

Half-year report 2007

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## Basilea in Brief

Basilea Pharmaceutica Ltd. is an integrated biopharmaceutical company headquartered in Basel, Switzerland, listed on the SWX Swiss Exchange (SWX:BSLN).

Our focus is on the discovery, development and commercialization of innovative medicines to satisfy high medical and patient needs in the hospital and specialty pharmaceutical setting.

Basilea has a diversified product portfolio including novel treatments for resistant bacterial infections, systemic fungal infections and severe skin diseases. The highly competitive product pipeline comprises one drug candidate in pre-registration, two in clinical phase III and substantial early-stage programs.

Basilea is currently building its sales and marketing organization in the U.S. and major European markets, to promote alitretinoin and co-promote ceftobiprole.

**[www.basilea.com](http://www.basilea.com)**

## Half-year Highlights

January 10, **Ceftobiprole**

*Positive results of second phase III study*

Top-line results of second pivotal phase III trial in complicated skin and skin structure infections (cSSSI) demonstrated that ceftobiprole monotherapy was as effective as standard two-drug combination therapy covering Gram-positive, including methicillin-resistant *Staphylococcus aureus* (MRSA) infections, Gram-negative infections and difficult-to-treat diabetic foot infections.

February 19, **Alitretinoin**

*Positive results of phase III study*

Results of the pivotal phase III study demonstrated that alitretinoin was highly effective in treating patients suffering from severe refractory chronic hand eczema (CHE).

April 25, **Alitretinoin**

*Positive results of second phase III study*

Results of the second pivotal phase III study showed that patients suffering from severe CHE with its relapsing nature benefited from re-treatment after successful initial response to alitretinoin. In addition, patients with an initial incomplete response benefited from an extended treatment period.

May 18, **Ceftobiprole**

*Regulatory filing to U.S. health authorities*

A New Drug Application (NDA) for ceftobiprole was submitted to the U.S. Food and Drug Administration (FDA) for the proposed treatment of cSSSI including diabetic foot infections.

May 30, **Ceftobiprole**

*Accelerated assessment by Swissmedic*

The Swiss health authority Swissmedic granted ceftobiprole an accelerated assessment of the planned market authorization application.

June 18, **Ceftobiprole**

*Regulatory filing to European health authorities*

A Marketing Authorization Application (MAA) was submitted to the European Medicines Agency (EMA) for the proposed treatment of complicated skin and soft tissue infections (cSSTI) including diabetic foot infections.



## Our Lead Product Candidates

**Ceftobiprole** (Pre-registration stage) – developed with Cilag GmbH International, a Johnson & Johnson company - the first broad-spectrum cephalosporin antibiotic with anti-MRSA (methicillin-resistant *Staphylococcus aureus*) activity in pre-registration stage, intended to treat patients with severe complicated skin infections including those with significant resistant bacteria.



**Alitretinoin** (Phase III) – an investigational oral dermatology drug intended to treat patients with severe chronic hand eczema who do not respond to steroid creams and ointments. The relapsing illness results in significant patient disability and has profound occupational, medical and social consequences. To date, there is no approved treatment available for this severe skin disease.



**Isavuconazole** (Phase III) – an antifungal azole with extended activity spectrum and convenient water-soluble injection and oral dose forms intended to address the limited treatment options and high mortality associated with severe invasive fungal infections in immunocompromised cancer, transplant and HIV patients.

## Balanced Late-stage Product Portfolio

Our Portfolio		Research	Development Phase 0	I	II	III	Pre-registration	Market	
Antibacterials	Ceftobiprole Broad-spectrum anti-MRSA								
	Macrolides								
	β-Lactams								
	Exploratory Projects								
Dermatology	Alitretinoin Chronic Hand Eczema								
Antifungals	Isavuconazole Broad-spectrum Triazole								

## Report of Independent Accountants



### To the Board of Directors of Basilea Pharmaceutica Ltd., Basel, Switzerland

We have reviewed the accompanying condensed consolidated balance sheet of Basilea Pharmaceutica Ltd. and its subsidiaries as of June 30, 2007, the related condensed consolidated statements of operations and cash flows for each of the six-month periods ended June 30, 2007 and 2006, the condensed consolidated statement of changes in shareholders' equity for the six months ended June 30, 2007, and the related notes, included on pages 9 to 16. These interim financial statements are the responsibility of the Board of Directors.

We conducted our review in accordance with Swiss Auditing Standard 910 and standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America and to comply with relevant Swiss law.

### PricewaterhouseCoopers AG

Ralph R. Reinertsen

Raphael H. Rutishauser

Basel, August 21, 2007

## Condensed Consolidated Interim Financial Statements

Basilea Pharmaceutica Ltd. and subsidiaries

Condensed Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006, in CHF

	Footnote reference	Unaudited Jun 30, 2007	Dec 31, 2006
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		46 027 318	36 593 700
Short-term investments	5	320 000 000	140 000 000
Accounts receivable		160 700	184 222
Other receivables		939 366	1 013 845
Accrued interest		2 142 618	1 435 663
Other current assets		2 424 933	3 026 298
<b>Total current assets</b>		<b>371 694 935</b>	<b>182 253 728</b>
<b>Non-current assets</b>			
Property, plant and equipment, net		18 355 066	18 210 018
Long-term financial investments	6	105 000 000	-
Other non-current assets	11	2 934 592	2 623 998
<b>Total non-current assets</b>		<b>126 289 658</b>	<b>20 834 016</b>
<b>TOTAL ASSETS</b>		<b>497 984 593</b>	<b>203 087 744</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	13	11 682 157	1 948 401
Deferred revenue	4	7 199 105	5 730 883
Accruals and other current liabilities	7	16 843 905	19 675 771
<b>Total current liabilities</b>		<b>35 725 167</b>	<b>27 355 055</b>
<b>Non-current liabilities</b>			
Deferred revenue, less current portion	4	83 490 520	63 423 158
<b>Total non-current liabilities</b>		<b>83 490 520</b>	<b>63 423 158</b>
<b>Total liabilities</b>		<b>119 215 687</b>	<b>90 778 213</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital <sup>1</sup>	9	9 380 803	7 785 506
Additional paid-in capital		785 956 950	456 690 649
Accumulated other comprehensive loss		(2 046 508)	(2 081 997)
Accumulated deficit		(414 522 339)	(350 084 627)
<b>Total shareholders' equity</b>		<b>378 768 906</b>	<b>112 309 531</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>497 984 593</b>	<b>203 087 744</b>

<sup>1</sup> As of June 30, 2007, 9,380,803 shares issued and outstanding with a par value of CHF 1 per share.

As of December 31, 2006, 7,785,506 shares issued and outstanding with a par value of CHF 1 per share.

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

Basilea Pharmaceutica Ltd. and subsidiaries

Condensed Consolidated Statements of Operations  
for the six months ended June 30, 2007 and 2006  
(unaudited), in CHF

	Jun 30, 2007	Jun 30, 2006
<b>Revenues</b>	<b>3 377 939</b>	<b>3 890 242</b>
Research & development expenses	(60 614 044)	(39 012 094)
General & administrative expenses	(10 819 210)	(5 879 555)
<b>Total operating expenses</b>	<b>(71 433 254)</b>	<b>(44 891 649)</b>
<b>Operating loss</b>	<b>(68 055 315)</b>	<b>(41 001 407)</b>
Interest income	3 495 166	1 239 351
Other financial income/expenses, net	122 437	(31 519)
<b>Loss before taxes</b>	<b>(64 437 712)</b>	<b>(39 793 575)</b>
Income taxes	-	-
<b>Net loss</b>	<b>(64 437 712)</b>	<b>(39 793 575)</b>

	2007 6 months	2006 6 months
<b>Loss per share</b>		
Basic and diluted loss per share, in CHF	(7.40)	(5.24)

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

Basilea Pharmaceutica Ltd. and subsidiaries

Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006 (unaudited), in CHF

	Jun 30, 2007	Jun 30, 2006
<b>Net cash used for operating activities</b>	<b>(27 969 265)</b>	<b>(33 755 440)</b>
<b>Cash flow from investing activities</b>		
Short-term investments, net	(180 000 000)	5 000 000
Long-term financial investments, net	(105 000 000)	-
Investments in property, plant & equipment, net of disposals	(1 435 257)	(903 334)
<b>Net cash used for/provided by investing activities</b>	<b>(286 435 257)</b>	<b>4 096 666</b>
<b>Cash flow from financing activities</b>		
Net proceeds from capital increase	310 097 353	-
Net proceeds from exercise of stock options	13 723 155	15 421 766
<b>Net cash provided by financing activities</b>	<b>323 820 508</b>	<b>15 421 766</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>17 632</b>	<b>(51 006)</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>9 433 618</b>	<b>(14 288 014)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>36 593 700</b>	<b>29 635 274</b>
<b>Cash and cash equivalents, end of period</b>	<b>46 027 318</b>	<b>15 347 260</b>

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

Basilea Pharmaceutica Ltd. and subsidiaries

Condensed Consolidated Statement of changes in Shareholders' Equity for the six months ended June 30, 2007 (unaudited), in CHF, except for number of shares

	Number of shares	Share capital	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income/loss	Total
<b>Balance at December 31, 2006</b>	<b>7 785 506</b>	<b>7 785 506</b>	<b>456 690 649</b>	<b>(350 084 627)</b>	<b>(2 081 997)</b>	<b>112 309 531</b>
Currency translation adjustment	–	–	–	–	35 489	35 489
Net loss	–	–	–	(64 437 712)	–	(64 437 712)
Comprehensive income/loss	–	–	–	(64 437 712)	35 489	(64 402 223)
Capital increase	1 380 000	1 380 000	308 717 353	–	–	310 097 353
Exercise of stock options, net	215 297	215 297	13 507 858	–	–	13 723 155
Stock-based compensation, net	–	–	7 041 090	–	–	7 041 090
<b>Balance at June 30, 2007</b>	<b>9 380 803</b>	<b>9 380 803</b>	<b>785 956 950</b>	<b>(414 522 339)</b>	<b>(2 046 508)</b>	<b>378 768 906</b>

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

Basilea Pharmaceutica Ltd. and  
Subsidiaries

Condensed Consolidated Statement  
of changes in Shareholders' Equity  
for the six months ended June 30,  
2006 (unaudited), in CHF

	Number of shares	Share capital	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income/loss	<b>Total</b>
<b>Balance at December 31, 2005</b>	<b>7 436 502</b>	<b>7 436 502</b>	<b>425 976 934</b>	<b>(264 934 938)</b>	<b>(609 252)</b>	<b>167 869 246</b>
Currency translation adjustment	–	–	–	–	(188 586)	(188 586)
Net loss	–	–	–	(39 793 575)	–	(39 793 575)
Comprehensive income/loss	–	–	–	(39 793 575)	(188 586)	(39 982 161)
Exercise of stock options, net	258 290	258 290	15 163 476	–	–	15 421 766
Stock-based compensation, net	–	–	4 715 698	–	–	4 715 698
<b>Balance at June 30, 2006</b>	<b>7 694 792</b>	<b>7 694 792</b>	<b>445 856 108</b>	<b>(304 728 513)</b>	<b>(797 838)</b>	<b>148 024 549</b>

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

Basilea Pharmaceutica Ltd. and subsidiaries

Notes to the Condensed Consolidated Interim  
Financial Statements (unaudited), all amounts in CHF

## 1 Basis of Presentation

The condensed consolidated interim financial statements of Basilea Pharmaceutica Ltd. and its subsidiaries ("Company") have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP") for interim financial information and accordingly do not include all information and disclosures as required by US GAAP for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements. Please refer to the consolidated financial statements as of December 31, 2006, as included in the Annual Report 2006, for further information. The financial statements are presented in Swiss Francs (CHF).

The Company incorporated subsidiaries in the U.S., United Kingdom, Germany, Italy and Spain in the first six months of 2007 in the context of establishing an international sales and marketing organization. These subsidiaries are wholly-owned and fully consolidated.

In the opinion of management, these condensed consolidated interim financial statements reflect all adjustments necessary to present fairly the consolidated balance sheets, statements of operations, cash flows and changes in shareholders' equity for the interim periods presented.

## 2 Significant Accounting Policies and New Accounting Pronouncements

### Revenue Recognition

The Company generally recognizes revenue if the criteria of Staff Accounting Bulletin ("SAB") No. 101, as amended by SAB No. 104, are met, which is when there is evidence of an arrangement, the price is fixed or determinable, collectibility is reasonably assured and the service has been rendered or delivery has occurred. For agreements with multiple deliverables, the Company recognizes revenue separately for each deliverable in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-21. The Company records revenues net of any sales and value added taxes.

Revenue from non-refundable, upfront license fees and milestone payments under licensing agreements, where the Company has continuing involvement, is recognized over the estimated performance or agreement period, depending on the terms of the agreement. Performance based milestone payments are recognized upon achievement of the respective event and if there is no continuous involvement by the Company related to this milestone payment. To the extent that the Company receives payments, including non-refundable payments, in excess of the recognized revenue, such excess is recorded as deferred revenue until the respective revenue is earned.

Revenue for research and development services provided by the Company is recorded as earned based on the performance requirements of the underlying contracts.

### Inventories

Costs related to the manufacturing of inventories are expensed as research and development expenses when incurred prior to obtaining regulatory approval or evidence is available that regulatory approval can reasonably be expected. As of June 30, 2007, the Company had not capitalized any inventories. The Company recognized CHF 10.6 million as research and development expenses in the first six months of 2007 related to the manufacturing of pharmaceutical material which may be used for commercialization of one of its compounds, subject to regulatory approval. No corresponding expenses were recognized in the first six months of 2006.

### New Accounting Pronouncements

As new accounting pronouncements are released, the Company reviews such pronouncements for the potential impact on the Company's financial statements.

In June 2007, the Financial Accounting Standards Board ("FASB") ratified the consensus reached by the EITF on EITF Issue No. 07-3 "Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities". EITF No. 07-3 states that non-refundable advance payments for future research and development activities should be capitalized until the goods have been delivered or the related services have been performed. The Company will adopt this accounting treatment prospectively for new contracts entered into beginning from January 1, 2008, the effective date of this Issue.

### 3 Exchange Rates of Principal Currencies

The exchange rates used for the consolidation in 2007 and 2006 were the following:

	Statement of Operations			Balance Sheet
	6 months 2007	Average rate 6 months 2006	Jun 30, 2007	Period-end rate Dec 31, 2006
US Dollar	1.23	1.27	1.23	1.22
EURO	1.63	N/A	1.66	N/A
British Pounds	2.42	N/A	2.46	N/A

### 4 Licensing Agreement

In February 2005, Basilea Pharmaceutica Ltd. ("Basilea") entered into a licensing, development and co-promotion agreement with Cilag GmbH International, Zug, Switzerland ("Licensee"), a subsidiary of Johnson & Johnson, under which the Company grants the Licensee an exclusive worldwide license to develop and commercialize the Company's antibiotic compound ceftobiprole (BAL5788). In 2006, the Company exercised its option to co-promote ceftobiprole in certain major market countries.

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

In the first six months of 2007, the Company received a further milestone payment in the amount of CHF 24.5 million related to filing of the new drug application in the United States. The non-refundable upfront and milestone payments received under this agreement were recognized as deferred revenue and are subsequently being recognized as revenue on a straight-line basis over the estimated term of the agreement. The Company has recognized CHF 2.6 million as revenue in the first six months of 2007 related to these payments (CHF 2.6 million in the first six months of 2006).

### 5 Short-Term Investments

The short-term financial investments as of June 30, 2007 contain short-term time deposits with banks, all denominated in Swiss Francs, in the amount of CHF 320.0 million (CHF 140.0 million as of December 31, 2006).

## 6 Long-Term Financial Investments

The long-term financial investments as of June 30, 2007 contain long-term deposits with banks denominated in Swiss Francs, in the amount of CHF 105.0 million, while no long-term financial investments were held as of December 31, 2006.

## 7 Accruals and Other Current Liabilities

Accruals and other current liabilities as June 30, 2007 and December 31, 2006 consisted of the following:

In CHF million	Jun 30, 2007	Dec 31, 2006
Accrued R&D expenses	9.1	15.0
Accrued personnel and compensation costs	4.8	3.8
Other	2.9	0.9
<b>Total accruals and other current liabilities</b>	<b>16.8</b>	<b>19.7</b>

## 8 Stock-Based Compensation

The Company has established a stock option plan effective on December 13, 2000, to provide incentives to directors, executives and employees with an opportunity to obtain stock options on registered shares of Basilea. The shareholders approved conditional capital necessary for the issuance of shares upon the exercise of stock options, of which CHF 2.4 million remains available as of June 30, 2007. CHF 1.3 million of this remaining available conditional capital is reserved for stock options, which are issued and outstanding as of June 30, 2007.

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

For the six months ended June 30, 2007, the Company recognized compensation expenses of CHF 7.0 million related to this stock option plan, while CHF 4.7 million of compensation expenses were recognized in the respective period in 2006.

## 9 Shareholders' Equity

As of June 30, 2007, Basilea had 9,380,803 registered shares (Namenaktien) issued and outstanding with a par value of CHF 1 per share. As of December 31, 2006, Basilea had 7,785,506 registered shares with a par value of CHF 1 per share issued and outstanding.

In March 2007, Basilea increased its share capital by an amount of CHF 1,380,000 through issuance of 1,380,000 registered shares with a nominal value of CHF 1 per share through a secondary offering. Basilea realized net proceeds of approximately CHF 310.1 million through this capital increase.

In the six months ended June 30, 2007 and 2006, 215,297 and 258,290 stock options were exercised, respectively, using conditional capital, which resulted in the issuance of 215,297 and 258,290 registered shares with a par value of CHF 1 per share in the respective periods.

Basilea had a total approved conditional capital of CHF 3,019,338 as of June 30, 2007 for the issuance of a maximum of 3,019,338 registered shares with a nominal value of CHF 1 per share. This conditional capital contained CHF 2,379,338 (2,379,338 registered shares with a par value of CHF 1 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and 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 per share, available for the exercise of option or conversion rights granted with new option or convertible bonds.

The Company is authorized, through March 2009, to increase its share capital by a maximum of CHF 660,000 by issuing a maximum of 660,000 registered shares with a nominal value of CHF 1 per share.

In the ordinary shareholders' meeting on March 7, 2007, the shareholders of the Company approved the release of reserves in the amount of CHF 79,219,144 to offset the loss carried forward for Swiss statutory purposes.

## 10 Earnings/Loss per Share

For the six months ended June 30, 2007 and 2006, there was no difference between basic and diluted loss per share. The weighted average number of shares outstanding and the loss per share for the six months ended June 30, 2007 and 2006 are as follows:

	2007	2006
Net loss in CHF million	(64.4)	(39.8)
Weighted average number of shares outstanding, basic and diluted	8 702 050	7 596 095
Basic and diluted loss per share in CHF	(7.40)	(5.24)

The computation of the dilutive loss per share for the six months ended June 30, 2007 excludes 665,654 incremental shares (2006: 617,084 incremental shares) related to potential exercises of 1,283,690 stock options (2006: 1,280,157 stock options), as the effect would have been anti-dilutive.

## 11 Pension Plan

The measurement date for the Company's pension plan is September 30 of each year.

The following table provides information on the pension expenses for the six months periods ended June 30, 2007 and 2006:

In CHF million	Jan 1 to Jun 30, 2007	Jan 1 to Jun 30, 2006
Service cost	1.1	1.0
Interest cost	0.4	0.4
Expected return on plan assets	(0.6)	(0.5)
Gross benefit expense	0.9	0.9
Participant contributions	(0.4)	(0.3)
Net periodic pension cost	0.5	0.6
Employer contributions	(0.8)	(0.8)
<b>(Increase) of prepaid pension asset</b>	<b>(0.3)</b>	<b>(0.2)</b>

As of June 30, 2007, the Company recognized a prepaid pension asset of CHF 2.9 million in other non-current assets (Dec 31, 2006: CHF 2.6 million).

## 12 Segment information

The Company operates in one segment, which is the discovery, development and commercialization of pharmaceutical products. The chief operating decision maker reviews the profit and loss of the Company and assesses the performance of the operations on an aggregated basis.

## 13 Related Party Transactions

The Company has an agreement with its shareholder, F. Hoffmann-La Roche Ltd. ("Roche"), with respect to certain of its research molecules, that allows Roche to opt-in on such compounds in exchange for milestone payments and potential future royalties. The Company is currently not pursuing those research molecules for which Roche has opt-in rights.

As of June 30, 2007, the accounts payable of CHF 11.7 million include accounts payables due to related parties in the amount of CHF 9.6 million, of which CHF 9.6 million related to the purchase of pharmaceutical material which may be used for commercialization of one of its compounds, subject to regulatory approval.

## 14 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. These commitments are not in excess of current market prices in all material respects and reflect normal business operations.

## Contact Information

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