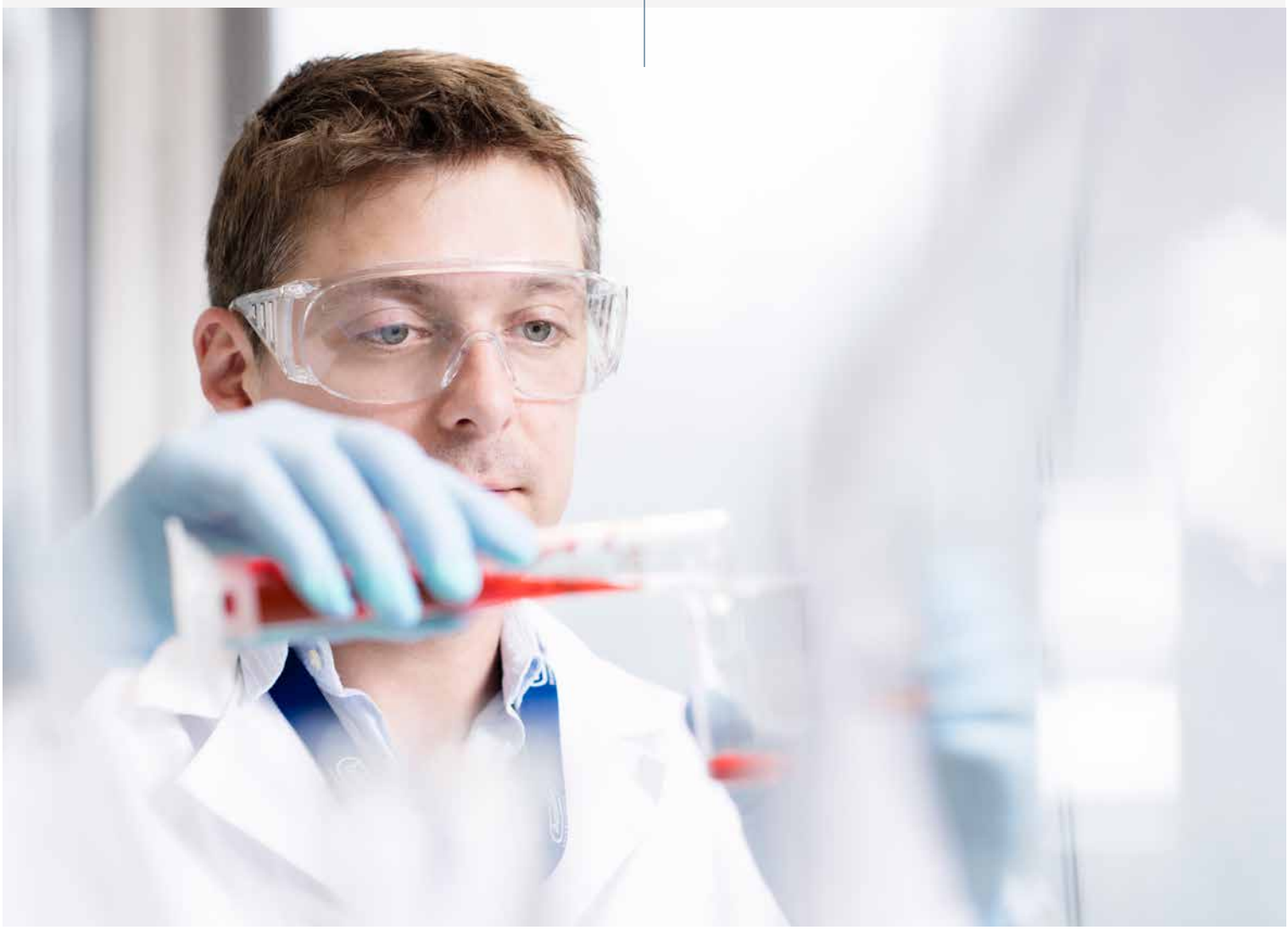
basilea

Half-Year Report 2019



Dear shareholders

The goal of Basilea is to develop innovative medicines for the benefit of patients. The Basel region provides an optimal setting for this goal due to its importance as a global life sciences location. The attractiveness of the region is based on the one hand on its unique location in the Switzerland-France-Germany border area on the Rhine, with direct access to important traffic routes. In addition, innovations have been created in Basel for centuries, thus acting as a continuous magnet for life sciences talent from around the globe.

David Veitch, Chief Executive Officer

Basilea achieved important development and commercial milestones in the first half-year 2019 and is well positioned to take the next value-generating steps.

Since the beginning of 2019, we achieved several important milestones across our R&D portfolio. First of all, we made great progress in our clinical pipeline. We reported positive results for the phase 3 skin infection (ABSSSI) study with our antibiotic ceftobiprole (Zevtera). This is a significant step forward towards a filing in the U.S., which represents the most important market for ceftobiprole from a commercial perspective. The second ongoing phase 3 study, in bloodstream infections caused by *Staphylococcus aureus* bacteria, required to also support a U.S. filing, is on track to report topline results in the second half of 2021. We also expanded the clinical program with our lead oncology drug candidate, derazantinib. As reported in January, derazantinib showed promising efficacy in an interim analysis from a registrational phase 2 study in intrahepatic cholangiocarcinoma (iCCA) or bile duct cancer, in patients whose cancer is driven by fusions of the fibroblast growth factor receptor 2 (FGFR2) gene. Since then, we enhanced our activities to further define the full therapeutic potential of derazantinib. We have opened an additional cohort in the iCCA study to include patients with other FGFR2 gene aberrations and also initiated a new phase 1/2 study to explore derazantinib in urothelial cancer, the sixth most common cancer in the U.S. In this new study, we are going to test derazantinib alone and in combination with Roche's immune-checkpoint inhibitor atezolizumab (Tecentriq®) to assess whether derazantinib could make tumors more susceptible to immunotherapy. This may lead to an exciting new treatment approach in the growing immunotherapy field.

We have also entered into licensing agreements for promising small-molecule drugs currently in the pre-clinical stage in our strategic focus areas of oncology and antibiotics. We are thus complementing internal with external innovation and are focusing our resources on the most promising projects, only taking projects forward where the data generation meets our high expectations with regard to developing innovative therapies with the potential for providing meaningful benefits to patients. These selective investments into our pipeline will create the basis for sustained value creation for the company in the future, in addition to the strongly growing product revenues from Cresemba and Zevtera, our two marketed drugs.

The "in-market" sales of the antifungal Cresemba reached around 170 million U.S. dollars in the 12-month period ending March 31, 2019, with significant growth not only in established markets, but also with initial contributions from a growing number of more recently launched countries. This year, our partners are well on track to double the number of Cresemba-launched countries to around 40 by the end of 2019. The strong "in-market" sales performance is reflected in our significantly growing cash-generating revenues from our participation through royalties, milestone payments and from product sales to our license and distribution partners.

We also continue to carefully manage our operating expenses by making selective investments into our R&D portfolio. Combined with our increasing cash generating revenues, we are continually reducing our cash consumption and were able to maintain a strong cash position of approximately 178 million Swiss Francs at the end of June. In summary, Basilea is well positioned to take the next value-generating steps.

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

Basel, August 2019

David Veitch
Chief Executive Officer

We focus on the medical challenges in oncology and anti-infectives

Three oncology product candidates in development

- Derazantinib
- BAL101553
- BAL3833

Two marketed anti-infective brands:

- Cresemba®
- Zevtera®/Mabelio®

Partnerships for commercialization of Cresemba and Zevtera cover >100 countries

~220 employees
from 14 countries

BSLN

Listed on SIX since 2004

11.9 mn shares
incl ~1.1 mn treasury shares

Biotech company
founded in 2000

HQ in Basel, Switzerland

Cash consumption reduced by

25%

compared to H1 2018

Operating result improved by

35%

compared to H1 2018

Cash and short-term investments of

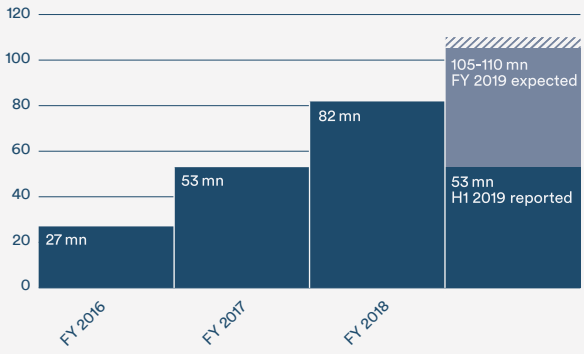
CHF **178** mn

by end of H1 2019

91% increase of revenue contributions from Cresemba and Zevtera year-on-year to

CHF **53** mn

at H1 2019



Guidance 2019:

- Cresemba and Zevtera revenue contribution of CHF 105–110 mn
- Total revenue of CHF 128–133 mn
- Operating loss of CHF 22–27 mn
- Net cash consumption by operating activities CHF 60–65 mn

USD 5 million milestone payment received from Pfizer based on strong Cresemba sales in Europe

In-licensing of pre-clinical assets in oncology and infectious diseases in H1 2019

TARGET ABSSSI Study

Zevtera: positive results of TARGET phase 3 study in skin infections (ABSSSI)

By H1 2019, Cresemba launched in 33 countries, Zevtera launched in 17 countries

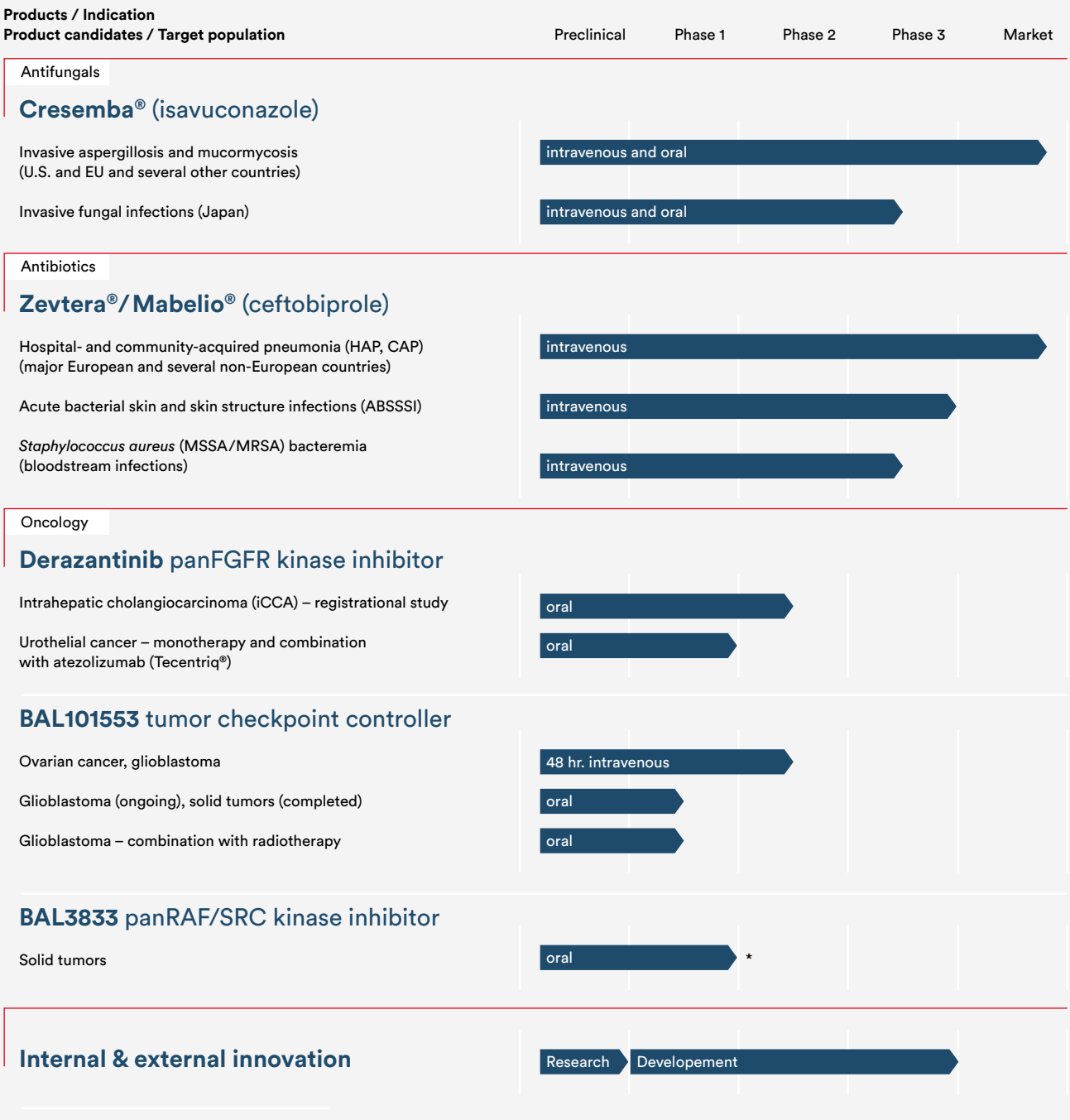
Fides

Derazantinib: Reported positive interim results of registrational phase 2 study in intrahepatic cholangiocarcinoma (iCCA)

Expansion by new cohort to explore broader patient population

Initiation of phase 1/2 study in urothelial cancer in combination with Roche's immune-checkpoint inhibitor Tecentriq® (atezolizumab)

Portfolio



*Pre-clinical reformulation activities ongoing

Phase 1

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

Phase 1/2a

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

Phase 2

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

Phase 3

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

Products and clinical pipeline

Oncology

By 2020, the number of new cancer cases per year in the U.S. alone is expected to have increased by 24% in men and 21% in women compared to 2010.

U.S. Centers of Disease Control (CDC), accessed July 2019

We are taking a targeted approach to oncology.

Derazantinib

an investigational small molecule panFGFR kinase inhibitor with strong activity against FGFR1, 2, and 3, which are key drivers of cell proliferation, differentiation and migration. Derazantinib is being tested in a registrational phase 2 study in patients with intrahepatic bile duct cancer (iCCA). A phase 1/2 study has been initiated to explore derazantinib as single drug and in combination with Roche's immune-checkpoint inhibitor Tecentriq® (atezolizumab) in patients with urothelial cancer.*

BAL101553

a small-molecule tumor checkpoint controller, which is in clinical phase 1/2a testing in patients with advanced solid tumors, including newly diagnosed glioblastoma (in combination with radiotherapy), progressive or recurrent glioblastoma, and platinum-resistant ovarian cancer.

BAL3833

a dual-targeting (panRAF/SRC) kinase inhibitor that blocks the transmission of certain signals in cells responsible for uncontrolled tumor growth. Following initial phase 1 testing in patients with solid tumors including metastatic skin cancer (melanoma), pre-clinical activities are ongoing to explore alternative formulations.

FGFR1-3 aberrations identified as important drivers in urothelial cancer. Significant potential for derazantinib

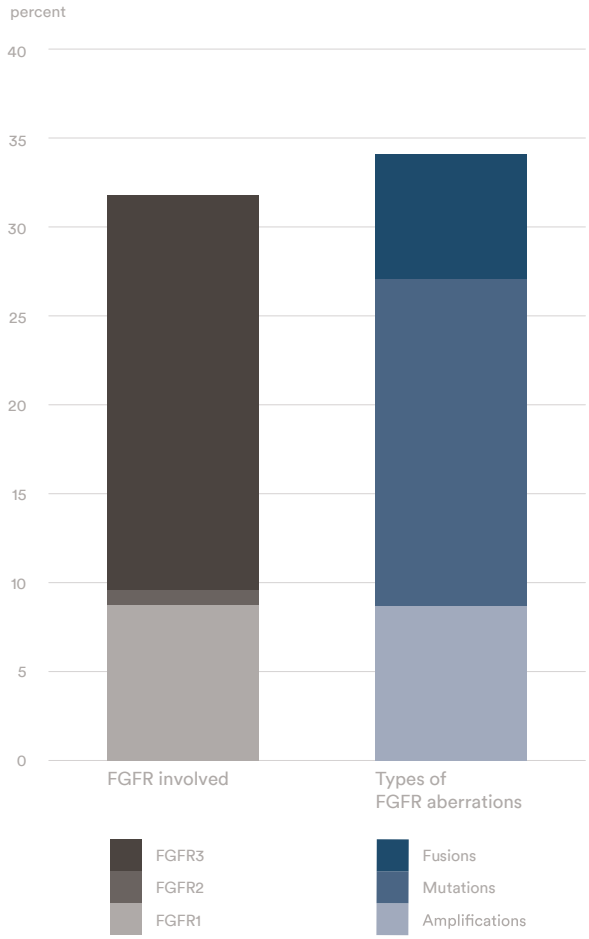


Chart adapted from T. Helsten, S. Elkin, E. Arthur et al. Clinical Cancer Research 2016

* Tecentriq® is a registered trademark of Hoffmann-La Roche Ltd.

Products and clinical pipeline

Antifungals

Cresemba®
(isavuconazole)

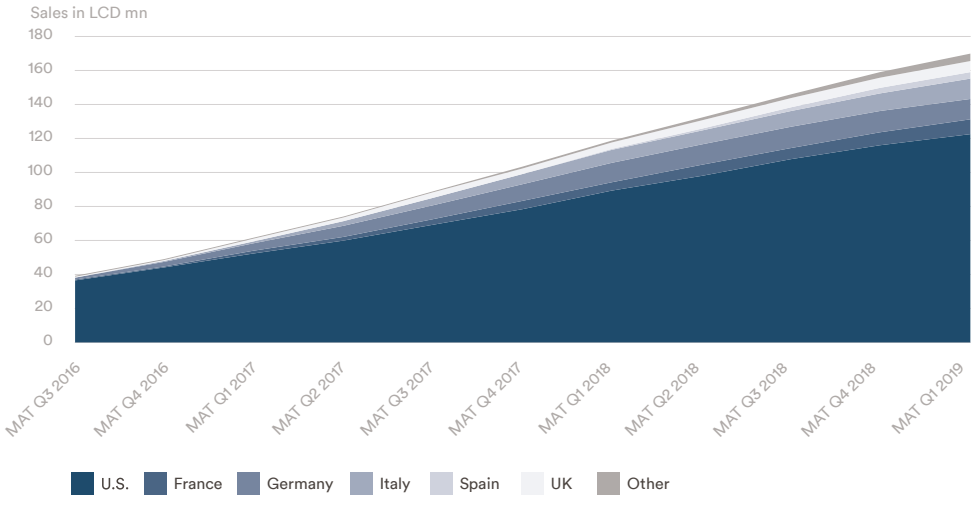
a marketed intravenous and oral azole antifungal for the treatment of invasive mold infections

Fungal diseases kill more than 1.5 million each year and affect over a billion people globally.

F. Bongomin, S. Gago, R. O. Oladele et al. Journal of Fungi 2017

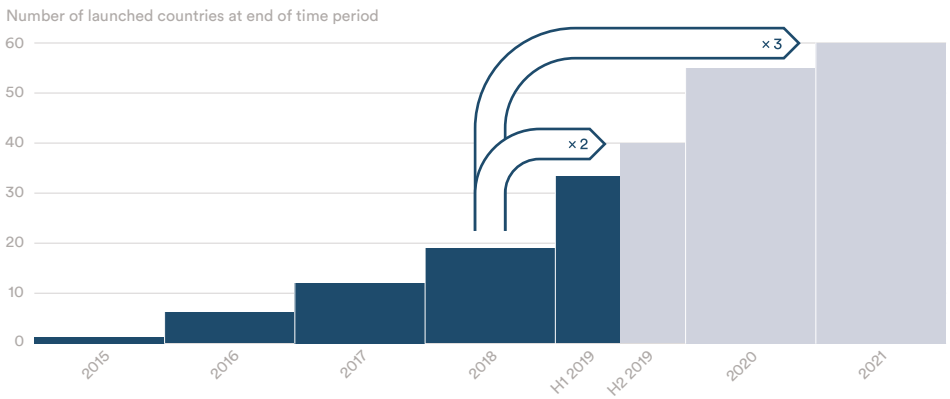
We are supporting our partners to make Cresemba available to many more patients around the world.

Cresemba in-market sales continue to grow and reached approximately USD 170 million in the twelve months to the end of March 2019



LCD: U.S. dollar corrected for currency fluctuations, MAT: Moving annual total.
Source: IQVIA, March 2019

Cresemba well on track to double number of launch countries from 2018 to 2019



Products and clinical pipeline

Antibiotics

Zevtera®/Mabelio®
(ceftobiprole)

a marketed intravenous cephalosporin antibiotic for the treatment of severe bacterial infections in the hospital, including infections caused by methicillin-susceptible and resistant *Staphylococcus aureus* (MSSA/MRSA)

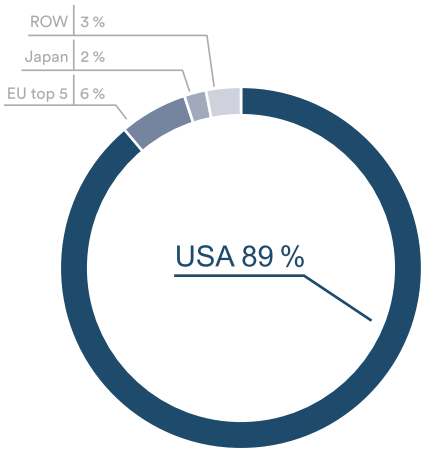
Over the past two decades, the mortality rates for *Staphylococcus aureus* bacteremia (SAB) have remained frustratingly steadfast at approx. 25 %.

J. C. Lam, D. B. Gregson, S. Robinson et al. Infection 2019

We are working towards bringing Zevtera to the commercially important U.S. market.

Basilea estimates that the U.S. market represents a significant proportion of the global market for new, branded anti-MRSA antibiotics. For certain brands, e.g. daptomycin, the U.S. share was close to 90 % at the time of Loss of Exclusivity (LOE).

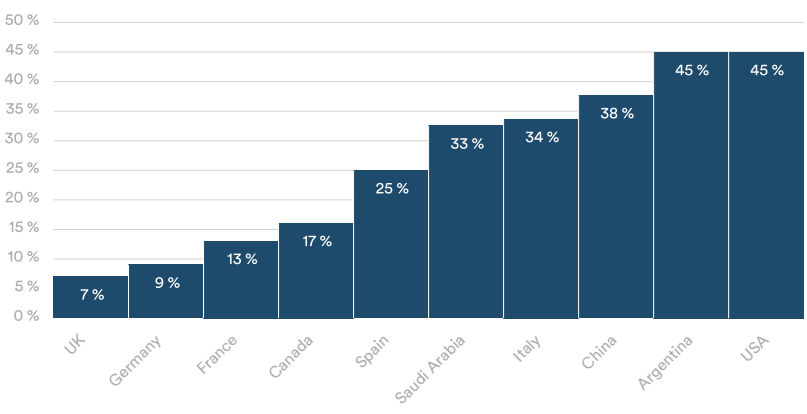
Daptomycin sales by region 2015 (before LOE)



Daptomycin: a standard drug for treatment of MRSA infections in the hospital

MRSA infections continue to be an important healthcare issue

Staphylococcus aureus resistance (MRSA)



Percentage of resistant isolates. Source: https://resistancemap.cddep.org/AntibioticResistance.php accessed July 2019

Financial report

Condensed Consolidated Interim Financial Statements

Basilea Pharmaceutica Ltd. and subsidiaries

Condensed consolidated balance sheets as of June 30, 2019 and December 31, 2018 (in CHF thousands, except for number of shares)

	Footnote reference	2019	2018
		unaudited	
ASSETS			
Current assets			
Cash and cash equivalents		127 871	173 034
Short-term investments	7	50 000	50 000
Restricted cash		486	874
Accounts receivable	6	4 593	3 757
Other receivables	8	21 977	30 962
Inventories	9	18 458	14 411
Other current assets		4 883	1 700
Total current assets		**228 268**	**274 738**
Non-current assets			
Tangible assets, net	3	5 750	6 424
Intangible assets, net	4	384	372
Other non-current assets		1 247	217
Total non-current assets		**7 381**	**7 013**
TOTAL ASSETS		**235 649**	**281 751**
LIABILITIES			
Current liabilities			
Accounts payable		3 310	6 399
Deferred revenue	5	50 538	25 025
Accruals and other current liabilities	11	27 506	35 260
Total current liabilities		**81 354**	**66 684**
Non-current liabilities			
Convertible senior unsecured bonds	10	197 358	196 982
Deferred revenue, less of current portion	5	21 640	69 945
Other non-current liabilities	15	15 280	14 827
Total non-current liabilities		**234 278**	**281 754**
Total liabilities		**315 632**	**348 438**
Commitments and contingencies	18		
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital[1]	13	11 880	11 879
Additional paid-in capital		926 229	924 194
Accumulated other comprehensive loss	13	(15 998)	(16 281)
Treasury shares	13	(7 419)	(7 235)
Accumulated deficit		(994 675)	(979 244)
Total shareholders' equity (deficit)		**(79 983)**	**(66 687)**
TOTAL LIABILITIES AND EQUITY (DEFICIT)		**235 649**	**281 751**

[1] As of June 30, 2019, 11,879,356 (December 31, 2018: 11,878,556) shares were issued and 10,735,801 shares (December 31, 2018: 10,744,704) outstanding with a par value of CHF 1.00 per share.

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

Basilea Pharmaceutica Ltd. and subsidiaries

Condensed consolidated statements of operations for the six months ending June 30, 2019 and June 30, 2018 (unaudited, in CHF thousands, except per share amounts)

	Footnote reference	2019	2018
Product revenue	5	25 355	6 466
Contract revenue	5	27 656	40 118
Revenue from research & development services		121	37
Other revenue	5	10 053	13 257
Total revenue		**63 185**	**59 878**
Cost of products sold		(9 370)	(6 479)
Research & development expenses, net		(50 839)	(57 833)
Selling, general & administrative expenses		(16 170)	(15 948)
Total cost and operating expenses		**(76 379)**	**(80 260)**
Operating loss		**(13 194)**	**(20 382)**
Interest income		13	12
Interest expense	10	(3 227)	(3 285)
Other financial income		976	2 246
Other financial expenses		(1 214)	(2 113)
Other components of net periodic pension cost		1 234	1 019
Loss before taxes		**(15 412)**	**(22 503)**
Income taxes		(19)	(44)
Net loss		**(15 431)**	**(22 547)**

Loss per share	14	**2019**	2018
Basic and diluted loss per share, in CHF		(1.44)	(2.07)

Basilea Pharmaceutica Ltd. and subsidiaries

Condensed consolidated statements of comprehensive income/loss for the six months ending June 30, 2019 and June 30, 2018 (unaudited, in CHF thousands)

	Footnote reference	2019	2018
Net loss		**(15 431)**	**(22 547)**
Currency translation adjustments		(118)	(12)
Amortization of unrecognized pension costs		401	616
Other comprehensive income, net of tax	13	**283**	**604**
Comprehensive loss		**(15 148)**	**(21 943)**

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

Basilea Pharmaceutica Ltd. and subsidiaries

Condensed consolidated statements of cash flows for the six months ending June 30, 2019 and June 30, 2018 (unaudited, in CHF thousands)

	Footnote reference	2019	2018
Cash flow from operating activities			
Net loss		(15 431)	(22 547)
Adjustments to reconcile net loss to net cash used in/provided by operating activities:			
Depreciation and amortization		838	943
Stock-based compensation		1 846	4 065
Interest and accretion of debt issuance cost	10	353	353
Change in operating assets/liabilities:			
Accounts receivable		(766)	1 608
Other receivables		9 013	(13 038)
Inventories		(4 000)	(3 958)
Accounts payable		(3 089)	(2 754)
Deferred revenue		(22 792)	(27 756)
Accruals and other current liabilities		(7 745)	4 392
Other operating cash flow items		(3 605)	(1 734)
Net cash used in operating activities		**(45 378)**	**(60 426)**
Cash flow from investing activities			
Investments in tangible assets	3	(118)	(209)
Investments in intangible assets	4	(61)	8
Net cash used in investing activities		**(179)**	**(201)**
Cash flow from financing activities			
Net proceeds from exercise of stock options		20	250
Purchase of treasury shares		(14)	(2 072)
Net cash used in/provided by financing activities		**6**	**(1 822)**
Effect of exchange rate changes on cash, cash equivalents and restricted cash		**0**	**(59)**
Net change in cash, cash equivalents and restricted cash		**(45 551)**	**(62 508)**
Cash, cash equivalents and restricted cash, beginning of period		**173 908**	**200 724**
Cash, cash equivalents and restricted cash, end of period		**128 357**	**138 216**

The following table shows the components of cash, cash equivalents and restricted cash as of June 30, 2019 and June 30, 2018:

In CHF thousands	2019	2018
Cash and cash equivalents	127 871	137 288
Restricted cash	486	928
Total cash, cash equivalents and restricted cash	**128 357**	**138 216**

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

Basilea Pharmaceutica Ltd. and subsidiaries

**Condensed consolidated statements of changes in shareholders' equity (deficit)
for the six months ending June 30, 2019 and June 30, 2018
(unaudited in CHF thousands, except for number of shares)**

	Footnote reference	Share capital		Treasury shares		Additional paid-in capital	Accumulated other comprehensive income/ loss	Accumulated deficit	**Total**
		Number of shares	Amount	Number of shares	Amount				
Balance at December 31, 2017		**11 871 656**	**11 872**	**(1 000 000)**	**(1 000)**	**917 701**	**(19 204)**	**(950 809)**	**(41 440)**
Opening balance adjustment (ASC 606 implementation)	2	-	-	-	-	-	-	2 917	2 917
Net loss		-	-	-	-	-	-	(22 547)	(22 547)
Other comprehensive income		-	-	-	-	-	604	-	604
Treasury shares transactions		-	-	(31 238)	(2 170)	98	-	-	(2 072)
Exercise of stock options, net		6 900	7	-	-	243	-	-	250
Stock-based compensation, net	12	-	-	-	-	4 065	-	-	4 065
Balance at June 30, 2018		**11 878 556**	**11 879**	**(1 031 238)**	**(3 170)**	**922 107**	**(18 600)**	**(970 439)**	**(58 223)**
Balance at December 31, 2018		**11 878 556**	**11 879**	**(1 133 852)**	**(7 235)**	**924 194**	**(16 281)**	**(979 244)**	**(66 687)**
Net loss		-	-	-	-	-	-	(15 431)	(15 431)
Other comprehensive income		-	-	-	-	-	283	-	283
Treasury shares transactions		-	-	(9 703)	(184)	170	-	-	(14)
Exercise of stock options, net		800	1	-	-	19	-	-	20
Stock-based compensation, net	12	-	-	-	-	1 846	-	-	1 846
Balance at June 30, 2019		**11 879 356**	**11 880**	**(1 143 555)**	**(7 419)**	**926 229**	**(15 998)**	**(994 675)**	**(79 983)**

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

Basilea Pharmaceutica Ltd. and subsidiaries

Notes to the condensed consolidated interim financial statements (unaudited, all amounts in CHF unless stated otherwise)

1 Basis of presentation

The condensed consolidated interim financial statements of Basilea Pharmaceutica Ltd. (Basilea) and its subsidiaries (together the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and accordingly do not include all information and disclosures as required by U.S. GAAP for complete financial statements. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The condensed consolidated interim financial statements should be read in conjunction with the 2018 consolidated financial statements contained in the Annual Report 2018. The financial statements are presented in Swiss Francs (CHF).

In the opinion of management, these condensed consolidated interim financial statements reflect all adjustments necessary, which are of a normal recurring nature, to fairly state the consolidated balance sheets, statements of operations, statements of comprehensive income/loss, cash flows and changes in shareholders' equity (deficit) for the interim periods presented.

2 Summary of significant accounting policies and new accounting pronouncements

Fair value measurements

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

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

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

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

The Company's financial instruments consist mainly of short-term and long-term financial assets and liabilities, including cash and cash equivalents, short-term and long-term investments, accounts receivable, other receivables, other

current assets, accounts payable, accruals and other current liabilities and the Company's convertible senior unsecured bonds.

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

Financial instruments measured on a basis other than fair value are mostly comprised of the Company's convertible senior unsecured bonds and are presented in the table below in terms of fair value. The fair value was estimated based on quoted market prices of June 30, 2019 and December 31, 2018:

Estimated fair value

In CHF million	2019	2018
Convertible senior unsecured bonds (Level 1)	193.9	181.7

Cash and cash equivalents

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

Restricted cash

Restricted cash include time deposits at banks reserved for the purchase of treasury shares.

Short- and long-term investments

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

Accounts receivable and other receivables

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

Inventories

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

Costs related to the manufacturing of inventories which occurred after the receipt of regulatory approval for respective product or evidence being available that regulatory approval can reasonably be expected are capitalized. Inventories

are valued at the lower of cost and net realizable value. Cost is determined based on the first-in first-out principle. If inventory costs exceed the net realizable value, a provision is recorded. In addition, provisions are recorded due to obsolescence or lack of demand.

Leases

Adoption of ASC Topic 842, Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued a new accounting standard that amends the guidance for the accounting and disclosure of leases. This new standard requires that lessees recognize the assets and liabilities that arise from leases on the balance sheet, including leases classified as operating leases and disclose qualitative and quantitative information about leasing arrangements. The FASB subsequently issued additional amendments to address issues arising from the implementation of the new lease standard.

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

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

The Company has one lease which is for rented office space. The Company recognized an operating Right Of Use (ROU) asset and lease liability because the asset could be identified and the Company has the right to control the asset. There are no financing ROU assets to be recognized for the six months ending on June 30, 2019. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments under the lease. Lease recognition occurs at the commencement date. ROU assets also include any lease payments made prior to the commencement date and exclude lease incentives received. In determining the present value of the lease payments, the implicit rate in the lease agreement is used when readily determinable. Alternatively, when the implicit rate is not determinable, the incremental borrowing rate is used based on the information available at the commencement date. The company determined the impact of discounting was not material to the present value of the lease payments.

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

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

As of January 1, 2019, an operating lease ROU asset of CHF 1.3 million and a lease liability of CHF 1.3 million (thereof CHF 0.4 million as current position) was recorded. For the six months ending on June 30, 2019, the depreciation of the operating lease ROU asset as presented in the statement of operations amounts to

CHF 0.2 million. The lease payment resulted in a decrease of the lease liability by CHF 0.2 million. There are approximately three years of the lease term remaining.

Convertible senior unsecured bonds

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

Treasury shares

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

Revenue recognition

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. As the expected performance period for the global agreement with Stiefel related to Toctino® ended in August 2018, the Company deemed the agreement as substantially completed and therefore, excluded this agreement from the ASC 606 adoption. The Company recorded a net increase to opening retained earnings and a decrease to deferred revenue of CHF 2.9 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact related to the regulatory milestones under the license agreement with Astellas related to isavuconazole. The impact to contract revenues and net loss as a result of applying ASC 606 for the financial year ending December 31, 2018 was a decrease, respectively increase of CHF 1.0 million. The corresponding impact to the basic and diluted loss per share was an increase of CHF 0.10.

Revenue recognition

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

The following table presents the Company's revenue disaggregated by revenue source for the six months ending June 30, 2019 and June 30, 2018. Sales and usage-based taxes are excluded from revenues.

In CHF million	2019	2018
Product revenue	25.4	6.5
Contract revenue	27.7	40.1
Revenue from research & development services	0.1	0.0
Other revenue:		
BARDA revenue	9.9	13.2
Others	0.1	0.1
Total	**63.2**	**59.9**

Revenue is measured at the amount of consideration the Company received or expects to receive in exchange for transferring goods or providing services. The Company derives its revenues primarily from products and contractual arrangements. The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract

- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

Product revenue

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

Contract revenue

To determine the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. For certain contracts, the Company provides a service of combining a license and related tasks into a single performance obligation. Hence, the entire contract is accounted for as one performance obligation. The Company may, however, promise to provide a distinct license with distinct services within a contract, in which case the Company separates the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. Non-refundable upfront payments and substantive development and sales milestones will be recognized over the remaining performance period based on the Company's progress towards satisfying its identified performance obligation. The Company infrequently sells licenses with observable standalone sales. In these cases the observable standalone sales are used to determine the standalone selling price. More frequently, the Company sells a unique license for a specific drug, and in these cases the Company typically uses the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock-based compensation

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

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

Income taxes

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

Pension plans

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

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

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

New accounting pronouncements

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

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

The amendments in this update will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2019, whereby early adoption is permitted in any interim or annual period. The Company is currently assessing the impact on the financial statements of this amendment.

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

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

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

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

3 Tangible assets

In CHF million	Land/Land-use rights	Buildings	Equipment	Total
H1 2019				
Cost				
January 1, 2019	1.5	19.0	24.5	45.0
Additions	0.0	0.0	0.1	0.1
Disposals	0.0	0.0	0.0	0.0
Currency effect	0.0	0.0	0.0	0.0
June 30, 2019	1.5	19.0	24.6	45.1
Accumulated depreciation				
January 1, 2019	0.0	15.2	23.4	38.6
Additions	0.1	0.5	0.1	0.7
Disposals	0.0	0.0	0.0	0.0
Currency effect	0.0	0.0	0.0	0.0
June 30, 2019	0.1	15.7	23.5	39.3
Net book value as of June 30, 2019	**1.4**	**3.3**	**1.1**	**5.8**
H1 2018				
Cost				
January 1, 2018	1.5	19.1	24.5	45.1
Additions	0.0	0.0	0.2	0.2
Disposals	0.0	0.0	0.0	0.0
Currency effect	0.0	0.0	0.0	0.0
June 30, 2018	1.5	19.1	24.7	45.3
Accumulated depreciation				
January 1, 2018	0.0	14.3	23.0	37.3
Additions	0.0	0.5	0.4	0.9
Disposals	0.0	0.0	0.0	0.0
Currency effect	0.0	0.0	0.0	0.0
June 30, 2018	0.0	14.8	23.4	38.2
Net book value as of June 30, 2018	**1.5**	**4.3**	**1.3**	**7.1**

4 Intangible assets

The intangible assets as of June 30, 2019 and June 30, 2018 consist of software for internal use:

In CHF million	H1 2019	H1 2018
Cost		
January 1	**5.2**	**5.0**
Additions	0.1	0.0
Disposals	-	-
Currency effect	0.0	0.0
June 30	**5.3**	**5.0**
Accumulated amortization		
January 1	**4.8**	**4.7**
Additions	0.1	0.1
Disposals	-	-
Currency effect	0.0	0.0
June 30	**4.9**	**4.8**
Net book value as of June 30	**0.4**	**0.2**

5 Agreements

License agreement with Pfizer related to isavuconazole

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

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

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

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

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

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

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

As of June 30, 2019, the Company presented deferred revenue of CHF 36.7 million (December 31, 2018: CHF 52.4 million) on its balance sheet, of which CHF 36.7 million was presented as current liability (December 31, 2018: CHF 11.1 million). The Company expects to recognize the revenue over the next twelve months.

For the six months ending June 30, 2019, the Company recognized CHF 21.5 million (six months ending June 30, 2018: CHF 4.9 million) as product revenue related to the upfront payment for the Territory and product sales to Pfizer Inc., royalty revenue of CHF 4.0 million (six months ending June 30, 2018: CHF 2.3 million), no contract revenue was recognized for the extended Territory (six months ending June 30, 2018: CHF 1.5 million). In January 2019, the Company recognized a sales milestone payment of USD 5.0 million (CHF 5.0 million) as contract revenue.

License agreement with Astellas related to isavuconazole

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

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

The agreement was amended in February 2014, providing the Company full rights to isavuconazole in all markets outside of the U.S. and Canada in return for foregoing the Company's right to co-promote the product in the U.S. and Canada, its right to receive payments related to co-promotion, and EU milestone payments. In addition, the amended agreement contains the Company's obligation to execute the European PIP studies. Hence, the Company determined that the amendment was a modification with an adjustment of an existing contract to be accounted for prospectively. The agreement was further amended in August 2015,

providing the Company full rights to isavuconazole in all markets outside the U.S. The Company determined that the amendment in August 2015 was not a significant modification. The Company and Astellas continue to coordinate their development and manufacturing activities and each company is responsible for commercial activities in its respective territory.

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

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

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

The agreement consists of several deliverables: the co-development services, the commercial-related manufacturing services, the grant of the license to Astellas, the European PIP studies and participation in the Committee. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting, with the European PIP studies and the commercial-related manufacturing services consisting of two others. The co-development services, the grant of the license and the participation in the Committee consist of one unit of accounting since they do not have value to Astellas on an individual stand-alone basis. The commercial-related manufacturing services and the European PIP studies are other units of accounting since they have value to Astellas and there is evidence of the stand-alone selling price for these obligations in the arrangement. The entire upfront payment was allocated to the units of accounting composed of the co-development services, the grant of the license, the participation in the Committee and the European PIP studies. The related revenue is recognized over the period where the performance obligation is satisfied, being the period over which the services are rendered. The period during which the Company has to satisfy its contractual performance obligations is expected to be until October 2020.

In 2010, the Company received a non-refundable net upfront payment of CHF 67.5 million (gross payment of CHF 75.0 million less withholding tax of CHF 7.5 million) from Astellas. This net upfront payment was recognized as deferred revenue. The upfront payment covered the grant of an exclusive license, compensation for co-development services and the participation in the Committee. As of June 30, 2019, the Company presented deferred revenue of CHF 6.0 million (December 31, 2018: CHF 8.3 million) on its balance sheet, of

which CHF 4.5 million (December 31, 2018: CHF 4.5 million) is presented as current liabilities. For the six months ending June 30, 2019 and June 30, 2018, the Company recognized CHF 2.3 million as contract revenue related to this upfront payment for the grant of license.

In September 2014, the U.S. Food and Drug Administration (FDA) accepted the filing of Astellas' New Drug Application (NDA) for isavuconazole, seeking approval of isavuconazole for the treatment of invasive aspergillosis and invasive mucormycosis in adults. Based on this acceptance, the Company received a non-refundable milestone payment of CHF 12.0 million from Astellas. This milestone payment was recognized as deferred revenue. The milestone payment covered the grant of an exclusive license, compensation for co-development services, the participation in the Committee and the European PIP studies. As of June 30, 2019, the Company presented deferred revenue of CHF 2.4 million (December 31, 2018: CHF 3.3 million) on its balance sheet, of which CHF 1.8 million (December 31, 2018: CHF 1.8 million) is presented as current liabilities. For the six months ending June 30, 2019, the Company recognized CHF 0.9 million as contract revenue related to this additional milestone payment received upon acceptance of filing (six months ending June 30, 2018: CHF 0.9 million).

In March 2015, the FDA approved Astellas' NDA for the use of isavuconazole for patients 18 years of age and older in the treatment of invasive aspergillosis and invasive mucormycosis. Based on the approval, the Company received a non-refundable milestone payment of CHF 30.0 million from Astellas. This milestone payment was recognized as deferred revenue. The milestone payment covered the grant of an exclusive license, compensation for co-development services, the participation in the Committee and the European PIP studies. As of June 30, 2019, the Company presented deferred revenue of CHF 6.0 million (December 31, 2018: CHF 8.1 million) on its balance sheet, of which CHF 4.4 million (December 31, 2018: CHF 4.4 million) is presented as current liabilities. For the six months ending June 30, 2019, the Company recognized CHF 2.2 million as contract revenue related to this additional milestone payment received upon approval (six months ending June 30, 2018: CHF 2.2 million).

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

For the six months ending June 30, 2019, the Company recognized CHF 5.4 million (six months ending June 30, 2018: CHF 5.4 million) as contract revenue related to the upfront and milestone payments and recognized additional contract revenue in the total amount of CHF 11.7 million (six months ending June 30, 2018: CHF 8.5 million) comprising CHF 11.7 million (six months ending June 30, 2018: CHF 8.5 million) related to royalties and CHF 0.0 million (six months ending June 30, 2018: CHF 0.0 million) related to services provided by the Company to Astellas related to isavuconazole.

For the six months ending June 30, 2019, the Company reported CHF 1.1 million (six months ending June 30, 2018: CHF 1.2 million) research and development expenses for isavuconazole net of cost reimbursements from Astellas of CHF 0.0 million (six months ending June 30, 2018: CHF 0.2 million) in research and development expenses, net since the Company does not have the risks and rewards as principal based on the terms of the arrangement and the nature of the activities carried out, and therefore acts as an agent for these transactions.

License agreement with Asahi Kasei Pharma related to isavuconazole

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

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

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

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

In 2016, the Company received a non-refundable upfront payment of CHF 7.0 million from Asahi Kasei Pharma. This upfront payment was deferred and is recognized as contract revenue over the remaining service period, expected to be until the fourth quarter of 2021 in line with the period over which the Ongoing Documentation and Information Transfer Obligation is provided up to submission of the NDA. As of June 30, 2019, the Company presented deferred revenue of CHF 3.3 million (December 31, 2018: CHF 4.0 million) on its balance sheet, of which CHF 1.3 million (December 31, 2018: CHF 1.3 million) is presented as current liabilities.

For the six months ending June 30, 2019 and June 30, 2018, the Company recognized CHF 0.7 million as contract revenue related to this upfront payment.

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

In September 2017, the Company entered into a development, manufacturing and commercialization agreement with Shenzhen China Resources Gosun Pharmaceuticals Co. Ltd. (Gosun) to develop, manufacture and commercialize Basilea's antibiotic ceftobiprole in China, Hong Kong and Macao (the Territory). Gosun is responsible for conducting clinical studies necessary to apply for a

marketing authorization for ceftobiprole in the Territory and for applying for such authorization. Once ceftobiprole is authorized, Basilea will initially supply the product to Gosun at a transfer price and will be eligible for tiered double-digit royalties on product sales once Gosun manufactures ceftobiprole itself.

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

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

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

In 2017, the Company received a non-refundable net upfront payment of CHF 2.7 million (gross payment of CHF 3.0 million less withholding tax and stamp duty of CHF 0.3 million) from Gosun. The upfront payment was deferred and is recognized as contract revenue over the remaining service period, expected to be until the first quarter of 2022 in line with the period over which the Ongoing Clinical Supply and Information Transfer Obligation is provided up to grant of the IDL or approval of DDA. As of June 30, 2019, the Company presented deferred revenue of CHF 1.7 million (December 31, 2018: CHF 2.0 million) on its balance sheet, of which CHF 0.6 million (December 31, 2018: CHF 0.6 million) is presented as current liabilities.

For the six months ending June 30, 2019, the Company recognized CHF 0.3 million (six months ending June 30, 2018: CHF 0.3 million) as contract revenue related to this upfront payment.

Distribution agreements

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

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

In 2017 and 2016, the Company received non-refundable upfront payments of CHF 6.3 million and CHF 12.1 million, respectively, in connection with these distribution agreements. In 2015, the Company received a non-refundable upfront payment of CHF 1.0 million. Thereof, CHF 6.3 million and CHF 12.0 million were recorded as deferred revenue in 2017 and 2016, respectively. In 2015, CHF 1.0 million was recorded as deferred revenue. The deferred revenue is recognized as contract revenue over the remaining performance period, approximately until 2032. As of June 30, 2019, the Company presented deferred revenue of CHF 16.1 million (December 31, 2018: CHF 16.8 million) on its balance sheet, of which CHF 1.3 million (December 31, 2018: CHF 1.3 million) is presented as current liabilities.

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

For the six months ending June 30, 2019, the Company recognized CHF 0.6 million (six months ending June 30, 2018: CHF 2.6 million) as contract revenue related to these payments and product revenue in the total amount of CHF 3.9 million (six months ending June 30, 2018: CHF 1.6 million) related to these distribution agreements.

Global agreement with Stiefel related to Toctino®

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

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

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

supply chain, and manufacturing process and requirements related to the API and drug product. As of June 30, 2019 and December 31, 2018, the Company presented no deferred revenue on its balance sheet.

For the six months ending June 30, 2019, the Company has not recorded any contract revenue related to this upfront payment (six months ending June 30, 2018: CHF 18.8 million).

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

In April 2016, the Company entered into a contract with BARDA for the clinical phase 3 development of ceftobiprole aiming to gain regulatory approval for the drug in the U.S. As of June 30, 2019, the Company was awarded a total amount of USD 94.9 million (December 31, 2018: USD 94.8 million) under this contract to support the phase 3 development of ceftobiprole. As of June 30, 2019, the Company received a total of USD 8.6 million or CHF 8.5 million, respectively (December 31, 2018: USD 20.8 million or CHF 20.4 million, respectively) in payments from BARDA under the contract. The Company considers the arrangement to be part of its ongoing major operations. Hence, other revenue is recorded when recoverable costs are incurred.

For the six months ending June 30, 2019, the Company recognized CHF 9.9 million (six months ending June 30, 2018: CHF 13.2 million) as other revenue related to the BARDA contract.

License agreement with ArQule Inc. related to derazantinib

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

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

For the six months ending June 30, 2019, the Company reported CHF 10.9 million (six months ending June 30, 2018: CHF 12.8 million) in research and development expenses, net related to this agreement.

License agreement for targeted cancer therapy

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

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

For the six months ending June 30, 2019 , the Company reported CHF 0.0 million (six months ending June 30, 2018: CHF 0.6 million) in research and development expenses, net related to this agreement.

6 Accounts receivable

The accounts receivable primarily consist of receivables from product revenue as well as receivables related to activities for isavuconazole for Astellas. As of June 30, 2019 and December 31, 2018, the Company recorded an allowance for estimated uncollectible receivables of CHF 0.0 million.

7 Short-term investments

As of June 30, 2019 and December 31, 2018, all investments were invested short-term with banks, denominated in Swiss Francs, in the amount of CHF 50.0 million.

8 Other receivables

The following table shows the components of other receivables as of June 30, 2019 and December 31, 2018:

In CHF million	2019	2018
VAT receivables	3.0	3.2
Royalty receivables (see Note 5 Agreements)	9.5	9.1
Contractual milestone receivables (see Note 5 Agreements)	0.0	10.3
Receivables from BARDA (see Note 5 Agreements)	9.2	7.8
Other	0.3	0.6
Total	**22.0**	**31.0**

9 Inventories

The following table shows the components of inventories as of June 30, 2019 and December 31, 2018:

In CHF million	2019	2018
Raw materials	2.1	2.1
Semi-finished products	28.3	24.5
Finished products	2.0	2.8
Inventory provisions	(13.9)	(15.0)
Total	**18.5**	**14.4**

The Company owns manufacturing material valued at cost which was partly produced prior to obtaining regulatory approval for ceftobiprole and isavuconazole. As ceftobiprole and isavuconazole obtained regulatory approval in 2013 and 2015 respectively, the ceftobiprole and isavuconazole inventory is presented gross in the inventory table above. Inventory provisions reflect mainly that material was produced prior to approval. The Company intends to use such material to manufacture products for commercialization. In addition, as of June 30, 2019 and December 31, 2018, the Company recorded provisions for other inventory in the total amount of CHF 5.8 million.

10 Convertible senior unsecured bonds

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

following table shows the carrying amount of the convertible senior unsecured bonds as of June 30, 2019 and December 31, 2018:

In CHF million	2019	2018
Convertible senior unsecured bonds	197.4	197.0

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

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

For the six months ending June 30, 2019 and June 30, 2018, the Company recognized interest expense of CHF 2.7 million for contractual coupon interest and CHF 0.4 million for accretion of the issuance costs. The remaining unamortized debt issuances costs of CHF 2.6 million will be accreted over the remaining term of the convertible senior unsecured bonds, which is approximately 3.5 years.

The amortization table related to the convertible senior unsecured bonds as of June 30, 2019 is as follows:

Amount in CHF million	
Remainder 2019	3.1
2020	6.3
2021	6.3
2022	206.1
Total minimum payments, including unamortized issuance costs	**221.8**
Less amount representing interest	(21.8)
Convertible senior unsecured bonds, gross	**200.0**
Unamortized issuance costs on convertible senior unsecured bonds	(2.6)
Convertible senior unsecured bonds, including unamortized issuance costs	**197.4**

In accordance with ASC 260, Earnings per Share, the issuance of the convertible senior unsecured bonds requires the use of the "if-converted" basis when calculating the Company's dilutive net income (loss) per share. Net income is adjusted to exclude, or add-back, all convertible senior unsecured bonds related earnings effects including interest charges and amortization of debt issuance costs. Weighted average shares are adjusted using the conversion ratio as if the convertible senior unsecured bonds had been converted at the date of issuance which corresponds to 1,586,017 shares of common stock. See Note 14 to these condensed consolidated interim financial statements for a computation of diluted loss per share.

11 Accruals and other current liabilities

Accruals and other current liabilities as of June 30, 2019 and December 31, 2018 consisted of the following:

In CHF million	2019	2018
Accrued research & development expenses	12.0	15.2
Accrued personnel and compensation costs	6.3	8.3
Accrued sales and marketing expenses	1.2	3.2
Other	8.0	8.6
Total accruals and other current liabilities	**27.5**	**35.3**

The other current liabilities include payables for goods received, sales returns, direct and indirect tax payables and other accrued expenses.

12 Stock-based compensation

The Company established a stock option plan effective on December 13, 2000 to incentivize executives and certain employees with an opportunity to obtain stock options on registered shares of Basilea. In 2018, the stock option plan was amended to allow for gross and/or net settlement of stock options, which will be applied by the Company to ensure that the maximum potential dilution related to all granted options will stay below 10% of the share capital on a fully diluted basis. The shareholders approved conditional capital necessary for the issuance of shares upon the exercise of stock options, of which CHF 1.9 million remain available as of June 30, 2019. CHF 1.6 million of this remaining available conditional capital are reserved for stock options, which were issued and outstanding as of June 30, 2019.

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

In the six months ending June 30, 2019, the Company granted 204,076 stock options under its stock option plan with an exercise price of CHF 45.80 and a weighted average grant-date fair value of CHF 17.02 per stock option. The fair value of the stock options granted was determined at the grant date using a binomial model. The expected volatility was determined based on the indicative historic volatility of Basilea's share price. The expected term of stock options granted was determined based on management's best estimate of assumed future exercise patterns, considering both the historic exercise patterns and the expected future development of the Company.

For the six months ending June 30, 2019, the Company recognized stock-based compensation expenses of CHF 1.8 million (six months ending June 30, 2018: CHF 4.1 million) related to this stock option plan.

13 Shareholders' equity

As of June 30, 2019, Basilea had 11,879,356 registered shares (Namenaktien) issued and outstanding with a par value of CHF 1.00 per share. As of December 31, 2018, Basilea had 11,878,556 registered shares with a par value of CHF 1.00 per share issued and outstanding.

For the six months ending June 30, 2019, a total of 800 stock options were exercised, using conditional capital, which resulted in the issuance of 800 registered shares with a par value of CHF 1.00 per share. For the six months ending June 30, 2018, a total of 6,900 stock options were exercised resulting in the issuance of 6,900 registered shares with a par value of CHF 1.00 per share.

Basilea had a total approved conditional capital of CHF 2,520,785 as of June 30, 2019 for the issuance of a maximum of 2,520,785 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,880,785 (1,880,785 registered shares with a par value of CHF 1.00 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1.00 each, available for the potential conversion of the outstanding convertible senior unsecured bonds.

As of June 30, 2019, the Company held treasury shares in the total amount of CHF 7.4 million (December 31, 2018: CHF 7.2 million), comprising of 1,000,000 registered shares with a par value of CHF 1.00 per share held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and further 143,555 registered shares with a par value of CHF 1.00 per share.

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

Changes in accumulated other comprehensive income/loss for the six months ending June 30, 2019 and June 30, 2018:

In CHF million	Currency translation adjustment	Unrecognized pension cost	Total
December 31, 2017	**(0.9)**	**(18.3)**	**(19.2)**
Change during the period	0.0	0.6	0.6
Total change during the period	**0.0**	**0.6**	**0.6**
June 30, 2018	**(0.9)**	**(17.7)**	**(18.6)**
December 31, 2018	**(1.5)**	**(14.8)**	**(16.3)**
Change during the period	(0.1)	0.4	0.3
Total change during the period	**(0.1)**	**0.4**	**0.3**
June 30, 2019	**(1.6)**	**(14.4)**	**(16.0)**

14 Earnings/Loss per share

For the six months ending June 30, 2019 and June 30, 2018, there was no difference between the basic and diluted loss per share. The weighted average number of shares outstanding and the loss for the six months ending June 30, 2019 and June 30, 2018 were as follows:

	2019	2018
Net loss, in CHF million	**(15.4)**	**(22.5)**
Weighted average number of shares outstanding, basic and diluted	**10 751 896**	**10 869 586**
Basic and diluted loss per share in CHF	**(1.44)**	**(2.07)**

For the six months ending June 30, 2019, 57,600 incremental shares (six months ending June 30, 2018: 74,141 incremental shares) relating to potential exercises of stock options and 1,586,017 shares issuable upon conversion of the convertible senior unsecured bonds (six months ending June 30, 2018: 1,586,017 shares) were excluded, as the effect would have been anti-dilutive.

15 Pension plan

As of June 30, 2019, the Company recorded an accrued pension liability of CHF 14.5 million in other non-current liabilities (December 31, 2018: CHF 14.7 million). The following table provides information on the pension expenses related to the Company's defined benefit pension plan for the six months ending June 30, 2019 and June 30, 2018:

In CHF million	2019	2018
Service cost	1.4	1.4
Interest cost	0.3	0.3
Expected return on plan assets	(0.6)	(0.6)
Amortization of pension related net loss	0.5	0.8
Amortization of prior service cost	(0.1)	(0.1)
Gross (benefit)/expense	1.5	1.8
Participant contributions	(0.6)	(0.6)
Net periodic pension cost	0.9	1.2

16 Segment and geographic information

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

17 Concentration of risk

The Company is generally subject to credit risk related to financial investments. The Company mitigates such credit risk by investing the funds only with counterparties, which are rated as high quality investment grade by a major rating agency or are fully guaranteed by Swiss cantons at the time of the Company's investment. As of June 30, 2019 and December 31, 2018, all investments were invested short-term with one bank and amounted to CHF 50.0 million.

The cash and cash equivalents as of June 30, 2019, amounted to CHF 127.9 million of which CHF 124.0 million were held with three different banks. The cash and cash equivalents as of December 31, 2018 amounted to CHF 173.0 million, of which CHF 163.3 million were held with three different banks. As of June 30, 2019, the highest total amount of cash and cash equivalents and investments held at one bank amounted to CHF 65.0 million (December 31, 2018: CHF 72.3 million).

The Company is also subject to credit risk related to receivables. The highest total amount of receivables with an individual counterparty as of June 30, 2019, is from BARDA in the amount of CHF 9.2 million in connection with the clinical phase 3 development of ceftobiprole (December 31, 2018, BARDA: CHF 7.8 million).

18 Commitments and contingencies

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

As of June 30, 2019, there are no significant contingencies.

19 Subsequent events

The Company has evaluated subsequent events through August 14, 2019, the date on which the condensed consolidated interim financial statements were available to be issued.

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