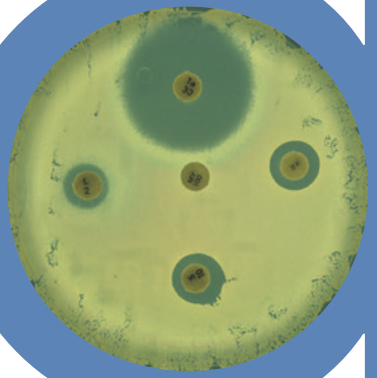
HALF-YEAR REPORT **2014**

basilea
PHARMACEUTICA

Resistance



RONALD SCOTT
Chief Executive Officer

"**BASILEA** IS AMONG THE FEW **INTEGRATED** COMPANIES DEDICATED TO THE **RESEARCH, DEVELOPMENT,** AND **COMMERCIALIZATION** OF **NEW DRUGS** TO OVERCOME **RESISTANCE** IN THE AREAS OF **ANTI-INFECTIVES** AND **ONCOLOGY.**"

▸ www.basilea.com

in focus

BASILEA IN BRIEF

OUR COMPANY

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

OUR VISION

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

KEY EVENTS

CORPORATE

- Isavuconazole U.S. and Canadian co-promotion rights swapped for full isavuconazole rights outside U.S. and Canada; Basilea entitled to receive milestone payments totaling up to CHF 374 million and royalty payments from Astellas relating to U.S. and Canadian territories
- Agreement signed with Quintiles (NYSE: Q) to commercialize Zevtera®/Mabelio® (ceftobiprole medocaril) in Europe

FINANCIALS

- Half-year cash and short-term investments of CHF 245.9 million
- Financial guidance for the full year 2014 remains unchanged: total operating expenses are estimated at CHF 8 to 9 million on average per month and operating loss at CHF 4 to 5 million on average per month

PROGRAM UPDATES

- Isavuconazole European Marketing Authorization Application (MAA) submitted by Basilea and U.S. New Drug Application (NDA) submitted by Astellas seeking approval for the treatment of invasive aspergillosis and mucormycosis
- European Orphan Drug designations granted to isavuconazole for the treatment of invasive aspergillosis and mucormycosis
- U.S. FDA Qualified Infectious Disease Product (QIDP) designations granted to isavuconazole for the treatment of invasive mucormycosis and invasive candidiasis
- U.S. FDA confirmed that additional phase 3 data are required for potential U.S. regulatory approval of ceftobiprole in pneumonia
- Ceftobiprole early clinical benefit data in pneumonia, isavuconazole safety data from SECURE study, and *in-vitro* data on synergy between BAL30072 and carbapenems presented at the European Congress of Clinical Microbiology and Infectious Diseases (ECCMID)
- Oncology drug candidate BAL101553 commenced phase 2a study in advanced or recurrent solid tumors following successful completion of phase 1
- Gram-negative antibiotic BAL30072 phase 1 combination study with meropenem initiated under agreement with the Biomedical Advanced Research and Development Authority (BARDA), a division within the U.S. Department of Health and Human Services

◀ Title page: Antibiotic disks on *Staphylococcus aureus* bacteria culture petri dish showing various zones of sensitivity

DRUG RESISTANCE – A GLOBAL HEALTH THREAT

ANTIBIOTIC RESISTANCE

> "We are quickly running out of therapies to treat some of these infections that previously had been eminently treatable. There are bacteria that we encounter, particularly in health-care settings, that are resistant to nearly all – or, in some cases, all – the antibiotics that we have available to us. … There are patients for whom we have no therapy, and we are literally in a position of having a patient in a bed who has an infection, something that five years ago even we could have treated, but now we can't."

Srinivasan A quoted in Longtin D and Miller HI. The grim prospect of life without antibiotics. June 2014. http://www.forbes.com/sites/henrymiller/2014/06/04/3278/. Accessed on July 11, 2014.

ANTIFUNGAL RESISTANCE

> "Nosocomial invasive aspergillosis can occur in any severely immunocompromised or chronically debilitated host. It is by far the greatest infectious threat to survival … during and after induction chemotherapy, bone marrow transplantation and certain solid-organ transplant patients."

Vandewoude KH et al. Invasive aspergillosis in critically ill patients: attributable mortality and excesses in length of ICU stay and ventilator dependence. Journal of Hospital Infection. 2004.

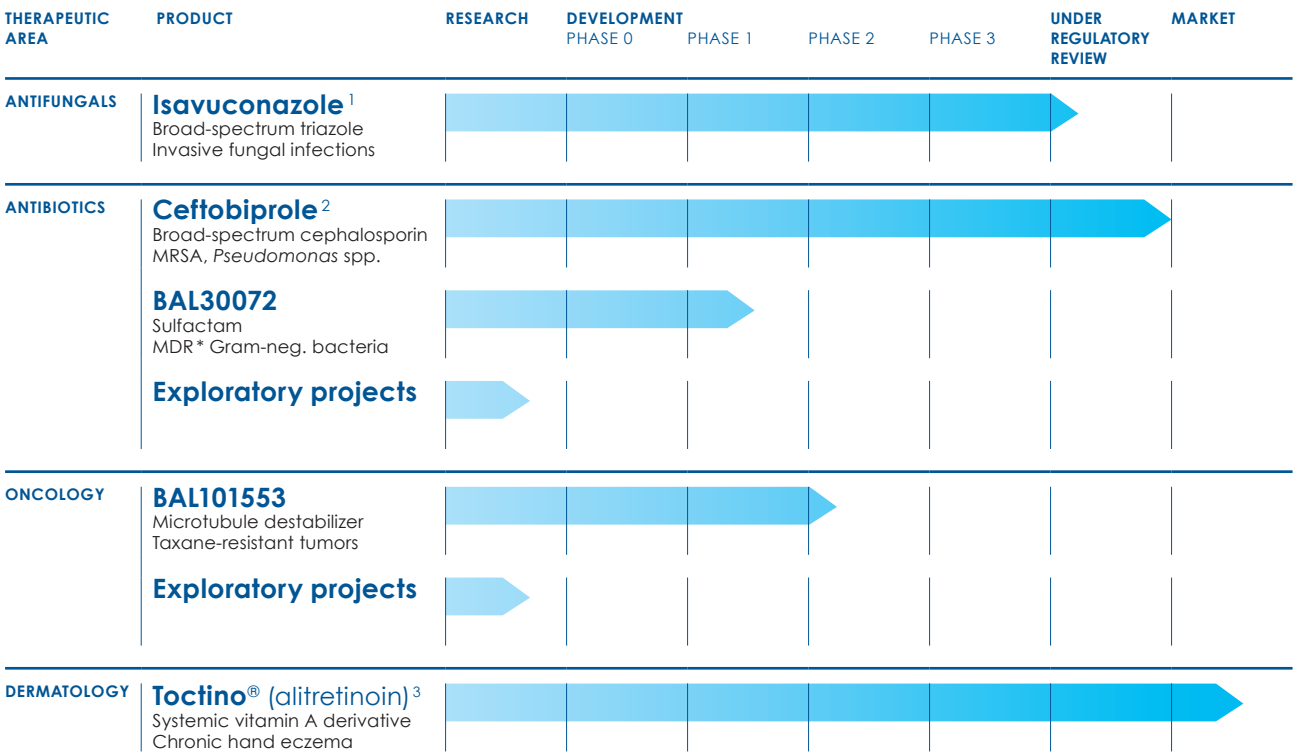
RESISTANCE TO CANCER THERAPY

> "Anticancer drugs directed against the microtubule, such as the taxanes and vinca alkaloids, have been the backbone of many chemotherapy regimens for decades. These drugs have, however, significant limitations including … drug resistance that have prompted the investigation of novel microtubule targeting agents."

Seligmann J, Twelves C. Tubulin: an example of targeted chemotherapy. Future Medicinal Chemistry. 2013.

OUR PORTFOLIO

- Isavuconazole European MAA submitted by Basilea and U.S. NDA submitted by Astellas for the treatment of invasive aspergillosis and mucormycosis; candidemia phase 3 study ongoing
- Ceftobiprole approved for the treatment of hospital- and community-acquired pneumonia in Europe [2]
- Innovative early-stage pipeline from Basilea's research: anti-Gram-negative antibiotic BAL30072 in phase 1 and microtubule-targeting oncology compound BAL101553 in phase 2a clinical development



[1] Partnered with Astellas Pharma Inc., Basilea has exclusive commercial rights outside of the U.S. and Canada
[2] Brand name Zevtera®/Mabelio®. Ceftobiprole has received national licenses in Austria, Belgium, Denmark, Finland, France, Germany, Norway, Spain, Sweden and the United Kingdom; national authorization in Italy and Luxembourg is ongoing
[3] Participation with Stiefel/GSK; Basilea eligible for a milestone payment related to the launch of alitretinoin in the U.S. and participation in future U.S. product sales
* Multidrug-resistant

OUR PRODUCTS

ANTI-INFECTIVES

ZEVTERA®/MABELIO® (CEFTOBIPROLE MEDOCARIL) is a bactericidal broad-spectrum intravenous (i.v.) cephalosporin antibiotic covering Gram-positive and Gram-negative pathogens such as MRSA and *Pseudomonas* spp. In clinical studies, ceftobiprole showed more rapid clinical responses than the comparator regimen.

Zevtera®/Mabelio® has gained regulatory authorization in major European markets for the treatment of hospital- and community-acquired pneumonia, and is currently under regulatory review in Switzerland.

Basilea anticipates launching Zevtera® in Germany in the second half of 2014, and following issuance of national marketing authorizations and conclusion of pricing and reimbursement discussions, plans to launch in other key European markets in 2015.

ISAVUCONAZOLE is an investigational once-daily i.v. and oral broad-spectrum antifungal for the potential treatment of invasive fungal infections.

Serious fungal infections are on the rise due to the increasing number of immunosuppressed patients such as those undergoing chemotherapy.

Based on its activity against both *Aspergillus* spp. and emerging molds, such as Mucorales, along with its safety profile, isavuconazole could offer a new option for the treatment of invasive, potentially life-threatening mold infections.

Basilea has submitted an MAA in Europe and Basilea's co-development partner Astellas Pharma Inc. has submitted an NDA in the U.S. seeking approval of isavuconazole for the treatment of invasive aspergillosis and mucormycosis. The submissions are based on the SECURE and VITAL phase 3 study data. In SECURE, once-daily isavuconazole demonstrated non-inferiority versus twice-daily voriconazole and showed a favorable safety profile with statistically superior safety regarding liver, skin and the eye. The VITAL study included aspergillosis patients with renal impairment and patients with mucormycosis or other emerging fungal infections.

The ACTIVE phase 3 study for the treatment of invasive *Candida* infections is anticipated to complete enrollment in 2015.

BAL30072 is an i.v. bactericidal monosulfactam antibiotic in phase 1 with *in-vitro* and *in-vivo* activity against clinically relevant multidrug-resistant Gram-negative pathogens, such as *Acinetobacter baumannii* and *Pseudomonas aeruginosa*, as well as other, less common pathogens causing serious infections for which there are currently few or no treatments available.

Gram-negative pathogens account for approximately a third of all hospital-acquired infections and are recognized as a global health threat.

In-vitro data demonstrated synergy between BAL30072 and carbapenems against recent clinical isolates of difficult-to-treat multidrug-resistant Gram-negative bacteria. Basilea has initiated a phase 1 clinical study evaluating the safety, tolerability and pharmacokinetics of multiple-ascending doses of i.v. BAL30072 in combination with meropenem, a carbapenem antibiotic.

BAL30072 development receives funding under a contract with BARDA.

ONCOLOGY

BAL101553 is a small-molecule drug candidate for the potential therapy of cancers including resistant cancer types, with the potential for i.v. and oral administration. The agent targets the microtubule cytoskeleton displaying a dual mode of action: it blocks cancer cell proliferation and disrupts tumor blood vessels.

Cancer is an adaptive process and the development of resistance to cancer therapies is an ongoing challenge. It is critical to develop and validate biomarkers for response or prediction of response to therapies to select the right patient for a given therapy.

In a phase 1 study, the maximum tolerated dose of BAL101553 was determined. Study data showed first evidence of clinical antitumor activity. Pharmacodynamic markers highlighted the effects on tumor cell proliferation in patient biopsies. Clinical responses included one partial response and five disease stabilizations among the 21 evaluable patients.

A phase 2a study was initiated to further characterize safety and tolerability, and to obtain efficacy data in adult patients with advanced or recurrent solid tumors. The study will continue biomarker testing to further evaluate dosing and the patient populations most likely to respond.

OUR PORTFOLIO

CEFTOBIPROLE

Broad-spectrum cephalosporin MRSA, *Pseudomonas* spp.

ISAVUCONAZOLE

Broad-spectrum triazole Invasive fungal infections

BAL30072

Sulfactam Multidrug-resistant Gram-negative bacteria

BAL101553

Microtubule destabilizer Taxane-resistant tumors

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013 (in CHF)

	Footnote reference	Unaudited 2014	2013
ASSETS			
Current assets			
Cash and cash equivalents		130 887 274	118 897 653
Short-term investments	4	115 000 000	155 000 000
Accounts receivable	5	5 520 396	3 883 335
Other receivables		6 056 035	3 422 488
Other current assets		3 907 687	4 963 281
Total current assets		**261 371 392**	**286 166 757**
Non-current assets			
Tangible assets, net		12 468 640	13 043 381
Intangible assets, net		332 063	432 153
Other non-current assets		158 097	113 990
Total non-current assets		**12 958 800**	**13 589 524**
TOTAL ASSETS		**274 330 192**	**299 756 281**
LIABILITIES			
Current liabilities			
Accounts payable		1 310 619	1 701 453
Deferred revenue	3	38 831 549	38 831 549
Accruals and other current liabilities	7	13 011 617	19 772 714
Total current liabilities		**53 153 785**	**60 305 716**
Non-current liabilities			
Deferred revenue, less current portion	3	142 515 063	161 930 837
Other non-current liabilities	11	6 548 000	6 646 000
Total non-current liabilities		**149 063 063**	**168 576 837**
Total liabilities		**202 216 848**	**228 882 553**
Commitments and contingencies	15		
SHAREHOLDERS' EQUITY			
Share capital[1]	9	10 478 122	10 200 233
Additional paid-in capital		869 667 186	849 519 057
Accumulated other comprehensive income/loss	9	(11 588 684)	(11 832 087)
Accumulated deficit		(796 443 280)	(777 013 475)
Total shareholders' equity		**72 113 344**	**70 873 728**
TOTAL LIABILITIES AND EQUITY		**274 330 192**	**299 756 281**

[1] As of June 30, 2014, 10,478,122 registered shares were issued and outstanding with a par value of CHF 1 per share.
As of December 31, 2013, 10,200,233 registered shares were issued and outstanding with a par value of CHF 1 per share.

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

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Condensed consolidated statements of operations for the six months ending June 30, 2014 and June 30, 2013 (unaudited, in CHF)

	Footnote reference	2014	2013
Contract revenue	3	20 213 909	20 383 347
Revenue from Research & Development services		22 252	87 794
Other income		16 843	127 055
Total operating income		**20 253 004**	**20 598 196**
Research & Development expenses		(27 467 375)	(26 702 374)
General & Administration expenses		(12 305 322)	(11 256 154)
Total operating expenses		**(39 772 697)**	**(37 958 528)**
Operating loss		**(19 519 693)**	**(17 360 332)**
Interest income		187 659	197 364
Other financial income/expenses, net		(49 185)	(103 136)
Loss before taxes		**(19 381 219)**	**(17 266 104)**
Income taxes		(48 586)	(18 877)
Net loss		**(19 429 805)**	**(17 284 981)**

Earnings/Loss per share	10	**2014**	2013
Basic and diluted loss per share, in CHF		(1.87)	(1.80)

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Condensed consolidated statements of comprehensive income/loss for the six months ending June 30, 2014 and June 30, 2013 (unaudited, in CHF)

	2014	2013
Net loss	**(19 429 805)**	**(17 284 981)**
Currency translation adjustments [1]	(24 097)	223 921
Amortization of unrecognized pension costs	267 500	465 000
Other comprehensive income, net of tax	**243 403**	**688 921**
Comprehensive loss	**(19 186 402)**	**(16 596 060)**

[1] For the six months ending June 30, 2014 and June 30, 2013, net gain of CHF 0.0 million related to dormant entities was transferred from accumulated other comprehensive income/loss to the condensed consolidated statements of operations. For further details please refer to footnote 9.

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 ending June 30, 2014 and June 30, 2013 (unaudited, in CHF)

	2014	2013
Net cash used for operating activities	**(44 897 054)**	**(33 677 588)**
Cash flow from investing activities		
Payments for financial investments	(90 000 000)	(50 000 000)
Maturities of financial investments	130 000 000	50 000 000
Investments in tangible assets, net of disposals	(562 301)	(176 190)
Investments in intangible assets, net of disposals	(32 905)	(30 553)
Net cash provided by/used for investing activities	**39 404 794**	**(206 743)**
Cash flow from financing activities		
Net proceeds from exercise of stock options	17 513 044	465 240
Distribution of capital to shareholders	–	(47 955 180)
Net cash provided by/used for financing activities	**17 513 044**	**(47 489 940)**
Effect of exchange rate changes on cash and cash equivalents	**(31 163)**	**171 252**
Net change in cash and cash equivalents	**11 989 621**	**(81 203 019)**
Cash and cash equivalents, beginning of period	**118 897 653**	**223 955 498**
Cash and cash equivalents, end of period	**130 887 274**	**142 752 479**

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 ending June 30, 2014 and June 30, 2013 (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
Balance at December 31, 2012	**9 587 621**	**9 587 621**	**856 299 215**	**(743 993 544)**	**(16 391 322)**	**105 501 970**
Net loss	–	–	–	(17 284 981)	–	(17 284 981)
Other comprehensive income	–	–	–	–	688 921	688 921
Exercise of stock options, net	9 953	9 953	455 287	–	–	465 240
Distribution of capital to shareholders	–	–	(47 955 180)	–	–	(47 955 180)
Stock-based compensation, net	–	–	1 673 761	–	–	1 673 761
Balance at June 30, 2013	**9 597 574**	**9 597 574**	**810 473 083**	**(761 278 525)**	**(15 702 401)**	**43 089 731**
Balance at December 31, 2013	**10 200 233**	**10 200 233**	**849 519 057**	**(777 013 475)**	**(11 832 087)**	**70 873 728**
Net loss	–	–	–	(19 429 805)	–	(19 429 805)
Other comprehensive income	–	–	–	–	243 403	243 403
Exercise of stock options, net	277 889	277 889	17 235 155	–	–	17 513 044
Stock-based compensation, net	–	–	2 912 974	–	–	2 912 974
Balance at June 30, 2014	**10 478 122**	**10 478 122**	**869 667 186**	**(796 443 280)**	**(11 588 684)**	**72 113 344**

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. ("Basilea") and its subsidiaries (together the "Company") have been prepared in accordance with accounting principles generally accepted 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, but does not include all disclosures required by US GAAP. Please refer to the consolidated financial statements as of December 31, 2013, as included in the Annual Report 2013, for further information. 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 present fairly the consolidated balance sheets, statements of operations, statements of comprehensive income/loss, cash flows and changes in shareholders' equity for the interim periods presented.

2 Significant accounting policies and new accounting pronouncements
Cash and cash equivalents
The Company considers cash equivalents to be highly liquid investments which are readily convertible to cash with original maturities of not more than 3 months.

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

Revenue recognition
The Company generally recognizes revenue when it is realized or realizable and earned in accordance with Accounting Standard Codification ("ASC") 605 "Revenue Recognition". For agreements with multiple deliverables, the Company recognizes revenue separately for each deliverable in accordance with ASC 605. A deliverable is separable if it is deemed to have standalone value to the customer, delivery and performance is considered probable, within a company's

control and the best estimate of selling price is determined in a way that is consistent with the price at which the Company would sell the deliverable if the item were to be sold separately.

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

Contract revenue
Contract revenue includes realized amounts from upfront and milestone payments in connection with licensing and distribution agreements and royalties. Contract revenue also includes payments received from a licensee for services provided by the Company in accordance with the respective license agreement. Furthermore, the Company recognizes contract revenue for sale of semi-finished products and clinical material to licensees.

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

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

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

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

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

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

Research & Development expenses
Research and development costs are expensed as incurred. Costs of research and development equipment with alternative future uses are capitalized and depreciated over its respective useful life.

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

Payments that the Company makes or receives related to its co-development arrangement for isavuconazole, and the payments the Company makes or

receives related to the contract with the Biomedical Advanced Research and Development Authority ("BARDA") for the development of Basilea's antibiotic BAL30072, are recorded in research and development expenses.

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

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

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.

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

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

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 following accounting pronouncement may have an impact on the financial statements of the Company.

In May 2014, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" (Topic 606): The development of this new standard is a part of the joint project of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to clarify the principles for revenue recognition and to develop a common standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thereby, this core principle is achieved by applying following five steps: Identify the contract with a customer, identify the performance obligation in the contract, determine the transaction price, allocate the transaction price to the performance obligation in the contract and recognize revenue when the Company satisfies a performance obligation.

ASU 2014-09 is effective for public companies for annual periods beginning after December 15, 2016. The Company is currently assessing the impact on the financial statements of this new accounting pronouncement.

3 Agreements
Contract with BARDA for the development of the antibiotic BAL30072
The Company entered into a contract with BARDA for the development of Basilea's antibiotic BAL30072 on June 24, 2013. Under this contract, BARDA provides funding of up to USD 17 million over the initial agreement period of twenty-two months in the form of reimbursement of agreed development costs. For the six months ending June 30, 2014, the Company recognized reimbursement of CHF 3.3 million in research and development expenses.

For the six months ending June 2013 no reimbursement was recognized in research and development expenses related to this contract.

Global agreement with Stiefel related to Toctino®

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

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

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

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

For the six months ending June 30, 2014 and June 30, 2013, the Company recognized CHF 18.5 million as contract revenue related to this upfront payment.

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

The agreement was amended as of February 27, 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.

Under the terms of the amended agreement, the Company will continue to be entitled to receive from Astellas regulatory milestone and royalty payments relating to the U.S. and Canadian territories. Astellas will remain responsible for the continued development and funding of the isavuconazole global candidemia phase 3 study and will be responsible for the regulatory filings in the U.S. and Canada. The Company and Astellas will continue to coordinate their development and manufacturing activities and each company will be responsible for commercial activities in its respective territory.

In 2010, the Company received a non-refundable net upfront payment of CHF 67.5 million (gross payment of CHF 75.0 million less withholding tax of CHF 7.5 million, which is non-refundable for the Company). This net upfront payment was recognized as deferred revenue. A portion of this upfront payment was allocated to the grant of the license to Astellas and the respective amount is accordingly recognized as revenue on a straight line basis over the remaining estimated term of the agreement. The remaining portion of the upfront payment represents compensation for the Company's co-payment of the development costs as well as other services which the Company provides in connection with the development of isavuconazole and accordingly, was recognized as co-development payments were made by the Company or the respective services were provided by the Company. The Company recognized CHF 1.0 million as contract revenue for the six months ending June 30, 2014 and June 30, 2013 related to this upfront payment. For the six months ending June 30, 2014, the Company recognized additional contract revenue in the total amount of CHF 0.7 million (six months ending June 30, 2013: CHF 1.0 million) related to services provided by the Company for isavuconazole.

4 Short-term investments

The short-term investments as of June 30, 2014 contain short-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 115.0 million (December 31, 2013: CHF 155.0 million).

5 Accounts receivable

The accounts receivable primarily consist of receivables related to co-development activities for isavuconazole. The Company did not record a valuation allowance as of June 30, 2014 and December 31, 2013 respectively.

6 Inventories

The following table shows the components of inventories as of June 30, 2014 and December 31, 2013:

In CHF million	2014	2013
Raw materials	10.7	10.7
Semi-finished products	5.2	5.3
Finished products	0.2	–
Inventory provisions	(15.9)	(16.0)
Total	**0.2**	**0.0**

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

7 Accruals and other current liabilities

Accruals and other current liabilities as of June 30, 2014 and December 31, 2013 consisted of the following:

In CHF million	2014	2013
Accrued Research & Development expenses	3.1	3.7
Accrued personnel and compensation costs	7.1	10.1
Other	2.8	6.0
Total accruals and other current liabilities	**13.0**	**19.8**

8 Stock-based compensation

The Company has established a stock option plan effective on December 13, 2000, to incentize directors, executives and certain employees with an opportunity to obtain stock options on registered shares of Basilea. The shareholders approved conditional capital necessary for the issuance of shares upon the exercise of stock options, of which CHF 1.8 million remain available as of June 30, 2014. CHF 1.2 million of this remaining available conditional capital are reserved for stock options, which were issued and outstanding as of June 30, 2014.

Each 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 options expire without value.

For the six months ending June 30, 2014, the Company recognized stock-based compensation expenses of CHF 2.9 million (six months ending June 30, 2013: CHF 1.7 million) related to this stock option plan.

9 Shareholders' equity

As of June 30, 2014, Basilea had 10,478,122 registered shares (*Namenaktien*) issued and outstanding with a par value of CHF 1 per share. As of December 31, 2013, Basilea had 10,200,233 registered shares issued and outstanding with a par value of CHF 1 per share.

For the six months ending June 30, 2014, 277,889 stock options were exercised, using conditional capital, which resulted in the issuance of 277,889 registered shares with a par value of CHF 1 per share. For the six months ending June 30, 2013, 9,953 stock options were exercised.

Basilea had a total approved conditional capital of CHF 2,422,019 as of June 30, 2014 for the issuance of a maximum of 2,422,019 registered shares with a par value of CHF 1 per share. This conditional capital contained CHF 1,782,019 (1,782,019 registered shares with a par value of CHF 1 per share) reserved for the issuance of shares under the stock option plan available to directors, executives and certain employees. In addition, the shareholders approved conditional capital of CHF 640,000, consisting of 640,000 registered shares with a par value of CHF 1 each, available for the exercise of option or conversion rights granted with new option or convertible bonds.

By shareholder approval at the 2014 ordinary general meeting of shareholders, Basilea is authorized to increase its share capital by a maximum of CHF 2,000,000 by issuing a maximum of 2,000,000 registered shares with a par value of CHF 1 per share. This authorization is valid for two years.

Changes in accumulated other comprehensive income/loss for the six months ending June 30, 2014 and 2013:

In CHF million	Currency translation adjustment	Unrecognized pension cost	Total
December 31, 2012	**(0.6)**	**(15.8)**	**(16.4)**
Change during the period	0.2	–	0.2
Reclassification adjustment, included in the condensed consolidated statements of operations	0.0[1]	0.5	0.5
Total change during the period	**0.2**	**0.5**	**0.7**
June 30, 2013	**(0.4)**	**(15.3)**	**(15.7)**
December 31, 2013	**(0.6)**	**(11.2)**	**(11.8)**
Change during the period	(0.1)	–	(0.1)
Reclassification adjustment, included in the condensed consolidated statements of operations	0.0[1]	0.3	0.3
Total change during the period	**(0.1)**	**0.3**	**0.2**
June 30, 2014	**(0.7)**	**(10.9)**	**(11.6)**

[1] Currency translation adjustment related to the dormant entities in Denmark, France, Germany and UK.

10 Earnings/Loss per share

For the six months ending June 30, 2014 and 2013, 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 ending June 30, 2014 and 2013 were as follows:

	2014	2013
Net loss in CHF million	(19.4)	(17.3)
Weighted average number of shares outstanding, basic and diluted	10 370 538	9 591 072
Basic and diluted loss per share in CHF	(1.87)	(1.80)

For the six months ending June 30, 2014, 586,362 incremental shares relating to potential exercises of stock options (six months ending June 30, 2013: 148,345 incremental shares) were excluded, as the effect would have been anti-dilutive.

11 Pension plan

As of June 30, 2014, the Company recorded an accrued pension liability of CHF 6.5 million in other non-current liabilities (December 31, 2013: 6.6 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, 2014 and 2013:

In CHF million	2014	2013
Service cost	1.1	1.3
Interest cost	0.6	0.5
Expected return on plan assets	(0.7)	(0.6)
Amortization of pension related net loss	0.3	0.5
Gross benefit expense	**1.3**	**1.7**
Participant contributions	(0.5)	(0.6)
Net periodic pension cost	**0.8**	**1.1**

12 Segment information

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

13 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, 2014, the short-term investments were invested with three different banks and amounted to CHF 115.0 million. As of December 31, 2013, the short-term investments were invested with four different banks and amounted to CHF 155.0 million.

The cash and cash equivalents as of June 30, 2014 amounted to CHF 130.9 million, of which CHF 123.4 million was held with four different banks. The cash and cash equivalents as of December 31, 2013 amounted to CHF 118.9 million, of which CHF 112.6 million was held with four different banks. As of June 30, 2014, the highest total amount of cash and cash equivalents and short-term investments held at one bank amounted to CHF 80.1 million. As of December 31, 2013, the highest total amount of cash and cash equivalents and short-term investments held at one bank amounted to CHF 70.0 million.

The Company is also subject to credit risk related to accounts receivable. The highest total amount of accounts receivable with an individual counterparty as of June 30, 2014 is from Astellas in the amount of CHF 5.5 million in connection with the license agreement related to isavuconazole (December 31, 2013: CHF 3.7 million).

14 Related party transactions

The accounts receivable, accounts payable and accruals and other current liabilities do not include significant positions due to or from related parties as of June 30, 2014 and December 31, 2013.

For the six months ending June 30, 2014, the Company paid no fees to its board members (six months ending June 30, 2013: CHF 0.0 million) for consulting services.

15 Commitments and contingencies

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

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

As of June 30, 2014, there were no significant contingencies.

16 Subsequent events

The Company has evaluated subsequent events through August 12, 2014, the date on which the financial statements were available to be issued.

The Basilea Pharmaceutica Ltd. Half-year Report 2014 is published in English and German. In case of discrepancies the English version prevails.

Design, project management and production
phorbis Communications AG, Basel

Print
Burger Druck, Waldkirch

CONTACT INFORMATION

- www.basilea.com

BASILEA PHARMACEUTICA LTD.
Grenzacherstrasse 487
4058 Basel
Switzerland

Phone +41 61 606 1111
Fax +41 61 606 1112

INVESTOR & PUBLIC RELATIONS
Barbara Zink, PhD, MBA
Head of Corporate Development

Phone +41 61 606 1233
Fax +41 61 606 1238
E-mail investor_relations@basilea.com