenrecht" (stock law) "Amendments to Articles of Associations", Art. 653g Swiss "Obligationenrecht" (stock law) "Adaptation of the Articles of Association").

Minutes must be recorded of the discussions. They must be signed by the Chairman and the secretary.

Resolutions are passed by the absolute majority of votes represented. The Chairman has a casting vote.

Resolutions on a written motion (including fax, telegram or telex) or one submitted by phone are permitted if no objections are raised by a member of the Board of Directors. Such resolutions must be passed unanimously and recorded in the next minutes.

The Auditors

The General Meeting elects one or more natural or legal persons for the period of one year as the Auditor within the meaning of Art. 727 ff. of Swiss "Obligationenrecht" (stock law), with the rights and obligations set out by law. These include:

- The examination (audit) whether the accounts and the annual financial statements and the application for the utilization of the balance sheet profit comply with legal regulations and the Articles of Association.
- A written report to the General Meeting on the result of the audit.
- A recommendation on the acceptance, with or without qualifications, of the annual financial statements, or its rejection.

1) cf. p. 37 "Asset management" and p. 42 "Asset management – Bellevue Asset Management".

2) The Swiss "Obligationenrecht" (stock law) is a part of Swiss private law. Title 26 of the Swiss "Obligationenrecht" (stock law) contains decisive law for stock corporations, among other things.

Financial Section

Consolidated financial statements 1996

**Report of the group auditors
to the General Meeting of
BB Biotech AG
Schaffhausen**

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes to the consolidated financial statements) of BB Biotech AG for the year ended December 31, 1996.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession in Switzerland as well as the International Standards on Auditing of the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Accounting Standards (IAS) and comply with the law.

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

Revisuisse Price Waterhouse AG

M. von Moos i.V. D. Knüsel

Auditor in charge

Zug, January 31, 1997

Consolidated balance sheet as at 31 December 1996
(in Swiss Francs thousands)

	<u>Notes</u>	<u>1996</u>	<u>1995</u>
Assets			
Current Assets			
Liquid funds	4	35,325	2,132
Marketable securities	5	696,973	584,835
Other assets		1	2
		<u>732,299</u>	<u>586,969</u>
Total assets		<u><u>732,299</u></u>	<u><u>586,969</u></u>
	<u>Notes</u>	<u>1996</u>	<u>1995</u>
Liabilities and shareholder's equity			
Current liabilities			
Short borrowing from banks	6	66,258	3,259
Short positions	7	119	3,360
Other short term liabilities	8	1,276	6,803
Tax provision		396	358
		<u>68,049</u>	<u>13,780</u>
Shareholder's equity			
Share capital	9	19,500	19,500
Legal reserves –			
General reserve	9	3,900	3,900
Reserve for own shares	9	14,036	7,256
Other reserves	9	432,579	439,359
Retained earnings		194,235	103,174
		<u>664,250</u>	<u>573,189</u>
Total liabilities and shareholder's equity		<u><u>732,299</u></u>	<u><u>586,969</u></u>

Consolidated statement of income
for the year ended 31 December 1996
(in Swiss Francs thousands)

	<u>Notes</u>	<u>1996</u>	<u>1995</u>
Operating income			
Interest income		703	638
Gains from marketable securities	11	109,588	151,625
Other income		124	46
		<u>110,415</u>	<u>152,309</u>
Operating expenses			
Administrative expenses	10	15,129	9,612
Foreign exchange difference net		950	1,735
Interest expense		880	299
Amortisation of foundation costs		–	4,701
Other expenses		1,972	1,203
		<u>18,931</u>	<u>17,550</u>
Income before taxes		91,484	134,759
Taxes		(423)	(357)
Net income for the year		91,061	134,402
Retained earnings (accumulated deficit) at the beginning of the year		<u>103,174</u>	<u>(31,228)</u>
Retained earnings at the end of the year		<u><u>194,235</u></u>	<u><u>103,174</u></u>

Consolidated statement of cash flow
for the year ended 31 December 1996
(in Swiss Francs thousands)

	1996	1995
Cash flows from operating activities		
Proceeds from sales of securities	647,077	–
Purchase of securities	(652,868)	(50,680)
Interest receipts	704	640
Interest payments	(725)	(299)
Payments for services	(22,659)	(10,769)
Taxes paid	(385)	–
Increase in other liabilities	–	6,056
Total cash from operating activities	(28,856)	(55,052)
Cash flows for investing activities		
Transfer of long term investments to marketable securities	–	23,555
Total cash for operating activities	–	23,555
Cash flows from financing activities		
Loans	49,820	–
Total cash from financing activities	49,820	–
Foreign exchange difference	(950)	
Increase/(Decrease) in cash and cash equivalents	20,014	(31,497)
Cash and cash equivalents at beginning of the year	(1,127)	30,370
Cash and cash equivalent at end of the year	18,887	(1,127)

Cash and cash equivalents are net of current accounts borrowing banks. Proceeds from sales and purchases of securities are shown as net figure in the previous year.

Notes to the consolidated financial statements 1996

(in Swiss Francs thousands)

1. The company and its principal activity

BB Biotech AG (the Company) is listed on the Swiss Stock Exchange. Its principal activity is to invest in a limited number of high quality biotechnology companies. The investments are held through its wholly-owned subsidiaries

- Biotech Invest SA, Panama
- Biotech Focus SA, Panama
- Biotech Target SA, Panama.

2. Accounting policies

Consolidation

The consolidated financial statements of the Company and its subsidiary companies have been prepared in accordance with International Accounting Standards. The consolidation is prepared from the audited financial statements of the Group companies using uniform accounting principles. With the exception of marketable securities, the financial statements are prepared on a historical cost basis.

Basis of consolidation

The consolidated financial statements include the Company and the companies which are controlled by it. Control is defined as ownership, either directly or indirectly, of more than 50 % of the voting rights of a company's share capital. The consolidation is performed using the purchase method. All intercompany transactions and balances with companies included in the consolidation are eliminated. All Group companies have a December 31 year end.

Reporting currency

The accounts of the companies are maintained in Swiss Francs. Transactions in foreign currencies are converted at exchange rates as of transaction dates. Assets and liabilities in foreign currencies at year end are translated at exchange rates prevalent as of balance sheet date. Exchange differences are reflected in the statement of income.

Marketable securities

Securities which are traded at recognised stock exchanges are valued market value. The other securities are valued at cost or at net asset value. OTC-options are valued on the basis of widely used valuation models.

Realised gains and losses on security trading are recognised as net realised gains/(losses) from marketable securities. Changes in value of securities are recognised as net unrealised gains/(losses) from marketable securities.

Foundation costs

Foundation costs are amortised over two years.

Taxes

Taxes are calculated based on reported income and include taxes on capital as well as non-recoverable tax withheld on dividends. Such taxes are calculated in accordance with the tax regulations in force in each country.

The Group provides for deferred taxes using the liability method for items reported in different periods for financial statements and income tax purposes, unless it can be reasonably demonstrated that no tax liability will arise in the foreseeable future. Deferred tax balances are adjusted for subsequent changes in tax rates or for new taxes imposed.

3. Changes in the companies consolidated

There have been no changes in the Group companies consolidated in comparison to the prior year.

4. Liquid funds

Balances due from banks mature within 90 days. From the total amount outstanding TCHF 2,188 (1995: TCHF 2,054) are current accounts and due at sight.

5. Marketable securities

Marketable securities are comprised as follows:

Company	Number 31. 12. 1996	Change from previous year	Price in original currency	Valuation CHF million 31. 12. 1996
BioChem Pharma	3,390,000	3,040,000	USD 50,25	228.4
Amgen	2,000,000	-1,200,000	USD 54,375	145.8
Vertex	1,550,000	-100,000	USD 40,25	83.7
Genzyme	2,700,000	700,000	USD 21,75	78.8
Transkaryotic Therapies	1,300,000	1,300,000	USD 18,5	32.2
Ariad	3,300,000	300,000	USD 5,0625	22.4
La Jolla Pharmaceuticals	2,300,000	300,000	USD 6	18.5
Millenium	565,000	565,000	USD 17,375	13.2
Arris	700,000	200,000	USD 13,5	12.7
Sugen	600,000	100,000	USD 12,875	10.4
Biotech Value Fund	1,000,000	-	USD 7,02	9.4
Aviron	816,000	216,000	USD 7,5	8.2
GenVec	5,000,000	-	USD 1	6.7
Qiagen	187,500	187,500	USD 25,75	6.4
Xenova (Nasdaq)	1,150,000	50,000	USD 3,25	5.0
Xenova (LSE)	100,000	100,000	GBP 2,1	0.5
BB Biotech	8,634	3,630	CHF 1,665	14.4
Total Shares				696.7

All securities, except Biotech Value Fund (net asset value) and GenVec (cost), are valued at market value at December 31 (1995: Avron (cost)).

Options (share, type, strike price, expiration date, conversion ratio, name)

BB Biotech, Call, 1,200, Jan. '97, 5:1, BIOBB	3,000	-198,300	CHF 89.00	0.3
Total marketable securities				697.0

The option is valued at market value at December 31.

6. Short term borrowing from banks

There are three short term loans with the following amounts: CHF 12 million, CHF 11 million and USD 20 million (CHF 26.8 million) (1995: none). The interest rates are 2.6% (CHF) and 5.9% (USD). Beside the loans there are current accounts amounting to CHF 16.4 million.

7. Short positions

Options (share, type, strike price, expiration date, conversion ratio, name)	Number 31. 12. 1996	Change from previous year	Price in CHF	Valuation CHF million 31. 12. 1996
BB Biotech, Put, 1,000, Jan. '97, 1:1, OTC	-42,000	-	1	-0.04
BB Biotech, Call, 1,750, April '97, 5:1, BIOBA ..	-9,000	-9,000	8.5	-0.08
Total short positions				-0.12

At December 31, 1996 the options except the option marked with OTC are recorded at market value.

8. Other short term liabilities

Other liabilities are made up as follows:

	<u>31. 12. 1996</u>	<u>31. 12. 1995</u>
Payable to fund manager	76	6,060
Other liabilities	1,200	743
	<u>1,276</u>	<u>6,803</u>

9. Shareholder's equity

The share capital of the Company consists of 390,000 bearer shares with a par value of 50 Swiss Francs each. In the reporting year the shares were splitted with a ratio of 2 : 1. The general legal reserve and the other reserves result from two share capital increases.

On December 31, 1996 the Group held 8,634 of own shares with a market value of TCHF 14,375 (1995: 5,004 shares adjusted). In the current year a total of 89,346 shares were purchased at an average price of CHF 1,551 and a total of 85,716 shares were sold at an average price of CHF 1,564.

10. Administrative expenses

Administrative expenses are comprised as follows:

	<u>1996</u>	<u>1995</u>
Fund manager –		
Fixed fees portion	2,451	2,022
Performance fees	11,303	6,716
Board of Directors Remuneration –		
Fixed portion	245	202
Performance fees	1,130	672
	<u>15,129</u>	<u>9,612</u>

11. Gains from marketable securities

Gains from marketable securities are comprised as follows:

	<u>1996</u>	<u>1995</u>
Realised gains/(losses) net	118,736	(11,773)
Unrealised gains/(losses) net	(9,148)	163,398
	<u>109,588</u>	<u>151,625</u>

12. Information by geographical area

A geographical analysis of assets is as follows:

	<u>31. 12. 1996</u>	<u>31. 12. 1995</u>
United States of America	681,850	573,001
Switzerland	49,968	13,968
Great Britain	481	–
	<u>732,299</u>	<u>586,969</u>

13. Assets pledged

At December 31, 1996 shares with an amount of CHF 135 million are pledged in connection with bank loans (1995: none).

14. Commitments, contingencies and other off-balance sheet transactions

The Group had no commitments or other off-balance sheet transactions open at December 31, 1996 (1995: none).

The share capital of BB Biotech AG was paid in by contribution of investments, similar to a merger. The Federal Tax Administration does not believe that the transaction is similar to a merger and has decided that a stamp tax of CHF 13 million needs to be paid relating to this transaction. The legality of the tax claim is strongly denied by the company. The company appealed against the decision at the Federal Tax Administration. Any stamp tax deemed payable will only be recorded when a final decision has been made.

The operations of the Group are affected by legislative, fiscal and regulatory developments for which provisions are made where deemed necessary. The management concludes that as of December 31, 1996 no proceedings exist which could have any material effect on the financial position of the Group.

15. Financial Instruments

Off-balance sheet transactions

In the course of law, articles of incorporation and regulations the fund manager can sign currency and security forwards, buy, sell and make use of options as well as fulfil all necessary obligations that result from these business especially deposit the necessary security.

The options shown in heading marketable securities are representative of the average holding during the financial year.

Credit risk

The company only holds business relations to counterparties with a high rating.

Market risk

Risk of changing value

Due to the business activity and the resulting high portion of securities compared to the total of the assets the company is exposed to the fluctuations of the financial and foreign exchange markets.

Interest risk

Interest rates on liquid funds are based on market rates. The funds are due at sight.

Short term borrowing from banks are short term loans and current accounts. Interest rates are based on market rates. Due to the high equity-debt-ratio the influence of the interest expense on the statement of income is of minor significance.

Fair values

The values on balance sheet of liquid funds, other receivables as well as the short term borrowing from banks, other short term liabilities and tax provision correspond to fair values because of the their current maturity.

The values of securities also correspond to their fair values. Details on their valuation result from accounting policies as well as notes 5 and 7.

16. Subsequent events

There have been no events subsequent to December 31, 1996 which would affect the 1996 financial statements.

17. Related party transactions

Transactions with related parties and companies are recorded on an arms' length basis.

Consolidated balance sheet as at 30 June 1997
(in Swiss Francs thousands)
(rounded, unaudited)

Assets

Current assets

Liquid funds	1,921
Receivables Broker	6,432
Other receivables	1
Securities	812,871
Total assets	<u>821,225</u>

Liabilities and shareholder's equity

Current liabilities

Securities short	1,106
Short term liabilities	957
Short term borrowing from banks	45,611

Shareholder's equity

Share capital	19,500
Legal reserves	3,900
Reserves for own shares	31,613
General reserves	609,237
First half year profit 97	109,301
Total Liabilities	<u>821,225</u>

Consolidated statement of income
for the period ended June 30, 1997
(in Swiss Francs thousand)
(unaudited)

Expenses	
Administrative expenses	12,845
Interest expenses	1,163
Other expenses	606
Foreign exchange differences net	896
Taxes	195
Profit for the period	109,301
Total expenses	<u>125,006</u>
Income	
Interest income	53
Gains from marketable securities	124,948
Dividend income	5
Total income	<u>125,006</u>

Comparative presentation for fiscal years 1994¹⁾, 1995, 1996
(in Swiss Francs thousand)

	1994 ¹⁾	1995	1996
Statement of income			
Operating income	5,711	152,309	110,415
Administrative expenses	5,776	9,612	15,129
Foreign exchange difference net	19,637	1,735	950
Interest expense	138	299	880
Amortisation of foundation costs	4,700	4,701	0
Other operating expenses	701	1,203	1,972
Earnings before tax	-30,888	134,759	91,484
Taxes	340	357	423
Net income/net loss	-31,228	134,402	91,061
Balance sheet			
Balance sheet total	440,336	586,969	732,299
Securities	380,905	584,835	696,973
Current assets	31,171	2,132	35,325
Other assets	4	2	1
Equity (Net income/net loss included)	438,787	573,189	664,250
Liabilities to banks	801	3,259	66,258
Other liabilities	748	10,521	1,791

¹⁾ Period from 10 November 1993 (date of incorporation).

Industry Information – Biotechnology

General Information

Biotechnology can be defined as the application of techniques based on the biological sciences to the discovery, development and manufacture of commercial products. The discipline originated towards the end of the 1970s as a result of fundamental breakthroughs in genetic engineering, such as cloning and gene splicing (creating new combinations of genes). Today the definition of biotechnology is more broad, also encompassing the application of new technologies to the development of pharmaceuticals, e.g. antibody technology, rational design of active ingredients, combinatorial chemistry, genomics, bioinformatics and gene therapy.

Classic areas in which biotech products are used include human and veterinary healthcare (including both therapeutic and diagnostic applications), biochemical products, agriculture (crop and livestock improvement). Additional applications include food processing, and environmental protection and remediation. Contract research & development/manufacturing and the development of platform technologies (used, for example, to generate new chemicals or drug delivery systems) are increasing in importance; the demand for other services and supplies is also on the rise.

Industry Structure and Size

The most developed sector within the biotechnology industry is healthcare. The biotechnology industry is more advanced in the United States thanks to easier access to capital markets and greater availability of venture capital funds. Two-thirds of all biotechnology companies are located in the United States, but among biotechnology companies listed on the stock market this figure is seven out of eight. Within Europe, the biotechnology industry in the United Kingdom is more mature than that on the continent, although Germany, France and the Netherlands are currently exhibiting rapid growth. In addition, a number of new biotechnology companies have emerged in southern and eastern Europe. This global spread is matched by continued strong growth in all geographical areas. While the number of European biotechnology companies in the sector rose from 584 to 716 in 1996 (+23%), the figure of the United States dropped slightly from 1,308 to 1,287 (-2%). In 1996, European biotechnology companies raised some ECU 1.5 billion in equity, and United States biotechnology companies raised USD 4.9 billion.

Worldwide sales in the biotechnology sector amounted to ECU 13.401 billion (+15%) in 1996, of which ECU 11.680 billion (+15%) and ECU 1.721 billion (+17%) were achieved by the United States and Europe respectively. Research & development expenditure increased more sharply in Europe (+20% or ECU 1.508 billion) than in the United States (+3%) for a total of ECU 6.320 billion.

However, the biotechnology industry is still operating with losses. These totalled ECU 1.113 billion in Europe for a decrease of 8%; in the United States, losses increased again slightly to ECU 3.750 billion (+21%).

Total market capitalization for biotechnology companies based in the United States and Europe was USD 110 billion and USD 8 billion respectively.

More than 100 therapeutic products are already available on the market. Around 44% of all biotechnology companies in Europe were active in the healthcare sector in 1996, up considerably from 35% in 1995. In the United States, over 80% of biotechnology companies are active in this sector. Biotechnology industry growth is expected to continue in view of the increasing technology transfer from leading universities and the increasing number of products which are currently reaching the marketplace (principally from the United States), or which are scheduled to do so in the foreseeable future. Over 700 drugs have now reached the clinical development stage, with the number of pharmaceuticals entering Phase III studies during the last two years climbing to more than 160.

Other factors positively influencing biotechnology industry growth are the increasing links between biotechnology companies worldwide, and between them and large pharmaceuticals, chemicals and agribusiness companies. A more positive attitude on the part of national and supranational authorities has also been developing.

Regulatory and Market Issues

The biotechnology industry is as new as the technologies on which it is based, a fact which has led to a high degree of regulatory uncertainty. The risks involved in clinical trials and approval processes have already been described elsewhere¹⁾.

In addition, the therapeutic and diagnostic segments of the biotechnology sector in particular operate within the framework of the global drive to reduce healthcare costs, a trend that may potentially restrict the prices which can be charged for some products. However, the improved opportunities which such drugs offer for disease prevention and early detection, and for the treatment of previously incurable conditions should, together with potential reductions in hospital costs, more than outweigh the disadvantages.

¹⁾ cf. p. 14 ff "Risk Factors".

Business Activities

Investment activities and strategy

In keeping with its Articles of Association, BB Biotech AG holds Panamanian subsidiaries¹⁾. The subsidiaries make concentrated and strategic long-term investments in companies active in the biotechnology industry and associated sectors with the goal of achieving the greatest possible return on investment. For the time being, these subsidiaries are focusing on involvement in the North American and European markets.

The subsidiaries base these investments on fundamental analyses and selectively purchase securities of qualified biotechnology companies that feature an attractive risk profile due to their management, solid scientific and technological foundations, healthy finances and important partnerships.

The core holdings are limited to a small list of companies and comprise mainly firms with positive cash-flow which have already brought products onto the market or possess promising products in an advanced development stage. The companies must also feature financial staying power. Smaller holdings can also be added strategically; these smaller biotechnology companies have the potential for fulfilling the criteria for acceptance into the core holdings group within one to two years.

BB Biotech AG protects its interests and consequently increases its shareholder value by making use of the voting rights acquired through the holdings, specifically by participating in decisions regarding the staffing of executive bodies, acquisitions, capital structure, etc.

With the help of the qualified specialists active on the Board of Directors and as asset managers, the Company aims to provide technological assistance not only via a strong capital base, but also by means of active dialogue, thereby exerting influence on the strategies of the companies in which it holds a stake. To this end, industry-specific know-how (e.g. concerning governmental approval and other similar processes) is made available and employed, and supporting and mediating consulting services are offered in the areas of cooperation, development of synergies, financing and issues related to the capital markets. Because of their unique expertise, these persons are often also approached by outside companies for this purpose.

Asset management

The subsidiaries (hereinafter also referred to as "Principal") have commissioned Asset Management BAB N.V., 6 Plasa Smeets, Curaçao (hereinafter also referred to as "AMNV"), a subsidiary of BAM²⁾ to manage the entirety of their assets. The subsidiaries have concluded contracts to this end as follows:

1. The Principal commissions AMNV to manage the entirety of the assets of the Principal or to manage its credit balances, securities portfolios, and those of its wholly-owned subsidiaries.
2. AMNV has knowledge of the Articles of Association and the organizational rules of the parent company of the Principal (BB Biotech AG) and performs the management of the above-mentioned assets in compliance with the law, the Articles of Association and the organizational rules. If it deems it necessary, AMNV is also authorized to involve third parties in the asset management or to transfer it wholly or in part to third parties. In particular, it is authorized to transfer the performance of services in the areas of marketing, management or financial analysis to third parties.

AMNV manages the assets at its discretion within the investment guidelines³⁾ issued by the Board of Directors of the parent company (BB Biotech AG).

It is authorized to perform all actions it deems advisable as part of standard asset management.

It can open additional accounts and determine the corresponding currencies for the Principal at the Bank am Bellevue or also at other banks when it deems this advisable.

3. AMNV is completely free to choose objects of investment and to time investments within the framework of the law, Articles of Association and regulations. In particular, it can invest the assets of the Principal in all types of investment instruments, on or off the stock market.
4. Within the framework of the law, Articles of Association and regulations and on behalf of the Principal, AMNV asset management can perform currency and term money transactions, buy, sell or

¹⁾ cf. p. 40 "Holdings of BB Biotech AG".

²⁾ cf. p. 42 "Asset management – Bellevue Asset Management".

³⁾ cf. p. 39 "Investment guidelines of BB Biotech".

exercise options, and fulfil all of the obligations associated with these transactions, in particular to deposit the necessary security.

5. AMNV shall make available documents, as well as the current account and custody account statements, freely at any time to the Principal.

It performs accounting for the Principal and submits a written report to the Principal every three months to the end of a month.

6. Subject to special instructions, AMNV is authorized, but not obliged, to exercise the membership rights associated with the investments on behalf of the Principal at any time.

7. The Principal shall reimburse AMNV for all costs and expenses (e.g. fees, costs for statutory publications, etc.), as well as the regular brokerage fees, which are incurred by AMNV in performance of this contract.

8. As remuneration for performance of the activities in accordance with the present contract, the Principal shall pay AMNV a pro rata basic fee and performance-based remuneration (hereinafter termed "Commission") according to the following terms and conditions:

a) The basic fee amounts to 0.4 % of the share value of the parent company (BB Biotech AG) to be paid every three months. The share value is the calculated value of all shares in circulation of BB Biotech AG based on the price at the close of the market on the last trading day of each third month.

b) The amount of the Commission depends on the appreciation on the Biotech shares achieved every three months and shall be paid every three months with the first payment on 31 March 1997.

c) This Commission is owed only when the appreciation of BB Biotech AG's shares amount to an annual rate of at least 5 % for the three month period.

d) If the annual rate of appreciation of the BB Biotech AG shares amounts to 5–10 %, 10–15 % or 15–20 %, the Commission shall total 15 %, 20 % or 25 % respectively for the part of the appreciation which exceeds the annual performance targets of 5 %, 10 % or 15 %. If the appreciation of the BB Biotech AG shares amounts to more than 20 %, no further Commission on the portion of the appreciation exceeding this threshold shall be owed for that three month period.

On the basis of these guidelines, the Commission is calculated as a percentage of the value of the BB Biotech shares at the start of the accounting period as follows:

Appreciation in a three month period	0.00 %	1.23 %	2.41 %	3.56 %	4.66 %
Annual appreciation	0.00 %	5.00 %	10.00 %	15.00 %	20.00 %
Commission for a three month period	0.00 %	0.00 %	0.19 %	0.44 %	0.75 %

e) If the share appreciation amounts to less than an annual rate of 5 % in a three month period, the shortfall must be made up in the following three months before the above-mentioned commission structure can be applied. The shortfalls of several three-month periods are added together.

f) The above-mentioned commission structure for the following three-month period is always based on the most recent commission paid.

g) If the capital structure changes or profit is distributed during an accounting period, and the result is an increase or decrease in the value of the BB Biotech share value or in the stock exchange price of these shares, the effect on the calculation of Commission is to be adjusted or neutralized.

The change in value of the realized or withdrawn amount shall be proportionally calculated over the entire accounting period.

h) If the contractual relationship ends during an accounting period, the effective appreciation shall be proportionally calculated over the entire accounting period.

i) The expenditure, basic fee and also the above-mentioned remuneration shall only be owed pro rata, i.e. in proportion of the value of the managed assets (minus credit balances of Group companies) of the Principal to the net asset value of the parent company.

9. AMNV is authorized to directly debit the pro rata commission and the costs to be reimbursed in accordance with the above-mentioned terms and conditions from the Principal's accounts or those of its subsidiaries managed by AMNV and/or third parties.

10. AMNV is only liable for disregarding specific, written guidelines and for gross negligence in choosing investments.

11. All transactions performed for the Principal are also subject to the regulations and practices applicable to the relevant stock market.
12. Changes and additions to the contract and cancellation of the contract either in whole or in part are only valid if performed in writing.
13. This contract can be terminated with notice of one year to the end of a three-month period, at the earliest on June 30, 1997.
14. In addition, the General Terms and Conditions of AMNV as well as those of the relevant banks are applicable, and the Principal hereby expressly states that it has received, taken notice of and accepted by signing this contract the Terms and Conditions of Business of the Bank am Bellevue, as well as those of the Swiss Bank Corporation.
15. This contract is governed by the law of The Netherlands.
16. The venue for any legal actions resulting from the present contract is the registered place of business of AMNV.”

Investment guidelines of BB Biotech

The person mandated to function as business manager and/or asset manager may perform the management freely according to his/her discretion, insofar as the Board of Directors has not issued more comprehensive written guidelines.

The person functioning as business manager and/or asset manager is authorized to perform all activities that he/she deems advisable as part of standard investment and asset management.

The person functioning as business manager and/or asset manager can perform currency and term money transactions, buy, sell or exercise options, and fulfil all of the obligations associated with these transactions, in particular to deposit the necessary security, within the framework of the law, the Articles of Association and regulations.

The following general guidelines apply to these holdings:

- core holdings should entail no more than 5–8 different companies;
- core holdings should amount to c. 2/3 of the total investment amount;
- holdings can amount to up to 150 % of share capital in reserves;
- short positions can amount to up to 50 % of share capital in reserves;
- options strategies are allowable as part of these investments (acquired options, adjusted for leverage effect);
- currency hedging from positions against the Swiss franc are allowed.

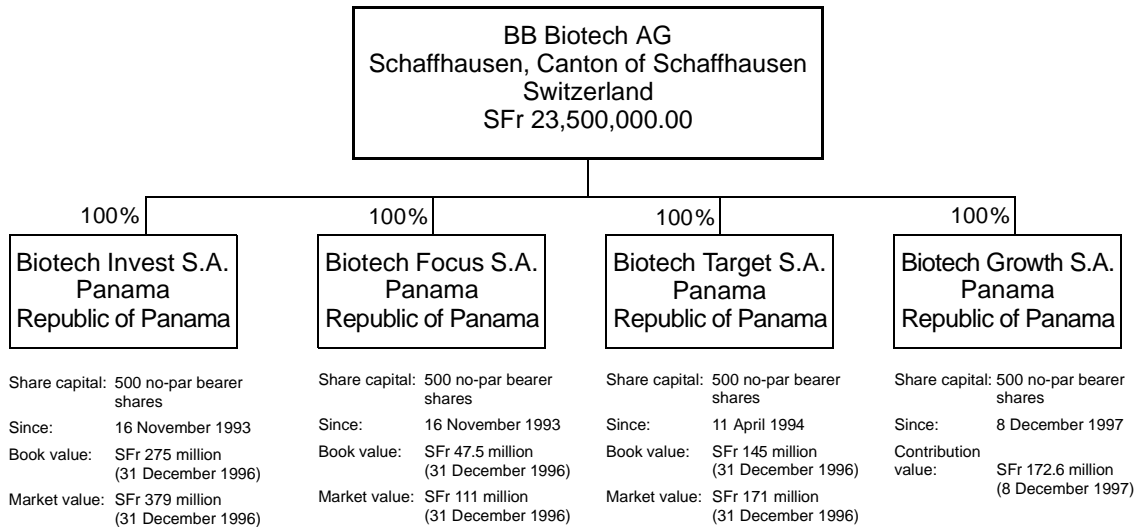
The person functioning as business manager and/or asset manager is completely free to choose the objects and timing of investments.

In accordance with the purpose of the Company, the investments should primarily consist of securities and book-entry securities (stocks, options, etc.) from listed and unlisted companies in the biotechnology, genetic engineering and pharmaceuticals industry and associated sectors. If it serves the purpose of Company, holdings may also be acquired or sold in other forms.

The choice of companies in which investments will be made should as a rule follow these criteria:

- a) Companies with products successfully introduced on the market:
 - Quality of management,
 - Positive net profit situation and good prospects for growth,
 - Broad research and development portfolio with promising products,
 - Favourable competitive position.
- b) Companies with research products:
 - Quality of management,
 - Level of liquidity,
 - Promising products with a favourable risk profile,
 - Clearly definable potential market volume for the products,
 - Favourable competitive position.

Holdings of BB Biotech AG



BB Biotech AG's wholly-owned subsidiaries perform capital investments for the Company by purchasing stakes in firms active in the biotechnology, genetic engineering and pharmaceuticals industries and associated sectors with the goal of attaining the greatest possible return on investment. In order to achieve this aim, the subsidiaries can acquire, sell and manage holdings. The subsidiaries can perform all business activities that are suitable for furthering the purpose of the Company either directly or indirectly.

The subsidiaries themselves may also form subsidiaries and/or branch offices in the country in which they are registered or abroad, as well as buy, sell, transfer, dispose of, trade, finance, barter, own or manage all types of property, whether real or personal stocks or rights; receive or grant loans; receive or pay commission; take on, lease or exercise mortgages or guarantees; exercise rights of use or administrative receivership and perform and conclude all types of legal agreements, contracts, operations, business and transactions. The subsidiaries may also participate in all activities, contracts, operations, business and transactions which are permitted by law for corporations.

It is planned that in the future – as in the past – the subsidiaries will reinvest the entirety of their profits in accordance with the purpose of the company and investment strategy rather than paying out dividends to BB Biotech.

In order to distribute the various market risks, Biotech Invest S.A. as a rule holds investments in particular in biotechnology companies listed on the stock market with products that have already been successfully introduced on the market, exhibit a positive cash flow situation and are not expected to distribute dividends in the medium-term. Biotech Focus S.A. primarily also invests in holdings in biotechnology companies listed on the stock market with products that have already been successfully introduced on the market and exhibit a positive cash flow situation, but which are expected to distribute dividends.

Biotech Target S.A. generally holds investments in listed and other private biotechnology companies which are not yet listed on the stock market, or are soon to be listed, and do not yet or only partially own products which are ready for the market. In contrast, Biotech Growth S.A. intends to invest principally in private biotechnology companies which have excellent growth potential because of their stage of development, but are not planning a stock market flotation in the immediate future.

Litigation

BB Biotech AG's capital was raised by means of non-cash contributions from holdings and declared by the Company to be an amalgamation similar to a merger, which is not subject to a stamp duty on new issues¹⁾. The Tax Authorities of the Confederation are of the opinion that this is not an amalgamation similar to a merger and have decided that a stamp duty on new issues amounting to approximately

¹⁾ cf. p. 10 ff "Taxation".

SFr 13 million must be paid. The legality of this tax is being contested by the Company. A complaint has been registered with the Tax Authorities of the Confederation; however, no decision has been reached in this issue as yet.

No other legal or arbitration proceedings which have a significant influence on the economic situation of the Company or could have had such an influence in the past two fiscal years are currently taking place, nor did they occur in the previous two years. According to the Company's information, no such proceedings are pending or planned

Asset management – Bellevue Asset Management

Formation, registered office and group affiliation

Asset Management BAB N.V. was formed as a limited liability company on 24 December 1993 and incorporated under the laws of the Netherlands Antilles. The Company was entered in the Commercial Register in Curaçao under No. 65 455. The registered office of AMNV is at 6 Plasa Smeets, Curaçao, Netherlands Antilles.

AMNV is a wholly-owned subsidiary of BAM (which is referred to as the “BAM Group” together with its subsidiary). The Company was formed on 18 May 1992 and renamed “Bellevue Asset Management AG” on 15 August 1994. The registered office of BAM is at Grafenauweg 4, 6301 Zug, Switzerland.

Purpose

The primary purpose of the BAM Group is asset management for Swiss holding companies. The Group develops and manages standardized, industry-specific investment instruments for institutional and private investors. Remuneration is mostly paid in the form of a performance-related commission.

Product

1. Financial Analysis

The BAM Group develops fundamental financial analyses for specific industries. In addition to traditional financial analysis, it relies mainly on the relevant industry experience of its analysts and Boards of Directors of the investment companies with which it cooperates actively in financial analysis and asset management. The Company is also particularly interested in directly implementing expertise gained through scientific research.

2. Marketing

BAM does marketing work for the holding companies managed by the BAM Group with the goal of making these companies known to their respective target audiences.

3. Administration

The BAM Group is responsible for the administration of the holding companies. This responsibility includes accounting, billing and publishing data relating to the holding companies, arranging and processing transactions, and creating annual and interim reports.

4. Asset management

Asset management comprises the active administration of the holding companies' portfolios. At this time, the BAM Group manages the assets of BB Biotech with capital resources of c. CHF 820 million and BB Medtech with capital resources of c. CHF 370 million. The portfolio of BB Bioventures featuring a volume of c. CHF 225 million is also being managed in cooperation with the US company MPM Capital LLC of Boston.

Clients

The primary clients of the BAM Group include professional asset managers and domestic and foreign asset management banks, as well as private individuals.

Recent Business Developments and Prospects of BB Biotech

Business developments up to quarterly report as at end of September 1997

As of the end of the first quarter 1997, BB Biotech has shortened its reporting period from every four months to quarterly. The most recent balance sheet issued by the Company was contained in the quarterly report as at the end of September 1997 and appears below. Securities have increased by 45 % to SFr 1.01 billion. Short-term loans are down 23 % as compared with the beginning of the year. Profits for the present year amounted to SFr 293 million as at 30 September 1997.

Consolidated Balance Sheet of BB Biotech as at 30 September 1997

(in thousands of Swiss francs)
(unaudited)

Assets

Current assets

Securities	1,010,620
Liquid funds	2,290
Other receivables	1,306
Total assets	<u><u>1,014,216</u></u>

Liabilities and shareholders' equity

Current liabilities

Securities – short positions	4,056
Short-term liabilities	1,699
Fixed short-term borrowings	50,750

Shareholders' equity

Shareholders' equity as at 31 December 1996	664,250
Profit – present year	293,461
Total liabilities	<u><u>1,014,216</u></u>

The list of securities as at the end of September 1997 which appears below is also based on the quarterly report from the end of September 1997; however, it also includes the change in the number of shares as compared to the start of the year. In the Annual Report for 1996, four core holdings were reported which in total amounted to 76 % of all securities. As at the end of September 1997, five core holdings made up a total of 68 % of securities. The investment in BioChem Pharma still represents the largest securities investment. The number of shares in Amgen was reduced by 45 %. Vertex is no longer a core holding. The proportion of the Vertex investment as compared to total securities dropped from 12 % to less than 7 %. This reflects a decrease of around 20 % of the shares since the start of the year, as well as a loss in market price of 6 %. Transkaryotic Therapies and Aviron are new in the group of core holdings. In the case of both of these holdings, the investments were strengthened through purchase of additional shares (+68 % and +184 % respectively for Transkaryotic Therapies and Aviron). The price of both shares continued to rise sharply (+112 % for Transkaryotic Therapies and +235 % for Aviron, each between the start of the year and 30 September 1997). Between the beginning of the year and 30 September 1997, three holdings (Arris, Qiagen and Xenova) were sold at a profit and four new ones (Alexion Pharmaceuticals, Aurora Biosciences, Medimmune and The Medicines Company) were acquired. The Medicines Company is not yet listed on the stock exchange. BB Biotech appointed two members of the Board of Directors to defend its interests. The market prices of each of the other three new holdings amounted to more than the acquisition price as at 6 November 1997.

Business developments after publication of the quarterly report at the end of September 1997

Company	Number of shares	Change – since 31 Dec. 1996	Currency	Price	Market price (SFr million)	in % of total securities	Share of the company	Stock market listing
BioChem Pharma ¹⁾	6,872,500	92,500	USD	31.50	313.9	31.1 %	6.4 %	NASDAQ, Toronto Stock Exchange
Transkaryotic Therapies (TKT)	2,182,000	882,000	USD	39.25	124.2	12.3 %	11.9 %	NASDAQ
Genzyme (Gen. Div.)	2,010,000	–690,000	USD	29.75	86.7	8.6 %	2.6 %	NASDAQ
Aviron	2,315,286	1,499,286	USD	25.13	84.3	8.3 %	14.8 %	NASDAQ
Amgen	1,105,000	–895,000	USD	47.94	76.8	7.6 %	0.4 %	NASDAQ
Vertex	1,250,000	–300,000	USD	37.75	68.4	6.8 %	5.0 %	NASDAQ
Medimmune	1,012,500	1,012,500	USD	36.75	54.0	5.3 %	4.3 %	NASDAQ
Ariad	2,965,000	–335,000	USD	5.88	25.3	2.5 %	15.4 %	NASDAQ
Aurora Biosciences	1,100,000	1,100,000	USD	14.31	22.8	2.3 %	6.5 %	NASDAQ
La Jolla Pharmaceuticals	3,071,000	771,000	USD	5.00	22.3	2.2 %	17.7 %	NASDAQ
The Medicines Company	3,714,286	3,714,286	USD	3.50	18.9	1.9 %	34.5 %	–
Millennium	631,000	66,000	USD	19.50	17.8	1.8 %	2.2 %	NASDAQ
Sugen	534,000	–66,000	USD	20.13	15.6	1.5 %	4.1 %	NASDAQ
Alexion Pharmaceuticals ²⁾	400,000	400,000	USD	25.00	14.5	1.4 %	9.6 %	NASDAQ
Biotech Value Fund	1,000,000	–	USD	7.21	10.5	1.0 %	K.A.	–
GenVec	5,000,000	–	USD	1.00	7.3	0.7 %	10.6 %	–
BB Biotech	19,859	11,225	SFr	2,390.00	47.5	4.7 %	5.1 %	Swiss Stock Market
Total					1,010.6	100.0 %		
Exchange rate	USD/SFr:	1,4500						

1) Adjusted for 1:2 stock split.

2) Series B Convertible Preferred Stock (valued at cost).

After publishing the quarterly report at the end of September 1997, BB Biotech made a new investment in CV Therapeutics through private placement on 7 October 1997. BB Biotech acquired approximately 1.4 million shares for USD 12.9 million, which represents a 16.6% stake of the share capital. As at 6 November 1997 the market price of this NASDAQ-traded holding exceeded costs. The holding in Alexion Pharmaceuticals is now valued according to market price and not cost; this corresponds to 935,782 shares.

After 30 September 1997 (date of the most recent quarterly report) the share price per bearer share each with a par value of SFr 10.00 of BB Biotech declined from SFr 478.00¹⁾ to SFr 438.00 (as at 24 November 1997). The net asset value decreased during the same period from SFr 491.00 to SFr 461.00. This setback reflects weakness and volatility in the global stock markets which the Company considers to be temporary. The pharmaceuticals industry is still suffering from a deficit in innovation and an insufficient product reserve. In an increasingly price-conscious environment, only innovative products offer high profit potential. Over 700 drugs have now reached the clinical development stage, with the number of pharmaceuticals entering Phase III studies during the last two years climbing to more than 160. At this time applications for approval of over 30 biotech drugs are pending. An increasing number of biotechnology companies is introducing pharmaceuticals on the market and making a profit. In consideration of these statistics, BB Biotech AG continues to hold an optimistic view of the future of the biotechnology industry.

1) Adjusted for stock split 1:5, cf. p. 17 "Capitalization".

Schaffhausen, 8 December 1997

BB Biotech AG

Based on the present Issuing Prospectus, at the same time Offering Prospectus and Company Report

SFr 23,500,000.00

composed of 2,350,000 bearer shares with a par value of SFr 10.00 per share

of

BB Biotech AG

**Schaffhausen, Canton of Schaffhausen
Switzerland**

consisting of

SFr 18,900,000.00

composed of 1,890,000 bearer shares with a par value of SFr 10.00 per share
carrying full dividend rights for fiscal year 1997

and

SFr 600,000.00

composed of 60,000 bearer shares with a par value of SFr 10.00 per share
from the portfolio of Biotech Target S.A.
in respect of the Greenshoe option granted to Dresdner Bank Aktiengesellschaft

and

SFr 4,000,000.00

composed of 400,000 bearer shares with a par value of SFr 10.00 per share
issued on the basis of the partial utilization resolved by the
Board of Directors on 8 December 1997 of the authorized capital increase
approved by the Extraordinary General Meeting on 18 November 1997

all carrying full dividend rights for fiscal year 1997

and

deliverable as co-ownership shares in a global bearer certificate
for 1/10 fractional interests

in

bearer shares with a par value of SFr 10.00 per share of
BB Biotech AG
Schaffhausen, Canton of Schaffhausen
Switzerland

– ten co-ownership shares represent one bearer share with a par value of SFr 10.00 per share –

– Securities Code Number 910 468 –

were admitted

to the Geregelter Markt (Second Trading Segment) with Admission to Trading on the

Neuer Markt

of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange)

Frankfurt am Main, Düsseldorf, December 1997

Dresdner Bank
Aktiengesellschaft

Westdeutsche Landesbank
Girozentrale

Deutsche Apotheker- und Ärztebank eG